

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) & FINANCIAL ACCOUNTING STANDARD BOARD (FASB)

The term *generally accepted accounting principles* refer to the standards, rules, and procedures that serve as the norm for the fair presentation of financial statements.

The Financial Accounting Standards Board (FASB) has been the designated organization in the private sector for establishing standards of financial accounting that governs the preparation of financial reports by nongovernmental entities. The mission of the FASB is to establish and improve standards of financial accounting and reporting that foster financial reporting by nongovernmental entities that provides decision-useful information to investors and other users of financial reports.

Conformity with GAAP is essential for consistency and comparability in financial reporting.

Basis of Accounting

Basis of Accounting refers to the timing of when transactions and events are recognized in the accounting records and reported in the financial statements.

Full Accrual Basis: Transactions and events are recognized when they occur irrespective of when cash is paid or received. Revenues reflect the amounts that came due during the year, whether collected or not. Expenses reflect the amount of goods and services consumed during the year, whether or not they are paid for in that period. The costs of assets are deferred and recognized when the assets are used to provide service.

Financial Reporting

Distinctive Schools' (Distinctive) financial reporting is prepared using the accrual basis of accounting during the year, at year end and for the audit.

Staffing

Distinctive Schools will employ Steven Svendsen as CFO and Chicago Transom Partners (CTP) to administer the daily fiscal and accounting functions of the schools it operates. The Board of Directors and Chief Executive Officer will provide fiscal oversight. The Director of Finance and Operations will provide support to the schools in analyzing, reconciling and adjusting account balances, and to ensure the records are maintained in accordance with generally accepted accounting principles (GAAP). The Director of Finance and Operations will lead the development and implementation of a chart of accounts and accounting software system to be used by all Distinctive Schools.

Internal Financial Control Policies and Procedures

Accounting System

Policy: Distinctive Schools will employ Steven Svendsen as CFO and Chicago Transom Partners (CTP) to administer the daily fiscal and accounting functions of the schools it operates.

Accruals will be completed at the direction of the Director of Finance and Operations in accordance with applicable state and Federal regulations.

Book of Account

Policy: The books of account will be maintained in accordance with GAAP and include Budget Reports, General Ledger, and detailed journals for all accounts, including payroll.

Procedure: The Accounting Manager will maintain all books of accounts. An accounting software package will be utilized to properly record all revenues, expenses, budgets, assets, liabilities, and net assets. The Director of Finance will be available, as needed, to provide monthly accounting support to the Accounting Manager.

Chart of Accounts

Policy: A corporate Chart of Accounts in accordance with GAAP will be developed by the Director of Finance and Operations to properly record all accounting activity.

Procedure: The Accounting Manager will record all school fiscal transactions according to the Chart of Accounts in accordance with GAAP. The Director of Finance and Operations will allocate revenues and expenses according to the Chart of Accounts.

Financial Statements

Policy: Financial statements will be prepared by the Director of Finance and Operations and will be reviewed by the CEO and presented to the Board of Directors.

Procedure: The Director of Finance and Operations will prepare statements of activity and monthly balance sheets. These statements will be prepared in accordance with GAAP, and include a detailed reporting of revenue, expense, asset, and liability categories. A year-to-date actual to budget comparison will be presented monthly to the CEO. Financial statements will be presented to and reviewed by the Board of Directors at their regular meetings.

Policy: Finance Committee and Board will have access to accounting system reports.

Procedure: Finance Committee will be given access to Dashboard financial information. All Board members will be emailed the monthly Board financial report on or before the 20th of every month.

Bank Account Management: Issuing/Signing Checks

Policy: Check signing procedures as established by the Board will be adhered to by staff.

Procedure: All Distinctive Schools checks will be signed by the COO or CEO. Checks in excess of \$25,000 will require the second signature of the Board Treasurer. Checks will be issued only when within the approved budget and with the approval of the CEO. Checks will be prepared for signature by the Accounting Manager after the payment is authorized by the Director of Finance and Operations. The Accounting Manager will not have check signing authority or withdrawal authority. Voided checks will be retained to insure proper maintenance of checking account records. Electronic payment processing using bill.com with established approval levels.

Bank Account Management: Opening/Closing Accounts

Policy: The Distinctive Schools CEO is authorized to open or close accounts, subject to restrictions of such authority established by the Board of Directors and by state law or regulation.

Procedure: The CEO, after consultation with and authorization by the Board Chair, will secure any necessary signatures to open or close a Distinctive Schools account.

Policy: The Distinctive Schools CEO is authorized to issue credit cards through the Distinctive Schools account to Distinctive Schools employees as deemed appropriate.

Procedure: The CEO will authorize the issuance of credit cards to staff. The CEO and the Director of Finance and Operations' credit cards will have limits equal to the limit of the credit account. All other staff will have credit card limits not exceeding \$2,500.

Bank Account Reconciliation

Policy: Reconciliation of each of Distinctive Schools' account will be done within thirty (30) days of receipt of bank statements by the Accounting Management Firm.

Procedure: The Accounting Management Firm will reconcile all bank accounts on a monthly basis. The Accounting Management Firm will access all bank statements and review cancelled checks and monthly bank statement activity. The Accounting Management Firm will send the Director of Finance and Operations a reconciliation report for every month end reconciliation.

Accounts Receivable

Policy: Distinctive Schools will maintain accounts receivable in accordance with GAAP for scheduled receipts from the school districts, grants or any other amounts due but not yet received.

Accounts Payable

Policy: Distinctive Schools, whenever practical, will pay invoices within 30-60 days of their receipt, unless alternative arrangements are made with vendors or unless a dispute arises. Invoices of an amount which precludes payment within 30-60 days may be paid in an alternate method agreeable to both Distinctive Schools and the vendor.

Procedure: All accounts payable will be recorded on an accrual basis in accordance with GAAP. Accounts payable will be maintained by the Accounting Manager, who will ensure timely payment and the development of payment plans or alternate methods.

The Accounting Manager also will maintain an aging of accounts payable schedule listing the payee, transaction date, amount and payable description and account. The Accounting Manager will present an aging report to the Director of Finance and Operations at least once a week for review. Payments of invoices will be processed on or about the end of each week. All invoices will be approved by the Director of Finance prior to payment by the Accounting Manager. No payment will be made without a properly approved invoice or other supporting documentation. All loans will be approved by the Board of Directors. All services performed by independent contractors will be processed as accounts payable. At the close of the calendar year, Forms 1099 will be issued and distributed to independent contractors in accordance with IRS regulations.

Purchasing Practices

Policy: Distinctive Schools approaches every purchase as an investment in meeting the organization's mission and driving academic results for students. In every purchase, Distinctive Schools considers the (a) price, (b) quality, and (c) dependability of the vendor and its goods or services. Particular vendors may be chosen for anyone or any combination of these factors; however, at all times the selection of a particular good, service, or vendor will be with the intention of meeting the organization's mission and driving academic results for students.

Procedure: When a product is to be purchased that costs more than \$10,000, the CEO, or her designee, will make every reasonable effort to secure quotes and product specifications from at least three providers of the product or a similar product. The CEO or designee will select from among these offers, and document the reasons for selecting the chosen option according to the aforementioned factors that guide such selection. Professional service

contracts are excluded from the requirement to seek multiple bids; however, nothing will preclude the CEO or designee from seeking such multiple bids for these contracts. All contractual agreements will be in writing, and signed and dated by the CEO or her designee.

The Director of Finance and Operations will ensure that proper approvals are received and documented for all purchases in accordance with the purchasing policy. Approvals will be collected via signature, through electronic procurement software.

The Director of Finance and Operations and the Accounting Manager will ensure that all purchases made with categorical funds follow the approved budget for the funds and that all required regulations are followed. Prior to use of any categorical funds, the Director of Finance and Operations or the Accounting Manager will check the purchase vs. the approved budget for the funds.

Payroll System

Policy: Distinctive Schools will maintain a reliable payroll system approved by the Board of Directors.

Procedure: The following are the steps which will be followed in processing Payroll:

1. All documentation of authorized pay rates will be maintained in the employee's personnel file.
2. Personnel files will be secured with access limited to authorized individuals.
3. Distinctive Schools will contract with a payroll service to provide payroll processing.
4. Personnel will be paid hourly/bi-weekly, by check or direct deposit; personnel electing direct deposit will receive a check stub.
5. Salaried personnel will be paid semi-monthly according to the amount established in employees offer letter or any approved salary adjustment.
6. Employee time sheets will be maintained daily for hourly personnel.
 - a. Time sheets, signed by the employee and approved by a supervisor, will be forwarded to the Director of Finance and Operations at the end of the pay period for payroll processing.
 - b. The Director of Finance and Operations will review the time sheets for signatures and approvals, review time worked and verify for mathematical accuracy, summarize the payroll information and forward it to the payroll service for processing.
7. Any stipends outside the regular scope of duties must be submitted by the Principal, accompanied by a job description, and approved by the CEO, then forwarded to the Director of Finance and Operations for inclusion in the payroll.
8. The Director of Finance and Operations will receive all completed payroll reports and paychecks from the payroll service.
 - a. The Director of Finance and Operations will review the payroll reports and document approval.

9. The payroll service will distribute the paychecks.
10. All payroll changes will be authorized by the CEO and forwarded to the payroll service by the Director of Finance and Operations.
11. The Accounting Manager will record each payroll to the accounting system, including any payroll accruals, in accordance with GAAP.
12. The Accounting Manager will be responsible for payment of all payroll-related liabilities.
13. A deferred compensation program may be established in accordance with IRS and personnel policies and administered by a third party.
14. At the close of the calendar year, the contracted payroll service will generate W-2s and distribute to all Distinctive Schools employees in accordance with IRS regulations by January 31st of the following year. The service will provide copies of the W-2s to the Director of Finance and Operations.

Benefits Processing

Policy: Distinctive Schools will maintain a benefit plan approved by the Board of Directors.

Procedure: The CEO and Director of Finance and Operations will annually review the health and fringe benefits plan, receive competitive bids, and award a broker contract. The CEO and Director of Finance and Operations will set the amount of employee contribution towards benefit cost, in accordance with the overall school budgets. Open Enrollment will begin in June, with an implementation date of August 1st. All full-time employees (40 hours) are eligible for benefits. Part-time employees are not eligible for benefits. Health benefits for new employees who have begun employment and completed benefit forms by the 15th day of the month will begin on the first day of the following month. Benefits for new employees who have begun employment and completed benefit forms after the 15th will begin on the first day of the month after.

Examples:

<i>Hire Date: August 5</i>	<i>Benefits Begin: September 1</i>
<i>Hire Date: August 16</i>	<i>Benefits Begin: October 1</i>

The Director of Finance and Operations is responsible for benefits administration. The Director of Finance and Operations will enroll employees with the respective vendors according to eligibility dates set by Distinctive Schools' policy and prevailing state and federal law. Upon termination of an employee, the Director of Finance and Operations will immediately notify the third-party COBRA administrator, and dis-enroll the employee from the selected coverage. The Director of Finance and Operations will inspect all benefit invoices for accuracy on a monthly basis, and

notify the Accounting Manager of any discrepancies in billing. The Accounting Manager will prepare the invoices in accordance with the invoice processing policy.

Mail Management; Incoming Checks

Policy: All incoming mail is opened and distributed by a designated staff person. Any checks received are immediately restrictively endorsed by the mail opener.

Procedure: All mail will be opened by the Office Manager or any other employee as designated by the CEO, except the Director of Finance and Operations and Accounting Manager. The Office Manager (or other designated employee) will record the name, date received, name(s) or donor, address (if available), amount, and type of receipt. The Office Assistant will stamp the check “for deposit only” into Distinctive Schools account, and will present these checks to the Director of Finance and Operations who then will prepare the deposit slip and deposit the checks into the appropriate account. A copy of each check will be attached to a copy of the deposit slip and deposit receipt and will be filed and used for reconciliation of the bank statement. The Accounting Manager will receive the documentation related to the cash receipts deposit and record the activity to the accounting system. The Director of Finance will review all cash receipts monthly, including a comparison of amounts received to the budget.

Budgeting of Funds

Policy: The Board of Directors will approve an annual operating budget for Distinctive Schools. Adjustments to high-level budget categories (personnel, non-personnel, and capital expenditures) which exceed present thresholds set by the Board by 10% must be approved by the Board.

Procedure: The CEO and Director of Finance and Operations will develop annual budgets for all Distinctive Schools operated schools and the central office using the most accurate information available and for the purposes of meeting the organization’s mission and driving student achievement.

Budgets will be based on the schools’ history, long-term financial model, and strategic growth plan. Budgeted expense categories will include the cost of personnel, instruction, administration, facilities, operations and other spending categories of the organization. Detailed expenses, such as supplies, repairs and maintenance, travel, contracted services, utilities, rent, and other expenses will be budgeted according to the above spending categories.

The Board of Directors will approve the annual budget for Distinctive Schools and all schools operated by Distinctive Schools by the last Board meeting of the fiscal year. The Board also will

approve any amendments proposed by the CEO during the year. The Board of Directors will compare year-to-date revenues and expenditures to the budget and review significant variations on closing periods.

Definitions:

- Personnel: Salary, benefits, bonuses, and other compensation for employees.
- Non-Personnel:
- Capital Expenditures: Capitalized purchases including:
 - o Individual items exceeding \$5,000 in value
 - o Aggregate purchase, such as furniture, exceeding \$10,000 in value and with a useful life exceeding one year

Capital Depreciation; Dispositions and Depreciation

Policy: Distinctive Schools will maintain appropriate fixed assets and related depreciation accounts schedules.

Procedure: All property and equipment acquisitions and dispositions over \$5,000 will be approved by the Board of Directors. A single asset in excess of \$2,500 with a useful life greater than one (1) year will be capitalized and depreciated over its useful life in accordance with GAAP for nonprofit organizations. An asset purchase of under \$2,500 and software purchases will be expensed.

The Accounting Manager will reconcile the fixed asset and related depreciation schedules to the general ledger account annually. All single assets in excess of \$2,500 will tracked using an asset tracking software and tagging system. All asset tags will include:

1. Purchase price
2. Purchase date
3. Location and/or employee assignment
4. Funding source

Staff and Travel Expenses

Policy: Staff will be reimbursed for approved expenses and travel and related expenses.

Procedure: All out-of-pocket expenses will be approved prior an employee incurring an expense in accordance with the Distinctive Schools Expense Reimbursement Policy. Reimbursements for the school will be approved by the Principal. Reimbursements for the central office will be approved by the CEO. All staff will submit a reimbursement form by which they request reimbursement.

Reimbursement forms will document employee name, travel dates, destination, business purpose, and detail business costs such as tolls, parking, mileage and meals. All receipts and substantive documentation must be attached to the travel reimbursement form. Submitted reimbursement forms will be reviewed by the Accounting Manager for: (a) accuracy of computations; (b) completeness of required receipts; and (c) adherence to established guidelines. Inaccurate or incomplete information will be discussed with the submitting staff member, and any necessary additional information will be requested by and provided to the Accounting Manager prior to reimbursement. Staff will be compensated within 20 business days of submission of a complete and accurate reimbursement form to the Accounting Manager.

Audits; Financial Regulatory Forms

Policy: Independent audits of the financial statements will be conducted annually by an Illinois State Certified Public Accountant approved by the Board of Directors. Annual financial audits will be conducted in accordance with generally accepted auditing standards. Financial regulatory forms will be completed as necessary by Distinctive Schools or an accounting firm selected by the CEO and Director of Finance and Operations.

Procedure: Appropriate financial forms and reports will be filed with the charter entity, federal government and appropriate state agencies. Upon completion, audits will be reviewed by the Director of Finance and Operations and CEO and submitted to the Board of Directors for review. All audits will include a management representation letter.

Insurance

Policy: Distinctive Schools will maintain appropriate insurance coverage.

Procedure: At a minimum, Distinctive Schools will maintain insurance in accordance with CPS requirements. Distinctive Schools will also contribute to the state Unemployment Insurance Fund in accordance with applicable law.

Borrowing Funds

Policy: All borrowing of funds, and the establishment or increase of all credit lines must be approved by the Board of Directors.

Procedure: Based on annual audits, financial statements, and cash flow projections, the CEO may establish credit lines and borrowing limits as directed by the Board of Directors. Borrowed funds will be repaid with appropriate, measurable and identifiable revenues in accordance with GAAP. The Director of Finance and Operations or his or her designee will alert the Board of

Directors if lines of credit or borrowing limits ever are not adequate to meet the needs of the organization. The Board of Directors may amend the borrowing policy and credit limits.

Contributions

Policy: Non-restricted contributions will be used for operations or special projects as designated and approved by the CEO and/or the Board of Directors of Distinctive Schools, consistent with conditions set forth by the Board of Directors. Contributions that are donor restricted will be used for the purpose articulated by the donor, except that in no case will the school accept any such contribution for which the donor restriction violates any federal or Illinois state law.

Procedure: Contributions will be properly budgeted and accounted for in accordance with GAAP for nonprofit organizations. The Director of Finance and Operations will maintain supporting schedules to document revenues and expenditures. Contributions may be used for operations or special projects as designated and approved by the CEO and/or Board of Directors of Distinctive Schools.