

APPENDIX 3.2: FINANCIAL CONTROLS

3.2a: Financial Reports

Figure 1: Financial Reports Provided to the Board

| Report | Frequency of Generation | Responsible Party | Reviewed By |
|--|-------------------------|--|-----------------------------------|
| Statement of Activities, including Budget-to-Actuals, for operating budget | Monthly | Third party service provider generates for Head of School | Board; Finance Committee |
| Statement of Activities, including Budget-to-Actuals, for capital budget | Monthly | Third party serviced provider generates for Head of School | Board; Finance Committee |
| Balance Sheet | Monthly | Third party service provider generates for Head of School | Board; Finance Committee |
| Enrollment Budget-to-Actual | Monthly | Head of School | Board; Finance Committee |
| Cash Flow Sheet | Monthly | Third party service provider generates for Head of School | Finance Committee |
| Bank Account Reconciliation | Monthly | Manager of Operations | Head of School |
| Earnings and Activity in all Investment Accounts | Monthly | Head of School | Finance Committee |
| Payroll Reconciliation | Monthly | Third party service provider | Head of School |
| Audit | Annually by Dec. 1 | External auditor | Board; Finance Committee |
| 1099 Forms | Annually | Third party service provider | Head of School; Finance Committee |
| Budget Draft | Annually in February | Head of School | Finance Committee |
| Compensation Report | Annually in March | Head of School | Finance Committee |
| Budget Draft 2 | Annually in March | Finance Committee/Head of School | Board |
| Finalized Budget | Annually in April/May | Head of School | Board |

For information on policies regarding contracts, opening and closing of bank accounts, purchasing, and check-signing controls, please see **Financial Policies** below.

3.2b: Financial Policies

Chicago Preparatory Charter Middle School Financial Policies and Procedures Manual

DRAFT

4.30.20

This document will describe the policies and procedures for the accounting and administrative functions conducted by Chicago Preparatory Charter Middle School. The Board of Directors is to review the manual every year and may amend it as needed. These policies were heavily influenced by schools founded through the BES Fellowship, including Great Lakes Academy in Chicago, IL.

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INTRODUCTION

Chicago Preparatory Charter Middle School (“Chicago Prep”) is committed to developing and maintaining financial policies and procedures that ensure sound internal controls, fiscal responsibility, and accountability in accordance with Generally Accepted Accounting Principles (GAAP) and rules and regulations of the Financial Accounting Standards Board (FASB). Chicago Prep will follow all the relevant laws and regulations that govern the Charter Schools within the City of Chicago and State of Illinois. As a nonprofit organization, Chicago Prep is entrusted with funds granted by government agencies, private foundations, and individual contributors and it will adhere to the highest of standards of accounting. Clear financial policies and procedures will enable the school to meet its financial needs and obligations, ensure long-term financial stability and viability, and protect its tangible assets and reputation.

Financial Policies

- Chicago Prep shall comply with the laws, rules, and regulations applicable to it in regard to financial matters and with the terms of the contract by which it is bound.
- Chicago Prep will have control procedures in place to ensure the security of the organization’s assets.
- Chicago Prep will produce timely and accurate financial information to fulfill all reporting requirements and management needs.

Financial Leadership and Management

The financial management team of Chicago Prep consists of:

- Board of Directors
- Finance Committee
- Treasurer
- Head of School
- Director of Operations (Manager in Y1-Y2)
- Back-office Provider

The day-to-day fiscal responsibilities of Chicago Prep will be assigned to a back-office provider (to be during the incubation year), and the school’s fiscal staff. However, ultimate fiduciary responsibility for the overall management of the organization lies with the Board of Directors. The Board of Directors will meet at least 10 times per year to ensure that its fiduciary responsibilities are met. Chicago Prep will establish a Finance Committee within the board, spearheaded by the Board Treasurer, that will also meet monthly to review and discuss school financials. The Board of Directors have ultimate responsibility for selecting an audit firm, reviewing the financial policies and procedures manual on an annual basis, approving the annual budget, and working with the school’s finance team to review the monthly financial statements. The Finance Committee of the Board of Directors shall be responsible for the primary Board-level oversight of school financial matters, as defined by the Board. The Head of School will have the primary responsibility for executing all financial matters. All members of the fiscal management team will work together to ensure all financial matters of the organization are addressed with care, integrity, and in the best interest of Chicago Prep.

The Head of School is responsible for administering the school’s adopted policies and ensuring compliance with procedures that have been approved by the Board of Directors. Exceptions to written policies may only be

made with the prior approval of the Finance Committee. Changes or amendments to these policies shall be considered and recommended by the Finance Committee and approved by the Board of Director.

INTERNAL CONTROL STRUCTURE

Background

This manual describes the policies and procedures of Chicago Prep. The policies are designed to safeguard the assets of the school, facilitate compliance with applicable law, and provided for the production of timely and accurate financial information in accordance with GAAP and rules and regulations of the FASB. It is the responsibility of the leadership team to safeguard the school's assets, including cash, cash equivalents, and fixed assets. This section sets forth the internal controls that will be/have been implemented to assure assets are safeguarded appropriately.

The internal control structure is composed of four basic elements, described in detail below.

1. Internal Control Environment

The internal control environment reflects the importance Chicago Prep places on internal controls as part of its day-to-day activities. The internal control environment reflects management and Board philosophy and commitment, organizational structure, ways of assigning authority and responsibility, methods of management and control, personnel policies and practices, and external influences such as significant donor expectations.

2. Accounting System

Chicago Prep has established an accounting system comprised of the methods and records used to identify, assemble, classify, record, and report accounting transactions. The methods are set up to: (1) identify and record all of the organization's transactions, (2) verify that recorded transactions actually took place, (3) describe the transactions in enough detail to allow classification for financial reporting, (4) ensure transactions are recorded at the appropriate amounts, (5) indicate the time period in which transactions occurred in order to record them in the proper accounting period, and (6) ensure that transactions were properly authorized. The fiscal year is from July 1st to June 30th. The school's audited financial statements must be approved by the Board of Directors and provided to the appropriate oversight entity according to all applicable requirements. Furthermore, the school's budgets for the following fiscal year must be drafted for Board review and approved prior to the end of the current fiscal year. The budget may later be revised and approved as necessary.

3. Internal Control Procedures

Chicago Prep has adopted a number of internal financial controls. These procedures are set up to strengthen Chicago Prep's internal control structure in order to safeguard the organization's assets.

The internal financial controls consist of the following:

- *Segregation of Duties:* A hierarchical structure of authority and responsibility has been developed at Chicago Prep. Tasks are divided and allocated to guard against one individual having the ability to make an accounting error (either knowingly or unknowingly). This protects the school from any potential fraud or misappropriation of funds. In situations where there are an insufficient number of employees to achieve this because of budget constraints, a compensating control has been created.
- *Restricted Access:* Access to valuable and moveable assets is restricted to authorized personnel.
- *Document Control:* In order to ensure that all documents are captured by the accounting system, all documents must be initialed and dated when recorded and then filed appropriately.
- *Records Retention:* To provide an accurate and auditable record of all financial transactions, the school's books, records, and accounts are maintained in conformity with GAAP. Records will be maintained for the periods sufficient to satisfy IRS regulations, federal grant requirements, OMB A133

audit requirements, if applicable, and other legal needs as may be determined. Record retention requirements are reviewed annually with legal counsel and independent auditors to determine any necessary changes.

- *Processing Controls:* These are designed to identify any errors *before* they are posted to the general ledger. Common processing controls are the following: (1) Source document matching; (2) Clerical accuracy of documents; and (3) General ledger account code checking.
- *Reconciliation Controls:* These are designed to identify any errors *after* transactions have been posted and the general ledger has been run. The process involves reconciling selected general ledger control accounts to subsidiary ledgers.
- *Annual Independent Audit:* Chicago Prep's financial statements are audited annually by an independent audit firm selected by the Board of Directors on the recommendation of the Finance Committee.
- *Security of Financial Data:* The school's accounting software is accessible only to the Head of School, Manager/Director of Operations, and back-office provider. Individual ID codes and passwords are in place for every user and limit their access and functionality depending on their role within the school. All other hard copies of financial data, when not in use, will be secured in a locked closet or cabinet at the school.
- *Risk Assessment:* This is designed to identify, analyze, and manage risk relevant to the preparation of accurate financial statements. It includes mitigating risks involving internal and/or external factors that might adversely affect the school's ability to properly record, process, summarize and report financial data.

4. The Accounting Cycle

The accounting cycle is designed to accurately process, record, summarize, and report transactions of Chicago Prep. Chicago Prep will maintain its accounting records and related financial reports on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when services are incurred or goods are received. The component bookkeeping cycles fall into one of five primary functions:

Revenue, Accounts Receivable, and Cash Receipts

Key tasks in this area include:

- Processing cash receipts
- Making deposits
- Recording cash receipts in the general ledger and subsidiary records
- Performing month-end reconciliation procedures
- Processing general ledger integration for private donations/revenue
- Processing wire transfers into school accounts

Purchases, Accounts Payable, and Cash Disbursements

Key tasks in this area include:

- Authorizing the procurement of goods and/or services
- Processing purchases (credit card, check, reimbursement)
- Processing invoices
- Issuing checks
- Recording checks in the general ledger and in cash disbursement journals
- Performing month-end reconciliation procedures
- Year-end reporting: Preparing 1099 forms

- Processing wire transfers out of school accounts

Payroll

Key tasks in this area include:

- Obtaining and gathering payroll information
- Preparing payroll checks and depositing payroll taxes
- Submitting information to the back-office provider for processing
- Performing quarterly reconciliation
- Preparing quarterly payroll tax returns
- Preparing W-2s, the W-3, and other annual payroll tax returns

Chicago Prep's payroll process will be performed by a back-office provider (to be determined at a later date) whose responsibilities will include calculating appropriate amounts for taxes to be remitted to the Federal, State and City government agencies and voluntary and/or statutory deductions that may or may not require remittance to retirement plan directors, child support agencies, etc.

General Ledger and Financial Statements

Key tasks in this area include:

- Preparing monthly journal entries
- Reconciling bank accounts and other general ledger accounts
- Reviewing general ledger activity and recording adjusting journal entries
- Preparing the financial statements
- Preparing the annual budget

The ongoing maintenance of the general ledger and preparation of financial statements will be performed by the back-office provider. Financial information will be provided by the back-office provider to the Head of School and Director of Operations for monthly review, as this information is ultimately the responsibility of management. The general ledger process consists of posting the period's transactions to an accounting software system, which produces the financial statements. The back-office provider will reconcile bank and credit card accounts, enter payroll, review the general ledger, and assist the Head of School in preparation for the annual audit. The Head of School presents monthly statements to the Board of Directors at each Board meeting. The required statements are outlined in the following section. The Head of School is responsible for creating and updating 5-year budget projections for the school. In addition, the Head of School will prepare the annual operating budget of income and expenses and the capital budget for the school. These budgets and the 5-year projection are reviewed annually by the Finance Committee and presented to the full Board of Directors for discussion, review, and approval at a public board meeting prior to the last day of the closing fiscal year, as described below.

Budgets and Financial Reporting

Budgets

Budgets are created annually and updated semi-annually based on actual expenditures and programmatic changes that occur during the year. Creation of the annual operating budget and capital budget is led by the Head of School with input from other staff members as appropriate. This process is necessary to ensure enrollment is accurately represented per the charter agreement and to make certain the staff can properly

support the proposed number of enrolled students. Critical school program expenses should be represented in the budgets to ensure reality is properly reflected. Historical information is used when available and applicable. The process continues until the overall budget fairly represents the revenues and expenses for the operating budget as well as the cash requirements for capital expenditures under the capital budget.

Once complete, the Head of School presents the overall budget to the Finance Committee for review. If/when the committee is satisfied, the budget is then presented to the entire Board for discussion and vote of approval. The budget must be approved and passed by the June 30th before the start of the new fiscal year. Once approved, the implementation of, and accountability for, the budget is the sole responsibility of the Head of School.

The Director of Operations uploads the approved budget into the accounting system. This budget is then used to run monthly budget vs. actual expense reports that are shared with the Head of School. Variances of more than \$5,000 and/or 5% should be explained in the notes section. The Head of School is responsible for making sure that significant differences are thoroughly researched and ultimately identified as either permanent or temporary variances. From a day-to-day operational standpoint, the Head of School may work with the Treasurer or the Chair of the Board of Directors to resolve questions or issues related to the budget.

Financial Reporting

One week before each Board meeting, the following will be sent to the Finance Committee for review: (1) the budget vs. actual report for the operating budget; (2) the budget vs. actual report for the capital budget; (3) the balance sheet; and (4) the enrollment budget vs. actual report per grade for General Education and Special Education students. The Head of School will present these reports to the entire Board at each meeting. The Finance Committee may also request cash flow projections through the end of the fiscal year to identify the months that cash flow may run negative. In addition, monthly budget vs. actual reports for the operating budget and capital budget will be produced by the back-office provider and provided to the Head of School by the 21st of each month.

At the end of the year, the following key financial statements are produced: Balance Sheet, Income Statement, Statement of Cash Flow, Statement of Functional Expenses.

PROCESSING CASH RECEIPTS AND REVENUE

Background

Chicago Prep records revenue on the accrual basis of accounting in accordance with GAAP. Chicago Prep may receive revenues from the Federal Government, State Government, City Government, Corporations, Foundations, and Individuals. If total federal support for the fiscal year should exceed \$500,000, an additional audit under the guidance of OMB Circular A-133 will be conducted.

Processing and Recording Cash Receipts

The Director of Operations is responsible for recording cash receipts as well as various other functions. Director of Operations sorts and delivers all mail. Any mail addressed to a specific staff member should be transferred, unopened, to the addressee. Any mail addressed generally to the school that is not sent by a credit card company or bank may be opened by the Office Manager, Director of Operations, or Head of School. All documents contained within should be transferred to the most appropriate individual. In the case of mail sent by a credit card company or bank, the unopened envelope should be stamped as received by Director of

Operations with the date. The envelope should then be transferred immediately to the Head of School, or held in a locked, secure location until the Head of School is on site. Any credit card or bank statements must be marked “Reviewed by” (with initials and date) and “Approved by” (with signature) by the Head of School. The credit card or bank statement should then be transferred immediately to the Director of Operations for review, payment, and filing.

The financial institutions should send an additional copy of the credit card and bank statements directly to the Treasurer for review. The Director of Operations may open mail that appears to contain a check and is addressed generally to the school. Once opened, all checks must be stamped immediately in the designated endorsement area with “For Deposit Only” and the appropriate bank account number and the name of the school. The receipt of the check must be logged in the Cash Receipts Log by the Director of Operations maintained as an ongoing Excel file. The Excel file will be emailed to the Head of School on the last day of each month. The Head of School will reconcile the Cash Receipts Log with the Cash Receipts and Transfers Binder to ensure that all check receipts have been accounted for. The check should then be copied. Any correspondence accompanying the check should also be retained. The check, check copy, and any accompanying documents should be transferred in a secure manner to the Head of School.

The Director of Operations will keep the photocopy of the check and all correspondence (check copy on top) together and scan the packet into the Cash Receipts and Transfers folder on the shared drive, sorted by bank account number and date. When a donation is received, a pre-numbered contribution acknowledgement letter will be drafted by the Director of Community Outreach and Development, signed by the Head of School, and sent to the donor by the Director of Community Outreach and Development. Whenever reasonably possible, the Director of Operations will deposit all checks on the day received. Checks that cannot be deposited immediately will be placed in a locked location. Before depositing a check, the Director of Operations will prepare a deposit slip, copy it, and staple this to the copied check. When deposited, a deposit receipt with bank-endorsed proof of deposit will be obtained for each check. Deposits may be recorded either as invoices or as general ledger entries. After the check has been deposited, the Head of School records the receipt of funds in a Cash Deposits Journal, organized by check number, date and name. The Cash Deposits Journal should be provided to the back-office provider along with copies of source documentation (copy of the check, copy of the deposit slip, deposit receipt with bank-endorsed proof of deposit, and any correspondence that arrived with the check). If an invoice has already been created by the back-office provider, then the deposit will be applied against the outstanding invoice(s). If not, a sales invoice is created, recognizing the revenue in the correct month(s). If the cash is not yet earned, it will be applied against the deferred revenues/unearned income general ledger account. Journal entries associated with cash receipts will be recorded by the back-office provider.

Processing and Recording Revenue

Typically, grants received will be accompanied by specific agreements that explicitly or implicitly restrict their use and which impose unique reporting requirements – financial as well as performance. Chicago Prep’s accounting and documentation system must be such that it capable of meeting the individual requirements imposed by such grant agreements. Job codes and/or class codes will be attached to applicable expenses and assets so that associated grant revenues may be earned on an accrual basis. Inasmuch as the quality of grant agreements impacts its financial strength, Chicago Prep is committed to absolute adherence to this requirement in its reporting system. Accordingly, a reporting calendar shall be established wherein grantor accountability deadlines are tracked for compliance purposes.

Processing Wire Transfers into School Accounts

Government contracts which execute payments via wire transfer remit a wire transfer advice indicating the date and amount of the funds to be deposited in Chicago Prep's account. This wire transfer advice is processed in the same fashion as a deposit to the bank; with mail opened by the Director of Operations and delivery of wire transfer notices to the Head of School. All relevant documentation (wire transfer advice, wire transfer confirmation, Cash Receipts Journal, etc.) should be scanned and stored in the Cash Receipts and Transfers Folder on the shared drive under the proper bank account, in date order.

Processing and Recording Transfers within School Accounts

In order to maximize interest income, cash will be maintained in the savings account and transferred to the checking account, as necessary for payroll and vendor payments. Transfers between Chicago Prep bank accounts shall be made only when properly authorized. A Transfer Authorization form will be completed in order to transfer cash between accounts. The Director of Operations must obtain the Head of School's signature for transfers below \$25,000. Transfers above \$25,000 require approval by both the Head of School and the Treasurer. In the event the Head of School or Treasurer is not available for a signature, the Chair of the Board of Directors will be authorized to approve transfers in place of one of those individuals.

In the event that one of these individuals is not available for an in-person signature, the signatory may send an email stating his or her name and granting permission to execute the transfer, with the promise to sign the Transfer Authorization form in person at the first opportunity. The transfer may then be executed. As soon as the signatory is back on site, the original Transfer Authorization form will be signed in person and attached to the email granting permission. Any and all such correspondence must be retained and filed with the corresponding transfer documents.

Once transfer is authorized by the proper individual(s) and executed, the Transfer Authorization form, transfer confirmation statements, and the Cash Receipts Journal will be scanned and stored in the Cash Receipts and Transfers Folder on the shared drive in date order, under the bank account receiving funds.

Revenue Recognition for Grants

In instances where grant funds are received in advance of Chicago Prep expending money applicable to the grant, the grant funds are recorded in the accounting system as deferred revenue or a liability until the applicable expenses have been incurred. If the grant funds are received after the school has already expended money on goods or services that are covered under the grant, the grant funds can be recorded as revenue at the time of receipt. If the school has expended part of the grant before receiving the actual funds, the only funds that may be recorded as revenues are those that have already been spent. Any remaining grant money must be recorded as deferred revenue or a liability until the time the funds are actually expended by the school.

Pledges or Grants Receivable

When revenues are earned yet the cash has not been received for all or a portion of the grant/pledge, a receivable is recorded in the accounting system. When Chicago Prep receives an Unconditional Pledge to Contribute, it will be acknowledged in a pre-numbered contribution acknowledgement letter drafted by the Director of Operations, signed by the Head of School, and sent to the donor by the Office Manager. The Director of Operations will add the pledge to the Pledges to Contribute listing to be provided to the back-office provider for record into the general ledger. Pledges that go beyond a year should be discounted to their net present value. The school will only recognize the pledge as revenue when it is actually paid to the school, just as it does for all other restricted funding.

Revenue Recognition for Per-Pupil Funding

Per-pupil funding is received by Chicago Prep on a quarterly basis, but recognized as revenues on a monthly basis.

Government Cost Reimbursement Contracts

When an expense is incurred that is eligible for reimbursement through a government contract, the back-office provider attaches the appropriate Job/Class Code to the expense in the accounting system. The back-office provider compiles a monthly report of expenses with Job/Class Codes so that revenue can be recognized accordingly in that month.

Donated Goods and Services

Donated goods and services can include professional services, food, clothing, furniture and equipment, or bargain purchases of materials at prices less than market value. In addition, volunteers can provide free services, including administrative services, participation in fundraising events, and program services that are not accounted for. Donated services should be recorded in the system at fair value or avoided cost, as determined by the donor and documented in writing. When a good or service is donated to the school, a pre-numbered contribution acknowledgement letter will be drafted by the Director of Operations, signed by the Head of School, and sent to the donor by the Office Manager. General Ledger entries are recorded to recognize the in-kind revenues and in-kind expenses.

Donated Materials and Supplies

Donated materials are recorded as contributions to inventory or expenses in the period received and are recorded at their fair market value at the date of receipt. If materials are donated for a specific use, they are considered to be temporarily restricted contributions. Donated materials and supplies should be recorded in the system at fair value or avoided cost, as determined by the donor and documented in writing. When a material or supply is donated to the school, a pre-numbered contribution acknowledgement letter will be drafted by the Director of Operations, signed by the Head of School, and sent to the donor by the Office Manager. General Ledger entries are recorded to recognize the in-kind revenues and in-kind expenses.

Donated Property and Equipment

Property donations received without donor-imposed stipulations are recorded as unrestricted contributions. When property or equipment is donated to the school, a pre-numbered contribution acknowledgement letter will be drafted by the Director of Operations, signed by the Head of School, and sent to the donor by the Office Manager. General Ledger entries are recorded to recognize the in-kind revenues and in-kind expenses.

Donated Stocks

In the event that the school receives donated stocks from a donor, the stocks should be valued and recorded in the accounting system at the time of receipt. The value of the stock donation will be calculated as the average of the stock's high and low price on the day it was donated. When stocks are donated to the school, a pre-numbered contribution acknowledgement letter stating the value of the donated stocks will be drafted by the Director Operations, signed by the Head of School, and sent to the donor by the Office Manager. General Ledger entries are recorded to recognize transactions related to the donation of stocks.

Accounts Receivable Aging

Accounts receivable outstanding are aged on a thirty, sixty, ninety, and over-ninety day basis. The back-office provider should review the accounts receivable aging monthly, and the Director of Operations should assist in determining which invoices are collectible, follow the necessary requirements based on the type of funding, and select which items to collect.

PROCESSING PURCHASES

Background

Chicago Prep records expenses on the accrual basis of accounting, consistent with GAAP. By the adoption of the operating budget by the Board of Directors, the Head of School becomes both responsible for, and generally authorized to expend, the amounts budgeted. This authorization may, however, be qualified by Board action based upon availability of funds. Such a qualification may necessitate a prioritization of expenditures based upon an incremental implementation of the organization's Business Plan.

While a capital budget may be approved, the authority of the Head of School to solely commit to individual expenditures under that budget is limited to \$10,000 per transaction. Commitments for expenditures exceeding that amount must have the co-signature of either the Treasurer or the Chair of the Board. Chicago Prep procures only those items and services that are required to fulfill the mission and/or fill a bona fide need. Procurements are made using best value contracting, which entails assessing the best value considering quality, performance and price. This is achieved partly by the Director of Operations, who also has the annual responsibility of reviewing the newly approved budget to uncover patterns of orders and opportunities for clustering orders to achieve volume discounts. Chicago Prep adheres to the following objectives:

- Procurements will be completely impartial based strictly on the merits of supplier and contractor proposals and applicable related considerations such as delivery, quantity, quality, etc.
- The school will make all purchases in the best interests of the school and its funding sources.
- The school will obtain quality supplies/services needed for delivery at the time and place required.
- The school will buy from reliable sources of supply.
- The school will obtain maximum value for all expenditures.
- The school will deal fairly and impartially with all vendors.
- The school will be above suspicion of unethical behavior at all times; avoid any conflict of interest, related parties or even the appearance of a conflict of interest in Chicago Prep supplier relationships. (Chicago Prep maintains a Conflict of Interest Policy approved by the Board of Directors.)

In purchasing situations that do not relate to professional development (for example, expenditures related to capital improvements, building maintenance, acquisition of supplies, etc.), Chicago Prep utilizes the following procurement guidelines:

- If the vendor has a contract with the city of Chicago and/or the state of Illinois then they are called "preferred vendors" and no bidding is required.
- If the vendor's price is lower than the city of Chicago and/or the state of Illinois, approved vendor pricing for comparable products/services then no bidding is required.
- If the vendor is providing a unique service that is not offered by other vendors then they are called "sole vendors" and no bidding is required. However, it does require a letter describing the unique service.
- If the vendor is not a "preferred vendor" or a "sole vendor" then a competitive bidding procedure is put into effect. This only applies to purchase orders with a total exceeding \$20,000. A description of the competitive bidding procedure follows.

Competitive Bidding Procedure

- *Contracts under \$20,000* - The school uses sound business practices when procuring goods and services for amounts less than \$20,000.

- *Contracts greater than \$20,000* - The school seeks price quotes from at least three vendors and awards the contract to the responsible vendor offering the supply or service needed for the lowest price. The Director of Operations is responsible for soliciting these quotes, and the Head of School provides final approval. Award may be made to a vendor other than the low bidder in circumstances where the higher bid demonstrates best value contracting procedures to the school. In such situations, the Director of Operations shall prepare a justification statement for such awards, furnishing a brief explanation of the factors leading to such a decision, and the Head of School approves the final bid.

Approval

Approval to fulfill a purchase order is garnered by first filling out a Purchase Request form. Any staff member may fill out a Purchase Request form. Once complete, the form is submitted to the Director of Operations for review, and then submitted to the Head of School for final approval and signature. Twice weekly, the Head of School reviews the submitted purchase requests and grants final approval. Once the Head of School has given final approval, the Purchase Request form is transferred to the Director of Operations for processing. In the event that an item must be purchased and the proper signatory is not available to provide an in-person signature, the signatory may send an email stating his or her name and granting permission to execute the purchase, with the promise to sign the Purchase Request form in person at the first opportunity. The Purchase Order may then be executed. As soon as the signatory is back on site, the original Purchase Request form will be signed in person.

If necessary, teachers may purchase supplies directly from vendors and apply for reimbursement. Teachers may only acquire up to \$300.00 worth of materials under this policy per academic year, and purchases made in this way must be pre-approved in order to guarantee reimbursement. The school is tax exempt and therefore does not reimburse employees for tax. A copy of the Tax Exempt Certificate may be obtained from the Director of Operations. A detailed description of reimbursement policies can be found below.

Issuance and Monitoring of Purchase Orders

The Director of Operations works closely with the Head of School to ensure that all necessary instructional and administrative purchases are made in a timely and cost-effective manner and, when applicable, in accordance with grant restrictions.

For all products and services that need to be ordered, a Purchase Request form must be filled out and approved, as outlined above. The approved Purchase Request form is submitted to the Director of Operations for processing. The Director of Operations is responsible for ensuring adherence to the school's procurement guidelines and determining whether the order exceeds the thresholds requiring competitive bidding. All purchasing thresholds apply to the entire order, not single items. For instance, although one computer may cost \$1,500 (under the \$20,000 threshold requiring competitive bidding), if 20 computers are being requested, the order total will be \$30,000 (above the \$20,000 threshold), and as such, require bids from at least three vendors. The Director of Operations is responsible for conducting all competitive bidding procedures, when required. In these cases, all documentation of applicable bids and/or quotes obtained will be scanned and stored in the Vendor Bids folder on the shared drive, organized by the check number that ultimately paid for the item(s) in the order. The Director of Operations creates a Purchase Order (PO), and based on the total value of the Purchase Order, forwards it to the proper individual(s) for approval. The chart below outlines the thresholds related to pre-approval of purchase orders:

| Pre-Approval Purchase Order and Credit Card Authorization Guidelines | | |
|---|------------------|----------------------------|
| Type of Purchase | Threshold | Approved By |
| All purchases approved in the fiscal year budget (i.e. insurance, professional services, student assessment expenses, etc)*** | Up to \$10,000 | Head of School |
| | \$10,000 or more | Head of School & Treasurer |

In the event the Head of School or Treasurer is not available for a signature, the Chair of the Board of Directors will be able to approve purchase orders in place of one of those individuals. In the event that an item must be purchased and the proper signatory is not available to provide an in-person signature, the signatory may send an email stating his or her name and granting permission to execute the Purchase Order, with the promise to sign the Purchase Order in person at the first opportunity. The purchase may then be executed. As soon as the signatory is back on site, the original Purchase Order will be signed in person and attached to the email granting permission. Any and all such correspondence must be retained and filed with the corresponding purchase documents. Once the Purchase Order is approved with the proper signatures, the Director of Operations reviews the PO for accuracy of dates, account coding, quantities, and arithmetic extensions. The Director of Operations then sends the order to the vendor, accompanied by any required documentation. The Director of Operations notes the vendor confirmation number(s) on the hard copy PO and files it into the Purchasing Binder under the Purchase Orders Placed tab.

Receipt of Goods

All goods purchased by the school are delivered directly to the school. It is the responsibility of the Director of Operations to sign for delivery. The Director of Operations is also responsible for opening the box(es) and obtaining the packing slip(s). The packing slip will be reviewed for accuracy, checked against the original PO, stamped as received and signed by the Director of Operations. In instances where there is no packing slip, a Substitute Packing Slip form is to be filled out by the Director of Operations. If everything is correct and the contents of the entire purchase were received and documented on the packing slip, the packing slip will be combined with the original PO. This packet is then scanned and saved in the Purchasing folder on the shared drive in order by vendor name. If only part of the purchase was received, the packing slip for the received items is filed under the Partially Received tab in the Purchasing Binder in order by vendor name, until the remaining items are received. If everything is not correct with the order, the Director of Operations will contact the vendor for a return/credit to the account. When discrepancies occur, they are to be resolved by the Director of Operations and/or Head of School.

Exemption from Sales Tax

Chicago Prep is exempt from state and federal tax. As such, the school is exempt from sales taxes on goods purchased for their own internal use and services. It is the responsibility of the Director of Operations to ensure that all vendors have a copy of the exemption letter or “E” number and 501(c)3 forms allowing the organization to be exempt from sales taxes.

Reimbursable Expenses

In situations where a purchase is required in short order and the total of the purchase is under \$300.00, staff may make the purchase with their own funds and apply for reimbursement. Reimbursable expenses under \$300.00 will require pre-approval by the Head of School via the Expense Reimbursement Pre- Approval form.

Expenses that have not been pre-approved will not be reimbursed. In the event that the Head of School requires reimbursement, the Treasurer must approve his/her expenses. It is the employee's responsibility to seek approval prior to incurring costs.

In the event that an item must be purchased and the Head of School is not available to provide an in-person signature on the Expense Reimbursement Pre-Approval form, the Head of School may send an email stating his or her name and granting permission to execute the purchase, with the promise to sign the Expense Reimbursement Pre-Approval form in person at the first opportunity. The purchase may then be executed. As soon as the Head of School is back on site, the original Expense Reimbursement Pre-Approval form will be signed in person and attached to the email granting permission. Any and all such correspondence must be retained and filed with the corresponding purchase documents.

Receipts are required for all expenditures requiring reimbursement. Once expenses have been incurred, requests for reimbursement should be made within 30 days of expense via an Expense Reimbursement form. All receipts should be taped onto blank sheets of paper and attached to the form, along with a copy of the original Expense Reimbursement Pre-Approval form. These documents are submitted to the Head of School for review and approval. Employees should note that the school is tax exempt and therefore does not reimburse employees for tax. A copy of the Tax Exempt Certificate may be obtained from the Director of Operations.

Travel Expenses

Travel arrangements will be purchased using the school credit card. In situations where expenses are incurred during the course of business travel, staff may apply for expense reimbursement. No single purchase made while traveling may exceed \$300.00. Expectations for daily expenses or per diem allowances will be determined prior to the employee trip. Employees should file for reimbursement in the manner described in the above section, although pre-approval for each business travel expense will not be required. Receipts are required for all expenditures requiring reimbursement, and requests for reimbursement must be made within 60 days of expense. Expense Reimbursement forms shall document employee name, travel dates, destination, business purpose, and detail business costs such as tolls, parking, mileage, and meals. The Head of School must approve all travel expenses for school employees. In the event that the Head of School requires travel reimbursement, the Treasurer of the Board must approve his/her expenses.

Mileage Reimbursement

- All employees are reimbursed at the standard mileage rate per mile as determined by the Internal Revenue Service for use of their own vehicle for business-related travel. Parking fees and tolls paid are reimbursable if supported by receipts.
- All employees requesting such mileage reimbursement are required to furnish a Travel Report containing the destination of each trip, its purpose and the miles driven, parking fees and tolls. All corresponding receipts must be taped to blank sheets of paper and attached to the Travel Report. This packet must be submitted to the Head of School for approval within 60 days of the travel date in order for the employee to receive reimbursement.

Credit Card Purchases

Chicago Prep's credit cards will be provided to the Head of School only. Credit card use is to be generally restricted to the making of travel arrangements for Directors and staff and for making arrangements with

hotels and conference facilities for approved travel and meetings. The credit card is not to be used for accounts payable or other day-to-day transactions. The credit card may be used for capital expenditures, but all approval and budgetary restrictions as outlined in this policy manual shall apply. Credit card purchase requests are subject to the same purchasing threshold requirements that are applied to traditional purchase orders, as mentioned above. In the event that an item must be purchased and the proper signatory is not available to provide an in-person signature, the signatory may send an email stating his or her name and granting permission to execute the credit card purchase, with the promise to sign the Credit Card Purchase Request form in person at the first opportunity. The purchase may then be executed. As soon as the signatory is back on site, the original Credit Card Purchase Request form will be signed in person and attached to the email granting permission. Any and all such correspondence must be retained and filed with the corresponding purchase documents.

Once the form is returned to the requestor with proper approval, the cardholder may execute the purchase, making sure to retain all receipts. If one of the above-named approving signatories is the individual requesting use of the credit card and the total purchase amount is under \$10,000, the following procedures will be followed: The Head of School will approve purchase requests made by the Director of Operations. The Treasurer will approve purchase requests made by the Head of School. In this same situation, if the total purchase amount is over \$10,000, the request must be approved by two of the three approving signatories (Head of School, Treasurer, and/or Chair of the Board), not including the signatory that is making the purchase request. Credit card purchases not originally included in the Board-approved budget will still require the Head of School AND Treasurer's approval if over \$5,000.

The approved Credit Card Purchase Request form and receipt(s) are submitted to the Director of Operations for processing. This includes the coding of each expense for the month, so that each can be properly recorded. If there is any question as to how to code a particular expense, the Director of Operations consults with the Head of School for clarification. If the Head of School is unavailable, the unclear expense is coded to the Expense Suspense account, which will be cleared when the month-end financials are produced or as the Head of School is able to respond. The Director of Operations pays all monthly credit card bills in full. The charges are entered and reconciled by the back-office provider. All bills and invoices are subsequently filed accordingly in the proper binder. Credit card statements are opened only by the Head of School.

PROCESSING CASH DISBURSEMENTS

Processing Invoices

All invoices are mailed to Chicago Prep directly. The Director of Operations is responsible for opening and sorting all invoices. If an invoice is received prior to receipt of goods, the Director of Operations files the invoice in the Purchasing Binder under the Invoices without Packing Slips tab, in order by vendor name.

Once the goods have been received (or in the case that the shipment had already been received at the time of invoice arrival), the Director of Operations staples the invoice to the top of the corresponding packet composed of the packing slip and purchase order. This expanded packet is now a complete Cash Disbursement packet (invoice/packing slip/purchase order). The Cash Disbursement packet is filed in the Purchasing Binder under the Invoices to be Posted tab, in order by vendor name. In instances where invoices cannot be obtained and a payment is required, a Check Request form is filled out. In this case, any applicable

documentation to back up payments requested should be attached. The Check Request form will document the payee, payment due date, amount of payment, etc.

Invoices shall be processed weekly by the Director of Operations. The Director of Operations establishes the vendor file and reviews the invoice for any purchase discounts dates and properly denotes the discount period for recording in the general ledger. Copies of documentation maintained in the Purchasing Binder (i.e. Cash Disbursement packets, Check Requests, copies of Expense Reimbursement Forms, credit card statements, etc.) should be made available to the back-office provider for record into the general ledger. Journal entries associated with purchases and cash disbursements will be recorded by the back-office provider. After record into the general ledger, the Director of Operations ultimately moves the Cash Disbursement packet to the Invoices to be Paid tab of the Purchasing Binder, sorted by vendor name.

Cutting Checks

The Director of Operations will maintain all blank check stock in a locked location. All checks will be pre-numbered, voucher style, containing one stub for the vendor (attached to all outgoing checks) and one to be filed by the Director of Operations with all supporting disbursement documents. Checks are run on a weekly basis, and vendors are paid based on terms of the invoices, as recorded within the system. Check preparation and signatures are prepared not later than the due date, consistent with available discounts if available.

The Head of School, Treasurer, and Chair of the Board of Directors are signatories on the checking account. The Director of Operations must obtain the Head of School's signature for checks below \$10,000. Checks above \$10,000 require signature by both the Head of School and the Treasurer. In the event the Treasurer is not available for signature, the Chair of the Board of Directors will be able to sign checks in the Treasurer's place. Checks for purchases not originally included in the Board-approved budget will still require the Head of School AND Treasurer's signature if over \$5,000.

The Director of Operations processes payment for the invoice and creates a check. The check is submitted to the required signatories (see above) for signature(s), along with the corresponding Cash Disbursement packet (invoice/packing slip/purchase order). At the time the check is signed, any required signatories should review the supporting documentation to ensure they are signing a check for the correct amount and to the correct payee. They should also initial and date each page of the supporting documentation to indicate that the item was received, and appropriate payment has been disbursed. The Director of Operations staples the check stub or copy of the signed check to the top of the Cash Disbursement packet and scans and saves it in the Cash Disbursements folder on the shared drive in check number order, starting with the first check after July 1st and ending with the last check on June 30th. The Director of Operations mails the check to the vendor awaiting payment. Electronic fund transfers may also be used, where the same authorizations as checks will be obtained using an Electronic Payment Authorization form. See below for details.

In no event shall an authorized signatory approve an invoice, execute a check, or authorize a disbursement of any kind, payable to him/herself. Any and all voided checks should be stamped "void" with the date and scanned and saved in the Cash Disbursements folder on the shared drive in check number order. If a check has gone missing, use a Missing Voided Check Substitute form to act as a placeholder in the Cash Disbursements folder.

Online /Phone /Fax/EFT Payments

Payments made online or by phone, fax, or electronic funds transfer (EFT) may be processed by the Director of Operations only after an Electronic Payment Authorization form is approved by the proper signatories (detailed above). The same controls should be followed except that the completed, approved Electronic Payment Authorization form will take the place of a traditional check. Any such payment is documented by a printed confirmation and stapled to the invoice. The Electronic Cash Disbursement packet, composed of Electronic Payment Authorization form, confirmation page, and any other supporting documentation, is scanned and saved in the Online/Phone/Fax/EFT Disbursements folder on the shared drive in date order. Copies of such documentation should be made available to the back-office provider for record into the general ledger. Journal entries associated with online/phone/fax/EFT payments will be recorded by the back-office provider.

Recurring Expenses

Recurring expenses that exceed the thresholds stated above can be approved once annually by the Treasurer, and then will not need to be approved monthly moving forward. For example, if the cost of health insurance payments exceeds \$10,000 per month, the Treasurer may approve that payment one time, co-sign the check, and then provide written approval so that in future months his approval and co-signatory are not needed to process payment.

Accounts Payable Aging

Accounts payable outstanding are aged on a thirty, sixty, ninety, and over-ninety day basis. The back-office provider should review the accounts payable aging monthly, determine the available cash balances while taking into consideration other cash requirements in the near future, and select items to pay. Accounts payable aging information should be provided by the back-office provider to the Head of School for review.

Petty Cash Account

It is the policy of Chicago Prep not to use petty cash and instead to reimburse employees for pre-approved expenses.

Political Contributions

No funds or assets of Chicago Prep may be contributed to any political party or organization or to any individual who either holds public office or is a candidate for public office. Chicago Prep also cannot be involved with any committee or other organization that raises funds for political purposes. Examples of prohibited activities are:

- Political contributions by an employee that are reimbursed by the school organization.
- Purchase by the organization of tickets for political fundraising events.
- Contributions in kind, such as lending employees to political parties or using school assets in political campaigns.

MANAGEMENT OF CASH

Accounts

All current and future bank accounts will have 3 Authorized Signers: the Head of School, Treasurer, and Chair of the Board of Directors. Bank statements are received monthly at the school and are always opened only

by the Head of School. In the event that the organization wishes to open a new bank account, Board approval is required. As part of the approval, the Board must describe the purpose of the account, signatories, and signatories' authority. The vote to approve and all associated determinations must be recorded in the Board minutes. Should the school wish to close a bank account, Board approval is also required and will be documented in Board minutes.

Chicago Prep recognizes that federal insurance on deposits with any bank is limited to a total of \$250,000, regardless of the number of accounts held. In the event the balance in a school account is anticipated to be in excess of the insurance coverage, a "re-positioning" agreement is to be negotiated with the financial institution in order to secure such deposits in excess of federal coverage.

Bank Statements

When bank statements are received at the school, the unopened envelope should be stamped as received by the Director of Operations with the date. The unopened envelope should then be transferred immediately to the Head of School, or held in a locked, secure location until the Head of School is on site. Once the Head of School receives the envelope, s/he should open and review the contents. Any credit card or bank statements must be marked "Reviewed by" (with initials and date) and "Approved by" (with signature). The credit/debit card or bank statement should then be transferred immediately to the Director of Operations for review, payment, and filing. The review is performed to ensure that the Director of Operations who processed the payments did not process any unauthorized activities. After review by the Head of School, each statement is submitted to the Director of Operations to complete the bank reconciliation. The Treasurer will also receive a mailed copy of the monthly bank statements. All bank statement and related documents shall be retained in accordance with the school's Record Retention policy.

Bank Reconciliation

Using the QuickBooks or similar bank reconciliation function, reconciliations are prepared monthly for all bank accounts. This preparation is accomplished by the Director of Operations, who identifies reconciling items to ensure that cash is being accounted for properly. Any irregularities shall immediately be reported to the Head of School and the Treasurer. A bank reconciliation report from QuickBooks showing the un-reconciled amount as zero is printed and attached to the bank statement. The report is submitted to the Head of School for review, initialed and returned to the Director of Operations. The Director of Operations scans and saves the statement and reconciliation report in the Bank Reconciliation folder on the shared drive in date order, sorted by bank account.

Investment of Funds

At present, Chicago Prep does not have any investment accounts. As such, this section does not currently apply to Chicago Prep. When the school has funds available for investment, the following policies will apply:

- The Board of Directors sets the investment policy for Chicago Prep. The investment policy provides general guidelines regarding the type of investments deemed appropriate, the levels of risk tolerance, the investment time horizon, and the objectives of each investment. Generally, the investment of funds for the school shall follow a conservative approach and take on only low to moderate risk, emphasizing capital preservation and liquidity. The Treasurer has been designated to implement the Board's investment policy. If the Board of Directors decides to engage a third party financial consultant, the consultant will be granted authority to:
 - Purchase and sell investments
 - Have access to investment certificates

- Keep records of investments and investment earnings
- Review and approve investment accounting, bank and broker statement reconciliations, adjustments to the carrying value of investments, and other decisions regarding investments

The third party financial consultant shall be selected by the Board of Directors upon recommendation of the Finance Committee.

Authorization of Investment Vehicles

Annually, the organization's Board of Directors authorizes use of specific depository and investment banks and brokerage firms. This authorization is documented in the minutes of the applicable Board meeting and communicated to the Head of School. The Head of School communicates the authorization and a list of those personnel designated as authorized agents for the agency to the appropriate banks and firms. As a part of the annual authorization process, the Treasurer in consultation with the Head of School evaluates the organization's prior relationship with banks and brokerage firms to determine suitability for renewal. Such evaluation considers service responsiveness, types of investments offered, quality of investment advice, service and transaction charges, and any other relevant criteria.

Authorization of Investments

All transactions regarding investments must be properly authorized by the Treasurer and properly communicated to the Board of Directors. Such transactions include: Purchases, Sales, Movement to and from safekeeping (the physical safeguarding of assets through use of a vault, safe deposit box, or independent custodian)

Investment Purchases

Investment purchases are made by check or bank transfer after compliance with the following procedures:

- A determination that the purchase transaction is properly authorized in accordance with agency policy
- Preparation of a check requisition or a bank transfer request to accompany the investment purchase/sale authorization form

Investment Sales

Investment sales are transacted after compliance with the following procedures:

- A determination that the sale transaction is properly authorized
- The sales authorization is sent to the agent handling the sale transaction for investments held on the premises. Authorization to the agent is communicated in writing. If investments are kept off site, authorization to release the document from safekeeping is provided to the custodian. The custodian provides the agency with a receipt documenting the release from safekeeping. The receipt should be filed in the investment files.

Investment Sales Gain or Loss

The Head of School will calculate the expected gain or loss upon sale or other disposition of an investment, before a decision regarding the sale is finalized. The calculation is updated/finalized subsequent to the sale and documented in the investment file.

Investment Sales Proceeds

Proceeds from the sale of investments are received either by check or bank transfer, to the attention of the Head of School. A copy of the receipt or deposit ticket is included in the investment file.

Investment Results Reports

Monthly reports detailing the earnings and activity in all investment accounts are prepared by the Head of School and distributed to appropriate management and Board personnel. Investment related transactions for the month are recorded in the general ledger by the back-office provider, and all investment-related documents shall be retained in accordance with the school's Record Retention policy.

Reconciliation of Investment Accounts

Investment account balances are reconciled with the general ledger balance by the back-office provider on a quarterly basis. Such reconciliation is reviewed and approved by the Head of School.

Investment Account Balances Agreed to Third Party Statements

Amounts recorded on the general ledger and supporting schedules are reconciled to third-party statements at least quarterly and preferably monthly, if possible. For those investments held on the agency's premises or at a safe deposit vault, quarterly physical inventories are performed and reconciled to the supporting schedules. The Head of School reviews and initials these reconciliations.

PROPERTY AND EQUIPMENT

Background

The Director of Operations and the Head of School are responsible for ensuring that accurate inventories are maintained so that all assets are safeguarded. The school's Director of Operations is responsible for maintaining the equipment and all necessary asset inventories. All assets must be recorded both in the accounting system's general ledger under the fixed asset category and in a separate fixed asset inventory spreadsheet, created in Excel. All property and equipment subject to the school's Capitalization policy must be recorded in the manner described below and depreciated according to the school's depreciation policy. Upon receiving any property that qualifies as a fixed asset, the Director of Operations is responsible for recording the following into the fixed asset inventory spreadsheet:

- Asset number (use sequential numbers, no lettering)
- Asset name and description
- Classification (i.e. land, building, equipment, leasehold improvements, furniture, fixtures, computer hardware and software, etc.)
- Serial number, model number, or other identification
- Whether title vests with Chicago Prep or a governmental agency
- Vendor name and acquisition date
- Location of the asset
- Purchase Date
- Purchase Value
- Capitalization Date
- Book Value
- Accumulated Depreciation
- Useful Life
- Disposal Date

- Disposal Reason

In addition, the asset name, inventory number, and book value must be entered in the accounting system’s general ledger under the fixed asset category. Each item is also physically tagged in a visible area on the item and with the asset number and indication whether the item is property of Chicago Prep. All government-furnished property and equipment is also recorded and tagged, with identification information indicating it has been acquired through a government contract. Because the governmental agency owns the item, it is recognized as an expense and is not capitalized. In the event of charter revocation, the item is returned as property of the governmental agency. No employee may use any of the school property, equipment, material, or supplies for personal use without the prior approval of the Head of School. No item of property or equipment shall be removed from the premises without prior approval of the Head of School. All lease agreements for real property will be evidenced by a lease or sublease agreement approved by the Board of Directors and signed by the Head of School. The agreement will identify all the terms and conditions of the lease. Any real estate agreement to rent or sell will require a beneficial interest disclosure.

Capitalization Policy

The cost threshold for items purchased by Chicago Prep to capitalize is \$1,000. Items with an acquisition cost of less than \$1,000 or a useful life of less than one year are expensed in the year purchased. Items with an acquisition cost of more than \$1,000 are capitalized and are subject to the school’s depreciation policy, outlined below. There may be instances where depending upon the nature of the purchase, and the expected useful life of the purchase, an item costing less than \$1,000 may be capitalized. For example, a piece of software, which costs \$500 and comes with a license for three years, may be capitalized even though the cost was less than \$1,000. The choice to capitalize an expenditure will be left to the discretion of the Head of School.

Inventory Audit

The Director of Operations performs annual inventory audits, verifying and updating the data contained in the Excel fixed asset inventory spreadsheet. The Director of Operations should also note if inventory appears to be impaired, damaged, or obsolete. Once complete, this inventory is compared to the fixed assets listed in the general ledger to ensure the value of the assets per the accounting system matches the value of the assets per the spreadsheet. Differences are reconciled by the Director of Operations and communicated to the back-office provider for adjustment in the general ledger. The Head of School should be notified if any inventory items are lost, damaged, stolen, or in any way impaired.

Depreciation Policy

Any items subject to the Capitalization policy described above are subject to depreciation. The back-office provider will account for depreciation based on the school’s inventories and Depreciation policy. Depreciation associated with the fixed assets will be calculated based on the fixed assets’ useful lives using the straight-line depreciation method. Any item that is rendered obsolete (damaged beyond use) will be taken out of service and fully written off the accounting records.

| Depreciation Policy | |
|----------------------------|---------|
| Musical Instruments | 3 years |
| Software | 3 years |
| Computers | 4 years |
| Office/Classroom Equipment | 5 years |

| | |
|----------------------------|--|
| Office/Classroom Furniture | 7 years |
| Leasehold improvements | Life of lease or 5 years, whichever is greater |

Disposal of Property and Equipment Policy

Chicago Prep has adopted standard disposition procedures for staff to follow. The requester fills out and signs the Asset Disposal Form, which identifies the asset and the reason for disposition. This form is submitted to the Director of Operations, who takes photos of the asset, determines the asset’s book value and documents the condition of the asset. Disposal of any asset requires the approval of the Head of School. Once approved for disposal, the book value of the disposed asset is written down to zero in the general ledger. The disposed asset is also removed from the Excel fixed asset inventory spreadsheet. The treatment of any proceeds from the disposition, and the recognition of any gain or loss on sale of the disposed asset, is also recorded in the general ledger by the back-office provider, subject to review by the Head of School.

BORROWING FUNDS

Background

Chicago Prep records short-term and long-term liabilities on the accrual basis of accounting, consistent with GAAP. Based on the most recent audited financial statements and cash flow projections, the Head of School may establish credit lines and borrowing limits as needed. All short-term and long-term debt and the establishment or increase of all credit lines must be approved by the Board of Directors. Loan agreements approved by the Board of Directors should be in writing and should specify all applicable terms, including the purpose of the loan, the interest rate, collateral used to secure the loan(if applicable), and the repayment schedule. The approved agreement will be signed by the Head of School prior to the borrowing of funds.

Policies

The duration of the liability should not exceed the duration of the charter without consent of the Board of Directors. In the case of a long-term loan, approval may also be required from the charter-granting agency in accordance with the terms of the charter petition and/or other lenders in accordance with the loan documents. Providing loans to Chicago Prep employees is not allowed.

Chicago Prep must have a realistic plan for repayment of borrowed funds based on reasonable assumptions for future revenue sources. Borrowed funds will be repaid with appropriate, measurable, and identifiable revenues in accordance with GAAP. The Head of School shall alert the Board of Directors if lines of credit or borrowing limits become inadequate in meeting the needs of the organization. The Board of Directors reserves the right to amend the borrowing policy and credit limits when necessary.

BUDGETING OF FUNDS

The Head of School is responsible for developing a proposed budget for each program and for the organization as a whole, with input from the Director of Operations and other relevant Staff, and presenting it to the Finance Committee of the Board of Directors for annual review. The annual budget report should include the previous year’s proposed budget versus actual figures and include a review of the monthly variances as reported to the Finance Committee throughout the school year. The budget should be presented to allow adequate time for the Finance Committee to discuss with the Head of School and present to the Board.

The Board shall approve the budget by June 30th of each year, and thereafter, the implementation of and accountability for it will be the sole responsibility of the Head of School. The Head of School is permitted to make minor adjustments to the budget throughout the year, limited to shifting dollar amounts between line items without changing the overall budget, or changing an expense in response to a change in revenue; modifications outside of these require Board approval.

Each month, the back-office provider shall present to the Head of School a report on actual versus proposed revenue and expenses. Any variances of more than \$5,000 and/or 5% of the budgeted amount should be highlighted and an explanation for the variance provided in the report notes. The report shall then be presented to the Finance Committee for their review, and all monthly reports should be analyzed as part of the year-end budgeting process. The Head of School may work with the Treasurer and members of the Finance Committee throughout the year to resolve and budgeting issues.

SUMMARY OF ACCOUNT STRUCTURE

Assets

General categories of assets at Chicago Prep will include the following:

- Cash and Cash Equivalents: consisting of cash in the school's bank account.
- Accounts Receivable: consisting of funds the school expects to receive from public or private sources; this will also include donation pledges.
- Property and Equipment: consisting of the assets used by the school for activities and programs that have an estimated useful life greater than one year. Fixed assets will include, but are not limited to, musical instruments, classroom equipment, furniture, computers and computer software. Purchased property and equipment are recorded at cost, while donated property and equipment are recorded at fair market value at the date of donation. Acquisition costs for property and equipment may be capitalized over the life of the asset, in accordance with GAAP. These include all costs necessary to bring the asset to its location in working condition, including sales tax, freight, installation costs, interest, and any other direct or indirect costs.

The net assets of Chicago Prep, as defined in non-profit organizations as assets less liabilities, shall be classified into three categories:

- Unrestricted Net Assets
- Temporarily Restricted Net Assets
- Permanently Restricted Net Assets

Liabilities

General categories of Liabilities at Chicago Prep will include the following:

- Accounts Payable: Accounts payable includes costs and expenses that are billed through a vendor invoice, and are recorded at the invoice amount. Vendors and suppliers are paid as their payment terms require, taking advantage of any discounts offered. If cash flow problems exist, payments are made on a greatest dependency/greatest need basis.
- Capital Lease Obligations: The school may lease office equipment under a capital lease, in which case payments of both principal and interest will be made monthly.
- Accrued Liabilities: Salaries, wages earned and payroll taxes, along with professional fees, rent and insurance costs incurred, but unpaid, are reflected as a liability when entitlement to payment occurs.
- Debt: When applicable, short-term debt consists of financing expected to be repaid within one year of the date of the annual audited financial statements. Long-term debt consists of financing that is not

expected to be repaid within one year and is recorded on the balance sheet as a long-term liability. All short-term and long-term debt must be approved by the Board of Directors and be in accordance with the school's borrowing policy. Loans may not exceed the duration of the charter without the consent of the Board.

Revenue

Revenue for Chicago Prep will come from both public and private sources, in the form of city, state, and federal funding, grants, and private donor contributions. Private contributions from individuals, foundations, and corporations will be classified when received as follows:

- Unrestricted Contributions: No donor-imposed restrictions.
- Temporarily Restricted Contributions: Donor-imposed restrictions.
- Permanently Restricted Contributions: Donor has placed permanent restrictions on the funds.

Expenses

Expenses are characterized by functional classification and are matched with any donor-imposed restrictions. Functional classifications will include the following:

- Program Service Expenses: The direct and indirect costs related to providing education and other services consistent with the school's mission.
- Management & General Expenses: Expenses for other activities related to the purpose for which the organization exists. These relate to the overall direction of the organization and include expenses for the activities of the governing Board, business management, general record keeping, and budgeting.
- Fundraising Expenses: Costs of all activities that constitute appeal for financial support and include costs of personnel, professional consultants, rent, printing, postage, and telephone use.
- The cost of providing the various programs and other activities of Chicago Prep will be summarized on a functional basis as part of the school's annual budget process. Accordingly, certain costs will be allocated among the following categories: general education program, special education program, management and general, and fundraising. Allocations are amended as necessary and the rationale documented.

Financial Accounting

The Director of Operations is responsible for coordinating with the third party vendor to maintain the books of account and develop the chart of accounts for Chicago Prep. The books of account will include budget reports, the general ledger, and records of cash receipts and disbursements. All school fiscal transactions will be recorded to the Chart of Accounts, with revenue and expenses allocated accordingly. The vendor will prepare all financial statements and provide them to the Head of School and Director of Operations on a monthly basis for review. Upon review, they will be submitted to the Finance Committee of the Board of Directors. The monthly report should include a balance sheet, statement of cash flows, and income statement, and shall be prepared in accordance with GAAP.

AUDITS AND FINANCIAL REGULATORY FORMS

An annual audit shall be conducted by an independent audit firm selected by the Board of Directors on the recommendation of the Finance Committee. The audit will be conducted in accordance with GAAP. If necessary, the Board of Directors may appoint an audit committee to aid with the selection of an independent

audit firm. No person with expenditure authorization or recording responsibilities for the school shall serve on the committee. The annual audit should include, but not be limited to, the following:

- An audit of the accuracy of the school's financial statements
- An audit of the attendance accounting and revenue accuracy practices
- An audit of the school's internal controls

Financial regulatory forms and reports shall be completed as necessary and filed with the appropriate bodies. The Director of Operations shall work with the third party vendor to complete all required forms, which will be reviewed by both the Head of School and the Finance Committee of the Board.

BEQUESTS AND CONTRIBUTIONS

Background

The fundraising plan for Chicago Prep is created annually and updated semi-annually based on actual fundraising progress and programmatic changes that occur during the year. Creation of the annual fundraising plan is an iterative process led by the Director of Community Outreach and Development and Head of School with input from other staff members as appropriate. Once complete, the Head of School presents the fundraising plan to the Finance Committee or relevant Development Committee for review. If/when the committee is satisfied, the budget is then presented to the entire Board for a vote of approval. The fundraising plan must be approved and passed by the June 30th before the start of the new fiscal year. Once approved, the implementation of, and accountability for, the fundraising plan is the responsibility of the Director of Community Outreach and Development and the Head of School. Results and progress in regards to the plan should be presented to the Board on a monthly basis.

Policies

Chicago Prep will accept unrestricted gifts, and gifts for specific programs and purposes, provided that such gifts are not inconsistent with its stated mission, purposes, and priorities. Under no circumstances shall Chicago Prep accept restrictive gifts bequests that violate the terms of the charter agreement. All final decisions on the restrictive nature of a gift, and its acceptance or refusal, shall be made by the Director of Community Outreach and Development, Head of School, and Board of Directors. Non-restricted bequests and contributions shall be used for operations or special projects as designated and approved by the Director of Community Outreach and Development, Head of School, and Board of Directors. Bequests and contributions that are donor restricted shall be used for the purpose articulated by the donor, except that in no case shall the school accept any such bequest of contribution for which the donor restriction violates any federal or Illinois state law or the bylaws of Chicago Prep.

Bequests and contributions will be properly budgeted and accounted for in accordance with GAAP. The Director of Community Outreach and Development will maintain supporting schedules to document revenues and expenditures related to unrestricted, temporarily restricted, and permanently restricted net assets. The Finance Committee of the Board of Directors will review and approve expenditures on a monthly basis in accordance with donor stipulations, if any. Chicago Prep shall seek the advice of legal counsel in matters related to the acceptance of gifts when appropriate. Review by counsel is recommended for:

- Closely held stock transfers that are subject to restrictions or buy-sell agreements
- Documents naming Chicago Prep as Trustee
- Gifts involving contracts, such as bargain sales or other documents requiring Chicago Prep to assume

- an obligation
- Transactions with potential conflict of interest that may invoke IRS sanctions

Other instances in which use of counsel is deemed appropriate by the Head of School and/or Board of Directors. If Chicago Prep receives charitable deduction property and within 3 years sells, exchanges, or disposes of the property, it must file Form 8282 with the IRS. Chicago Prep is not required to file Form 8282 if the property is valued at \$500 or less, or the property is distributed for charitable purposes. Form 8282 must be filed within 125 days after the disposition. A copy of Form 8282 must also be provided to the previous donor. Charitable deduction property includes any property (other than money or publicly traded securities) for which Chicago Prep signed an appraisal summary or Form 8283, Noncash Charitable Contributions. If the value of the donated property exceeds \$5,000, Chicago Prep must get a qualified appraisal for the property. For noncash donations over \$5,000, the donor must attach Form 8283 to the tax return to support the charitable deduction.

PAYROLL

Hiring

All hiring decisions will be made by the Head of School, in accordance with the annual budget approved by the Board of Directors. A Personnel Action form must be completed by the Head of School for each new hire, outlining such details as the employee's personal information, job description, and salary information, and include any references provided by the hire. New hires will be subject to a background check and all relevant state and federal requirements, and he or she must complete all applicable paperwork before employment begins. The Director of Operations will collect all relevant employment forms, tax forms, including W4 and I-9, and benefits enrollment information.

Staff

Each staff member at Chicago Prep will be classified as *Exempt* or *Non-Exempt*, as defined by the Fair Labor Standards Act (FLSA). All minimum wage and overtime requirements will be followed as set forth by the FLSA. Non-exempt are entitled to overtime pay, but do not receive compensation for their lunchtime and they may not work during lunchtime; exempt employees are not entitled to overtime pay under FLSA. In addition to the above categories, each employee will belong to one other employment category:

- **REGULAR FULL-TIME** employees are those who are regularly scheduled to work at least 40 hours per week. They receive all mandatory benefits and are generally eligible for all of school's discretionary benefits, subject to the terms, conditions and limitations of each benefit program, as in effect from time to time.
- **PART-TIME** employees are those employees who are regularly scheduled to work less than 40 hours per week. They receive all legally mandated benefits but are not generally eligible for discretionary benefits.
- **TEMPORARY** employees are those that are hired for short-term periods, usually no longer than 6 months. They will receive all legally mandated benefits but are not eligible for discretionary benefits.

Additionally, employees may be hired as eleven- or twelve-month employees. Twelve-month employees include, but are not limited to, teachers and program staff. Twelve-month employees include most administrative employees. This determination is made at the time of hire and is indicated in the employee's hire letter or employment contract, if applicable.

Chicago Prep may hire the services of an independent contractor or consultant if deemed necessary and approved by the Board. This contractor must meet the standard definition of an independent contractor, and not a regular employee of the school. The relationship will be set up in such a way to ensure accordance with employment and tax law; typically, an independent contractor will not have taxes withheld, and he or she will invoice the school for services rendered. If an employee is being managed closely on a day-to-day basis, generally he or she must be paid as a regular staff employee and not as an independent contractor. In the event an independent contractor is used, the Head of School shall create a written contract outlining the responsibilities of each party, including the worker's responsibility to pay required taxes on his or her own behalf. The contract should include details of the agreement between the two parties, work expectations, and estimated fees. Details of the work should be kept on file, and all related documents, such as invoices and report of services performed, shall be retained. Form 1099 will be issued at the close of the fiscal year to the independent contractors, in accordance with the tax code.

Record-Keeping

The Director of Operations shall keep a personnel file for each employee of Chicago Prep, and update with current information when appropriate. The file should contain:

- Employment application and offer letter
- Background check and any other state and federal documentation requirements
- Tax withholding forms and other deduction information
- All benefit enrollment forms
- Employee resume, certifications and references
- Compensation information, including starting salary, changes to salary, and bonuses paid
- Performance evaluation documents
- Any additional relevant payroll documents
- Signed acknowledgement of reading of Staff Handbook

As required by the U.S. Department of Homeland Security, all employee I-9 forms will be kept in a separate locked location, which will include copies of applicable identification. The Director of Operations will be responsible for verifying all information and signing off on the I-9 after viewing original copies of all documentation. Chicago Prep complies with the laws and general principles of employee confidentiality as set forth in the Health Insurance Portability and Accountability Act (HIPAA) with regard to the dissemination of private health information (PHI) of school employees. In order to comply with all rules and regulations, including the Americans with Disabilities Act (ADA), Chicago Prep will keep all medical records and all other necessary documents separate from the personnel file.

The following information will be obtained from each Chicago Prep employee in order to prepare the payroll: name and address, social security number, date of birth, job title, wage rate, withholding status, and other authorized payroll deductions. In addition to collecting all required employee information, the Director of Operations is responsible for identifying an employee as *Exempt* or *Non-Exempt*, and ensuring the withholding information is reasonable and the W4 is filled out completely.

Access to personnel files is limited to the Head of School and Director of Operations, or those explicitly authorized by the Head of School or Director of Operations. The Director of Operations is responsible for ensuring that all payroll and personal employee information is kept safe and secure in a confidential manner.

Payroll registers and pay stubs will be kept in a locked filed cabinet, as well as checks for those not enrolled in direct deposit; electronic copies of pay stubs will be saved when applicable. All changes to personnel data must be authorized by the Head of School, and appropriately documented. The payroll vendor will process all changes and the documentation will be retained in each employee's file.

Compensation

The Board of Directors must approve final compensation decisions for all staff members, including instructional staff, non-instructional staff, and administration, as line items in the budget approval process. Staff members are to be paid market competitive wages that fall in line with Board-established budget projections. Staff members may be paid an annual bonus, at the Head of School's discretion, up to the maximum percentage as decided by the Board. The Head of School is not required to raise a staff member's salary year to year, but may do so up to a limit of 5% of the current year's salary. Bonuses and raises that exceed the established limits must be approved by the Board. All employee compensation, including salary, discretionary bonus, and changes to salary, must be documented and kept in each staff member's personal file. The Head of School's salary and bonus will be determined by the Board. In March of each year, the Head of School shall present a Compensation Report to the Finance Committee of the Board, which will contain the following information:

- A Compensation Budget, including salary and bonus information for each returning staff member, and salary information for each incoming staff member.
- A report including information on total funds allocated to compensation, year over year change in total compensation for the school staff, names, names and job descriptions of staff receiving a raise, and a list of the top five highest paid employees.
- A record of funds used for independent contractors or consultants, third party payroll vendors, and any other personnel used throughout the school year not documented elsewhere.
- Any additional information as requested by the Board.

Total compensation cost will be accrued and expensed as deemed appropriate by the Director of Operations and third party accounting service provider, in accordance with GAAP.

Time Reporting

Non-exempt employees are required to record hours worked and submit them to the Director of Operations for approval at the end of each pay period; only time spent on the job performing the assigned tasks should count towards hourly pay. Timesheets must be signed by both the employee and his or her direct supervisor. Altering, falsifying, or tampering with time records or recording time on another employee's time record will result in disciplinary action, up to and including termination. If an exempt or non-exempt employee believes there is an error with their pay or recorded time, he or she should consult the Director of Operations. In the event an error is made, it will be rectified promptly.

The Director of Operations is responsible for monitoring the time away from work for all exempt employees. This should include use of sick days, personal days, vacation days, professional development days, holidays, bereavement time off, missed work for jury duty, and any other days when an exempt employee is absent. The Head of School shall be notified if an employee uses days in excess of those allowed. Salaried, exempt employees are paid their entire salary for every day in which they perform any work. Deductions from an exempt employee's pre-determined salary or charge against an exempt employee's accrued leave may be taken under one of the following circumstances, unless otherwise prohibited by law:

- the employee is absent from work for one or more full days for personal reasons (other than sickness or disability);
- the employee is absent for one or more full days due to sickness or disability and has exhausted his/her paid leave time under the sick leave policy;
- the deduction is made to offset any amounts received as payment for jury fees, witness fees, or military pay;
- the employee is on an unpaid disciplinary suspension imposed in good faith for violating published workplace conduct rules (e.g., rules against workplace harassment or safety rules of major significance);
- it is the employee's first or last week of employment and he/she is paid a proportionate part of his/her full salary.

Overtime pay applies only to non-exempt employees, and will be paid in accordance to federal and state wage and hour laws. All overtime work must be pre-approved by the staff member's immediate supervisor. Chicago Prep complies with all applicable federal, state and local wage and hour laws.

Processing Payroll

Payroll processing services will be outsourced to a third party vendor and monitored by the Director of Operations and Head of School. Employees will be paid on the 15th and 30th of each month, both of exempt and non-exempt status. In the event either of these dates falls on a weekend or holiday, the pay date will be the next nearest business day. In February, employees will be paid on the last day of the month as opposed to the 30th. All employees will be paid on a 12-month schedule, regardless of whether they are 11 or 12-month employees. All payroll documents received by the school will be checked for accuracy by the Head of School; this will include confirming timesheets if applicable, pay rates, deductions, and work absences. A record will be kept of each paycheck, either electronically or on file, for reference. Paychecks shall be issued via direct deposit, unless when otherwise not possible. Any issues of missed paychecks or paycheck errors for an employee will be researched by the third party vendor and documented by the Director of Operations in the employee's file. Both parties will work to resolve the issue in a timely manner. The Director of Operations will be responsible for providing the payroll vendor with all necessary information to accurately keep track of employee pay. The Director of Operations must also review all bookkeeping documents to ensure accuracy, and review and approve all payroll tax documentation.

Payroll Reconciliation

Payroll reconciliation will take place by the Director of Operations and third party vendor, according the following schedule:

- Monthly: Payroll deductions from employees to insurers, benefit plan providers, and other payees.
- Quarterly: Salary accounts to the general ledger, as posted by the accounting provider, compared to the salary reported by payroll vendor and/or the quarterly payroll return. Variances are researched and cleared within a month following the end of the quarter.
- Annually: Gross salaries per Tax Form 941 or quarterly payroll return; gross salaries per W-2 forms; gross salaries per the general ledger. All variances are researched and cleared by January 31 of the following year.
- All payroll reconciliation reports will be reviewed by the Head of School.

Termination and Resignation

In the event of an employee termination or resignation, the Head of School shall complete a Personnel Action form, detailing the circumstances surrounding the event. This form should be kept on file for reference. An

exit interview may be conducted between the departing employee, the Head of School, and one witness, preferably an individual from the Leadership Team, if deemed necessary. The Director of Operations shall ensure any departing employee is removed immediately from the school payroll, and all employee belongings are removed on the effective termination or resignation date.

Chicago Prep will pay employees who give proper notice through their last day of employment, unless they are on a leave of absence. Employees will not receive pay for any accrued but unused sick or personal leave. Employees will receive their final pay according to the normal payroll processing cycle and upon return of any Chicago Prep property, or in accordance with applicable wage laws. If a key member of the Chicago Prep finance or operations staff is terminated or resigns, the school will have the ability to hire a consultant as a temporary replacement. This consultant will professionally train the new hire once a replacement has been found, to ensure a sound transition.

PERSONNEL LEAVE

Sick Leave

Every full-time employee is entitled to five (5) paid sick days per school year. If an employee is not able to report to work because of a sickness, or sickness to someone dependent on them for care such as a parent, spouse, partner, or child, it is expected that the employee will contact the Head of School with as much advance notice as possible, and by 6 AM on the day of the absence, allowing enough time for the Head of School to find coverage. In the case of consecutive sick days, he or she shall notify the school each day. Unused sick days will not roll over from year to year, nor will they be paid to employees upon termination of employment. At the end of every academic year, teachers who have not used any sick days and who are continuing employment with the school may be reimbursed \$100 for each unused sick day.

If an employee is absent for more than three (3) consecutive days, he or she must provide the Head of School with a physician's note confirming the illness or injury. In the event of a planned medical procedure or other foreseen medical leave, the staff member shall notify the Head of School at least five (5) days in advance to allow for appropriately planning. Excessive tardiness, absenteeism, or an unauthorized absence may result in disciplinary action, up to and including termination of employment. The Director of Operations shall keep a record of sick days taken by each employee, and report to the Head of School any days used in excess of those allowed, as well as any potential violations or misuse of the school's Sick Leave policy. Misuse of sick days is cause for termination of employment.

Time Off

Staff personal days will be granted at the discretion of the Head of School depending on individual needs and circumstances. Any authorized personal days that are not used will be forfeited and will not be paid to employees upon termination of employment. Eleven-month employees will not receive additional vacation days outside of scheduled school holidays and summer break, as outlined on the school calendar. Twelve-month employees will be allotted vacation days, to be used during summer break. Employees hired after that start of the school year will be granted a pro rata portion of sick days, and, if applicable, vacation days, rounded up to the nearest half day. This will be calculated starting with the employee's first day of employment and ending 12 months following the first day of the school year. The Director of Operations shall keep a record of personal days and vacation days used for each employee.

RECORDS RETENTION

Records Retention Policy

All confidential paper records shall be maintained in locked facilities on school premises, with access granted only to authorized individuals. Staff members are required to save all electronic files in their designated drive on the shared network, to allow for appropriate monitoring, storage, and adherence to the retention and destruction policies. These files should be backed up, updated, and stored off-site, in accordance with Chicago Prep’s Disaster Recovery plan. Staff members are not permitted to save files to individual hard drives. Chicago Prep will follow the minimum records retention guidelines outlined below, as advised by *Donors Forum*, a member of the *National Council of Non-Profits* for the state of IL:

| Record Type | Retention Period |
|--|--|
| ACCOUNTING/FINANCE | |
| Accounts Payable Ledgers and Schedules | 7 years |
| Accounts Receivable Ledgers and Schedules | 7 years |
| Annual Audit Reports and Financial Statements | Permanent |
| Annual Audit Records and Related Documents | 7 years after completion of audit |
| Annual Plans and Budgets | 2 years |
| Bank Statements and Canceled Checks | 7 years |
| Employee Expense Reports | 7 years |
| General Ledgers | Permanent |
| Interim Financial Statements | 7 years |
| Notes Receivable Ledgers and Schedules | 7 years |
| Investment Records | 7 years after sale of investment |
| Credit Card Records | 2 years |
| CONTRACTS | |
| Contracts and Related Correspondence | 7 years after expiration or termination |
| Corporate Records (articles of incorporation, bylaws, minutes, etc.) | Permanent |
| Licenses and Permits | Permanent |
| GRANTS | |
| Original Grant Proposal | 7 years after completion of grant period |
| All Grant-Related Documents | 7 years after completion of grant period |
| All Requested IRS/Grantee Correspondence | 7 years after completion of grant period |
| Final Grantee Reports, Both Financial and Narrative | 7 years after completion of grant period |
| All Evidence of Returned Grant Funds | 7 years after completion of grant period |
| INSURANCE | |
| Annual Loss Summaries | 10 years |
| Audits and Adjustments | 3 years after final adjustment |
| All Claim Files | Permanent |
| Inspections | 3 years |
| Insurance Policies (including expired policies) | Permanent |
| Releases and Settlements | 25 years |

| | |
|--|--|
| MISC | |
| Consultant's Reports | 2 years |
| Policy and Procedures Manuals - Original | Current version with revision history |
| Policy and Procedures Manuals Copies | Retain current version only |
| Annual Reports | Permanent |
| Retirement Documents | Permanent |
| Records of Contributions and Related Documents | Permanent |
| PAYROLL | |
| Employee Deduction Authorizations | 4 years after termination |
| Payroll Deductions | Termination + 7 years |
| W-2 and W-4 Forms | Termination + 7 years |
| Garnishments, Assignments, Attachments | Termination + 7 years |
| Payroll Registers (gross and net) | 7 years |
| Time Cards/Sheets | 2 years |
| Unclaimed Wage Records | 6 years |
| PERSONNEL | |
| Employee Earnings Records | Separation + 7 years |
| Employee Handbooks | 1 copy kept permanently |
| Employee Medical Records | Separation + 6 years |
| Employee Personnel-Related Records | 6 years after separation |
| Employment Contracts - Individual | 7 years after separation |
| Employment Records - Hired Employees | 3 years from date of hiring decision |
| Employment Records - Non-Hired Employees | 4 years |
| Job Descriptions | 3 years after superseded |
| Personnel Count Records | 3 years |
| Forms I-9 | 3 years after hiring/1 year after separation |
| PROPERTY | |
| All Property-Related Documents | Permanent |
| Original Purchase/Sale/Lease Agreement | Permanent |
| Property Insurance Policies | Permanent |
| TAX | |
| Tax-Exemption Documents and Related Correspondence | Permanent |
| IRS Rulings | Permanent |
| Payroll Tax Records | 7 years |
| Tax Bills, Receipts, Statements | 7 years |
| Tax Returns | Permanent |
| IRS or other Government Audit Records | Permanent |

Originals of the following corporate documents are maintained on-site and the Director of Operations verifies their presence on a periodic basis:

- Charter and all related amendments
- Minutes of the Board of Directors and subcommittees
- Banking agreements

- Leases
- Insurance policies
- Vendor invoices
- Grant and contract agreements
- Fixed asset inventory list

Records Access Policy

The Head of School will provide access to the organization's records and provide supporting records, as requested by government or external auditors to facilitate the completion of such audits or reviews, in a timely manner.

Records Destruction Policy

The destruction of confidential school records will be authorized by the Head of School in accordance with Chicago Prep's Record Retention policy. Should the Head of School be unable to provide authorization, destruction will be stayed pending review and final determination. If any litigation, claim, or audit is started before the expiration of the designated retention period, the records shall be retained until all litigation, claims or audit findings involving the records have been resolved and final action taken. Once school records have reached the conclusion of their retention period according to the Records Retention policy, the Director of Operations will request authorization from the Head of School for their destruction. The school will arrange for the safe and secure destruction of confidential records. Destruction methods will not permit recovery, reconstruction and/or future use of confidential information. An overview of these methods follows:

- Paper records containing confidential information should be shredded, not simply thrown out with other classes of records or with miscellaneous trash.
- Electronic files containing confidential information should be deleted in a manner that completely removes the file from the computer or storage device. It is also recommended that files stored on a hard drive be erased using commercially available software applications. With regard to digital storage devices, it is recommended that these be physically destroyed.
- A destruction record exists to track the destruction of any and all documents. This inventory describes and documents those records, in all formats, authorized for destruction, as well as the date, agent, and method of destruction. The destruction record itself shall not contain confidential information. The destruction record may be retained in paper, electronic, or other formats.

INSURANCE

Coverage

Insurance coverage is maintained pursuant to applicable law, and will be selected and reviewed in accordance with Chicago Prep's Insurance policy. Pre-approval for insurance expenses will be required as outlined in the school's purchasing policy. Chicago Prep will maintain all insurance policies as required by law, including some or all of the following policies as well as other applicable and necessary policies: Directors and Officers, Worker's Compensation, Property, General Liability, Automobile Liability, Automobile Physical Damage, School Board Legal Liability/Errors and Omissions, Employee Benefits Liability, Educators Legal Liability, Sexual Harassment, Sexual Abuse, Crime (money and securities, forgery and alteration, employee dishonesty), Umbrella, and Risk Management and School Safety Services. Chicago Prep will contribute to the state Unemployment Insurance Fund in accordance with applicable laws. Chicago Prep requires proof of adequate insurance coverage from all prospective contractors, as deemed applicable by the Board of Directors.

Review

The Board of Directors, Head of School, and Director of Operations will conduct an annual review of coverage amounts, or upon renewing any policy. The purpose of this review will be to ensure there are adequate means by which to preserve the school's assets and lower the risk of being underinsured. Any proposed changes must be approved by the Board of Directors and recorded in Board meeting minutes. New coverages will be executed by the Director of Operations. The Director of Operations is responsible for procuring annual renewals with the school's insurance broker. Quotes for renewal will be procured at least one month in advance of a policy's expiration and presented to the Head of School for review and approval. The Treasurer participates in this review.

Records

The Director of Operations maintains original copies of all insurance policies at the school, filed in the Insurance Binder by type of insurance. A new binder is created for each fiscal year. When possible, copies of all current insurance policies are saved electronically on a server where the leadership team can view and access the information. All insurance and related documents will be saved in accordance with the school's Record Retention policy.

FRAUD AND MISAPPROPRIATION

Fraud Detection

Chicago Prep will not tolerate any fraud or suspected fraud involving its staff members, as well as members, vendors, consultants, contractors, funding sources or any other parties with a business relationship with the school. Any investigative activity required will be conducted without regard to the suspected wrongdoer's length of service, position/title, or relationship with the school. The Head of School and Board of Directors are responsible for the detection and prevention of fraud, misappropriations, and other irregularities. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. The Head of School and each Board member will be familiar with the types of improprieties that might occur within his or her area of responsibility and be alert for any indication of irregularity. Suspected fraud will be reported as outlined below.

Fraudulent Actions

The terms fraud, defalcation, misappropriation, and other fiscal irregularities refer to, but are not limited to:

- Any dishonest or fraudulent act
- Forgery or alteration of any document or account belonging to the school
- Forgery or alteration of a check, bank draft, or any other financial document
- Misappropriation of funds, supplies, equipment, or other assets of the school
- Impropriety in the handling or reporting of money or financial transactions
- Disclosing confidential and proprietary information to outside parties
- Accepting or seeking anything of material value from any party who provides goods or services to the school
- Destruction, removal or inappropriate use of records, furniture, fixtures, or equipment
- Any similar or related irregularity

Investigation Responsibilities

The Board Chair has the primary responsibility for the investigation of all suspected fraudulent acts as defined in the policy. The Board of Directors may utilize whatever internal or external resources it considers necessary

in conducting an investigation. If an investigation substantiates that fraudulent activities have occurred, the Board of Directors will issue reports to appropriate designated personnel. Decisions to prosecute or refer the examination results to the appropriate law enforcement or regulatory agencies for independent investigation will be made in conjunction with legal counsel, as will final dispositions of the case.

Confidentiality

The Head of School and Board of Directors will treat all information received confidentially, and all parties shall adhere to the school's Whistleblower policy. Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know. This is important in order to avoid damaging the reputations of persons suspected but subsequently found innocent of wrongful conduct and to protect the school from potential civil liability.

Authority for Investigation of Suspected Fraud

Members of the Board of Directors will have:

- Free and unrestricted access to all the school's records and premises.
- The authority to examine, copy, and/or remove all or any portion of the contents of files, desks, cabinets, and other storage facilities on the premises without prior knowledge or consent of any individual who may use or have custody of any such items or facilities when it is within the scope of their investigations.

Reporting Procedures

Any employee who suspects fraudulent activity will notify the Head of School immediately, who will then notify the Board Chair. No party outside the Board should attempt to personally conduct investigations or interviews related to any suspected fraudulent act without direct consent by the Board. If a case arises where it is not appropriate to report the activity to the Head of School, or if it is suspected that the activity has not been escalated properly, it should be reported directly to the Board Chair.

The employee or other complainant who reports the fraudulent activity may remain anonymous. All inquiries concerning the activity under investigation from the suspected individual(s), his or her attorney or representative(s), or any other inquirer should be directed to the Board Chairman or legal counsel. No information concerning the status of an investigation will be given out. The proper response to any inquiry is, "I am not a liberty to discuss this matter." Under no circumstances should any reference be made to "the allegation," "the crime," "the fraud," "the forgery," "the misappropriation," or any other specific reference. The reporting individual should be informed of the following:

- Do not contact the suspected individual in an effort to determine facts or demand restitution.
- Do not discuss the case, facts, suspicions, or allegations with anyone unless specifically asked to do so by the appointed legal counsel or the Board of Directors.

Fraud Remediation

In the event that a fraudulent act is determined to have occurred, the Head of School shall work with the Board of Directors to research the causes and make recommendations for future prevention. A full report shall be compiled, identifying the type of fraud that took place, any perceived breakdowns in the school's current control policies that may have created an opportunity for the wrongdoing, and any suggestions for revisions to the policy to prevent future fraudulent activities from occurring. The Board, if deemed necessary, may appoint a special task force to work on fraud remediation that will report all findings and opinions to the Board of Directors.

WHISTLEBLOWER POLICY

Chicago Prep requires employees to observe high standards of business and personal ethics in the conduct of their duties and responsibilities. Employees and representatives of the school are expected to practice honesty and integrity in fulfilling their responsibilities and are expected to comply with all applicable laws and regulations. It is the responsibility of all employees to report violations of ethics or conduct or suspected violations in accordance with this Whistleblower policy.

No employee who in good faith reports a violation shall suffer harassment, retaliation or adverse employment consequence. An employee who retaliates against someone who has reported a violation in good faith is subject to discipline up to and including termination of employment. This Whistleblower policy is intended to encourage and enable employees and others to raise serious concerns within the school prior to seeking resolution outside the school. Anyone filing a complaint concerning a violation or suspected violation must be acting in good faith and have reasonable grounds for believing the information disclosed indicates a violation. Any allegations that prove not to be substantiated and which prove to have been made maliciously or knowingly to be false will be viewed as a serious disciplinary offense. Violations or suspected violations may be submitted on a confidential basis by the complainant or may be submitted anonymously, and the confidentiality guidelines outlined in the school's Fraud policy will be strictly adhered to. Reports of violations or suspected violations will be kept confidential to the extent possible, consistent with the need to conduct an adequate investigation.

The Head of School, or Board Chair when applicable, will notify the sender and acknowledge receipt of the reported violation or suspected violation within five business days. All reports will be promptly investigated, following the school's Fraud policy, and appropriate corrective action will be taken if warranted by the investigation.