

*Kula Aupuni Niihau A
Kahelelani Aloha
(KANAKA) Public Charter
School (PCS)*

KANAKA Financial Operations Manual

Prepared by:

Carbonaro CPAs & Management Group
1885 Main Street, Suite 408, Wailuku, HI 96793
Phone 808-242-5002 • Fax 808-242-5499

Table of Contents

Introduction	1		
		C H A P T E R 4	
C H A P T E R 1		Month End Closing/Financial Reports	15
Accounting Policies	3	Monthly Checklist	15
Payroll	4	Financial Reports	17
Processing Payroll	4		
Contractor Payments	7		
Tracking Earned Time Off	7	C H A P T E R 5	
Payroll Liabilities	8	Miscellaneous Procedures	18
		Fixed Assets	18
C H A P T E R 2		Restricted Funds and Classes	18
Accounts Payable/Disbursements	9	Deferred Revenue	20
Enter & Pay Bills	10		
Printing Checks	10		
Manual Checks	11		
C H A P T E R 3			
Cash/Accounts Receivable	12		
Handling Cash	12		
Reconciling Cash	13		
Allocation Receivable	14		

Introduction

Kula Aupuni Niihau A Kahelelani Aloha (KANAKA), PCS was established in August 16, 2001 as a Hawaii Public Charter School. Kula Aupuni Niihau A Kahelelani Aloha (KANAKA) is a new century charter school, which implements an alternative framework with regards to curriculum, facilities management, instructional approach, length of school periods and personnel management. This system provides for flexibility in the preparation and execution of budgeted funds and encourages school-initiated methods for educational decision-making.

Whatever its mission or size, all organizations should have policies and procedures established so that (1) Local School Boards and officers understand their fiduciary responsibilities, (2) assets are managed properly and (3) the stated mission of the organization is carried out. The development and maintenance of effective internal controls will help to protect an organization's assets, assist in their proper management and assure accountability.

Internal controls are systems of policies and procedures that protect the assets of an organization, create reliable financial reporting, promote compliance with laws and regulations and aid in achieving effective, efficient operations. These systems are not only related to accounting and reporting but also related to the organization's communication processes, internally and externally. The purpose of this manual is to address mainly, the accounting and reporting procedures.

Every organization should have procedures to monitor and record assets received, held and expended. Some of the basic procedures addressed in this manual are the following:

- 1) Preparing an annual income and expense budget and periodic reports that compare actual receipts and expenditures to the budget with timely variance explanation. Appropriate and timely financial reports are to be distributed to directors and officers and reviewed by them.
- 2) Writing and signing checks or vouchers and receiving, recording, securing and depositing cash and other receipts. Such procedures should ensure that no single individual is responsible for receiving, recording and depositing funds or request, authorize, verify and record expenditures. In other words, segregation of duties means that no financial transaction is handled by only one person from beginning to end. This includes the accessing, inputting and changing of electronic data maintained by the organization. For example, the same person should not be permitted to write checks and perform bank reconciliations.

Checks and balance are essential for accountability.

- 3) Ensuring that grants and contributions received are properly recorded noting any conditions or restrictions on the use of such funds and the organization is compliant to these restrictions and reporting procedures of the donor or grantor.
- 4) Ensure that the organization is compliant to all government reporting regulations concerning all tax filings, including payroll taxes, general excise tax and any unrelated business tax.

Accounting Policies

The School's financial statements follow generally accepted accounting principles as described by the American Institute of Certified Public Accountants. Accordingly, the financial statements are prepared on the accrual basis of accounting. Under this method of accounting, revenue is recorded when earned rather than when received and expenses are recorded when incurred rather than when paid. For the local school Local School Boards and vast majority of the uses of Kula Aupuni Niihau A Kahelelani Aloha (KANAKA)'s financial statements, GAAP financials statements will be the most usable and relevant.

Kula Aupuni Niihau A Kahelelani Aloha (KANAKA) is exempt from Federal income taxes because it is a part of the State of Hawaii public school system. Therefore, no provision for Federal or State income taxes is required.

A proposed budget is set up for each department with the total school budget being the sum of the departments. This annual budget is prepared by management and given to the Local School Board of Directors for approval and is then used as a tool for periodic variance reports through Quickbooks.

Kula Aupuni Niihau A Kahelelani Aloha (KANAKA)'s accounting and financial reporting information is maintained on the QuickBooks on-line. This manual will discuss the procedures for using QuickBooks for maintaining the books of the school.

Payroll

Input new employees, track Earned Time Off balances, process timesheets, process payroll checks & ensure that proper federal and state tax filings are completed timely.

Payroll is processed semi-monthly. Checks for the first half of the month, 1-15, are processed on the 15th or the Friday before the 15th if the 15th is on a weekend. Checks for the second half of the month, 16-31, are processed on the last work day of the month. Ceridian's payroll dates are the official dates KANAKA processes their payroll. For exceptions to this rule, confer with a Governance Board officer to establish the date for an alternate payday to occur. The State requires payment within 5 business days after the end of a pay period.

Internal Controls

1. New employees are added to the payroll through a Payroll Authorization Form, which is signed by the head of school. In addition, the new employee will also need to complete the W-4, HW-4 and I-9 forms. If eligible, medical coverage enrollment, medical waiver or retirement system forms will also be completed.
2. All of these forms noted above are to be forwarded to the Accountant and once processed, kept on file for at least 4 years. Copies of medical and retirement forms are also sent to the Commission Office.
3. For an existing employee who has a change to their current payroll information, such as an increase in pay or withholdings, a Change of Status Form signed by the Principal along with the necessary W-4, HW-4, or other benefit forms must be submitted to the Principal one week before the end of the current pay period.
4. The school personnel are to use the time clock/sign-in with main office to check in every day of work. If Time cards are used then they must be turned in to the Principal.
5. Principal will review semi monthly staff attendance for accuracy, compliance with employment contracts, and allocations to correct cost centers.
6. Checks are prepared and signed out of the Ceridian payroll system. If QuickBooks is used for payroll then each employee will need to be added to the QuickBooks payroll system in the following manner:

- a. A payroll item is set up in QuickBooks for each type of position and type of liability, with each payroll item pointing to the correct chart of accounts code.
 - b. In the Employee Center, click on new employee and add each employee to the employee list.
 - c. School employees are not liable for FUTA.
7. For employees paid out of the Department of Education payroll system (FMS), these checks are cut automatically.
 8. Annually, the bookkeeper shall verify annual pay rates per the employees' file to the actual salary paid for each employee. She will turn in a written report to the Governance Board (GB) on her verification of salary paid for each employee. This verification should be noted in the GB minutes.

Processing Payroll

State of Hawaii – DOE and DAGS Payroll Processing - The Department of Education has two offices to assist with the employment and payroll of certificated personnel; the Office of Business Services and the Office of Human Resources. The DOE also maintains a web site at <http://doe.k12.hi.us/schooloffice/index.htm> with “School Office & Staff Resources – Quick Reference” frequently used links for Casual Payroll and the Financial Management System (FMS).

1. The gross billable payroll for these employees is invoiced to the school monthly by the CSAO office. The school must remit payment for these employees. When preparing the check use the appropriate payroll expense accounts to record wages for teachers, administrators, etc.

Ceridian Payroll Processing - On the day of payroll, the Principal performs the following payroll processing procedures for employees not paid through FMS:

- Update employee information, tax and other base payroll information from authorized Payroll Authorization Forms, Change of Status Forms, W-4, HW-4, and other benefit forms authorized by the employee.
- Submit timesheets to the Principal for review.
- Check the cash balances of the main Checking accounts.

- Eligible Time Off, (ETO), for vacation/sick time is earned every pay period. It is tracked using an Excel spread sheet. See Tracking ETO for further information.
- Fill out the Ceridian transmittals and call the Ceridian account manager to report the payroll data to be processed
- After paychecks are completed by the bank, the Ceridian report is reviewed and signed by the principal and reviewed by the accountant for accuracy.
- From the Ceridian reports, the accountant compiles a journal entry. This entry posts the withdrawal of funds from the bank as a credit and the appropriate allocation of totals to wages, withholdings and payroll taxes as a debit.

Not Applicable - QuickBooks Payroll Processing - On the day of payroll, the Accountant performs the following payroll processing procedures

- Perform the following steps to process payroll in the QuickBooks Payroll module:
 1. On the menu bar, select *Employees*, and then select *Pay Employees*
 2. Select employees to pay, check payroll ending date, and the check date.
 3. Enter timesheet summary data for all personnel making sure to use the correct classes.
 4. On the menu bar, select *Reports*, choose *Payroll and Employees*, and then select *Payroll Summary Report*. Print this report by employee and review for reasonableness.
 6. Print the Paychecks on the computer checks. Remove the bottom third of the checks for the file.
 7. Forward to signer the checks for signature and a copy of the Payroll Summary confirmation report.

Independent Contractors

Contractors are not paid out of the payroll module. Obtain a completed W-9 form from each contractor and keep on file. Check their approved timesheets with the agreement contracts on file. Compute earnings using the rate of pay agreed upon in the contract. Be sure to use the correct expense accounts and classes. Create and print these checks. Contractors earning over \$600 should receive a miscellaneous income form, Form 1099-MISC, from the school by January 31st each year. QuickBooks can

track the needed information through the vendor setup. QuickBooks can also prepare the 1099-MISC forms. See QuickBooks Help, keyword 1099's for detailed instructions.

Tracking ETO

Full-time and half time employees earn time off (ETO) with pay, which may be used by the employee for vacation, illness, pregnancy or childbirth, medical care, child care, bereavement, or any other reason. Employees shall accrue ETO from the date of their employment. See the Kula Aupuni Niihau A Kahelelani Aloha (KANAKA) Employee Handbook regarding the ETO schedule of hours earned monthly. The fiscal year end is the anniversary date of ETO balances. An employee may carry up to 90 days of ETO vacation and all non used accrued days of sick leave over to the next year of employment.

The employees' ETO is tracked using an Excel Spreadsheet

Internal Controls

1. The employee requests vacations by filling out a vacation request form, signing it and submitting it to their manager.
2. Managers review the request, sign their approval and give a copy to the employee and Principal. The Principal forwards a copy to the Accountant to be filed in the employees personnel file and refers to it when reviewing timesheets.
3. The Accountant fills in the ETO Excel Spreadsheet noting the hours worked for the hourly personnel, any ETO used as noted on the timesheet summary, and the ETO earned per pay period.
4. A copy of the summary for all employees is forwarded to the Principal for review and sign off. A copy of the signed off monthly report should be kept by the Accountant.
5. Once approved by the Principal, the Accountant may create and print off individual reports for all personnel to attach to their paychecks for distribution.
6. The employee to the School reports any ETO discrepancies. The Accountant investigates the discrepancy and provides support to the Principal to resolve the issue. Once resolved the Principal provides a memo to the Accountant to make any changes to the personnel's ETO report.

At month end make the necessary adjustment to reconcile the accrued ETO account to the ETO summary spreadsheet.

Payroll Liabilities

Ceridian: At each pay period, Ceridian computes and submits all Federal and State taxes. The Accountant reviews all Federal and State tax filing reports for accuracy and keeps copies on file. Payroll taxes that are due each pay period are paid by Ceridian through a withdrawal from the School's bank account. This withdrawal amount is part of the Ceridian transmittal given to the accounting office after each payroll submission.

Quarterly, Ceridian submits the Federal Form 941 reconciliation and the state unemployment UCB-6. Annually, Ceridian is responsible for the preparation and submittal of the W-2s and W-3 forms.

QuickBooks: The following procedures are performed in QuickBooks for the payroll tax liabilities:

1. On the menu bar choose *Pay Liabilities*. A screen will appear that list all of the liabilities due.
2. Enter the period that is to be paid and the correct bank account.
3. View the liability report on the on the screen and compare the amounts to be paid to the QuickBooks payroll summary report for the same period.
4. Select the appropriate liabilities that are to be paid and fill out the state and federal forms that are required to be sent with the checks.
5. Pay these liabilities and print the checks which also records to the general ledger in QuickBooks.
6. Forward the forms or invoices attached to the check for the Principal to sign and mail. Attach a copy of the form to the bottom third of the check for the payroll file.

Accounts Payable / Disbursements

Input bills and credit memos, print reports & checks to pay bills, enter manual checks

The Principal processes accounts payable disbursements once a week with the approval of the Principal.

Internal Controls

1. The accounts payable process begins with an employee submitting a requisition to the Principal for approval or the Principal receiving bills in the mail.
2. The Principal will review the requisition or bill, check the coding for correct account and class, initial and forward it to the GB to pay the bill.
3. The GB are the only persons that are allowed to sign school checks and by-laws requires two signatures by the GB on each check. They will pay all invoices. All accounts payable invoices are reviewed by the Principal before forwarding to the GB. The GB will match the invoice to the requisition and packing slip when appropriate.
4. Semimonthly, an “Unpaid Bills” report is run by the Principal. The Principal reviews the report and checks off the payables to be paid.
5. The front office mails the checks out and files “paid” invoices. Filing can be by vendor or month or in check number order. Any of these filing systems is acceptable.
6. All “void” checks are defaced and entered into the check register. The physical check is kept in a “void check” folder.
7. Check stock is kept in a locked drawer with access to users assigned by the GB.

The Accounts Payable procedures for a normal cycle follow:

Manual Checks

All checks are written manually at KANAKA. Information regarding a manual check should can be entered in the *Write Checks* window or directly into the check register. Be sure to annotate the correct class and customer.

If however, an unpaid bill exists in the system, use the *Pay Bills* window, select the correct bill and click the *Assign check no.* button. A window will appear. Just enter the check number and save. The bill will be recorded as paid with the right check number.

Cash / Accounts Receivable

Handling and reconciling cash, invoicing & billing

Cash

This process ensures that the safety and integrity of the asset (i.e. cash) is protected against misappropriation.

Internal Controls

1. If payment is collected, a *Receipt* for any form of payment (e.g. cash, credit card, check, etc.) is given to the payer. The receipt can be verified against the deposit slip. Receipt must be pre-numbered and written in duplicate. Void receipts are marked as such and kept in the book.
2. Payments received in the mail are opened by the administrative assistant and entered into a cash receipts log along with any receipts collected directly, as noted above. Checks are restrictively endorsed with “For deposit only”. Checks and mail should not be opened by the accountant.
3. Duplicate receipts and checks are given to the accountant and copies are made of the checks.
4. The deposit slip is prepared in duplicate by the accountant, noting the names of payers on the slip.
5. School personnel take the deposits to the bank and receive a verified deposit slip.
6. The deposit slip, with the Bank’s stamped certification on it and the check copies are forwarded to the Accountant, who enters the daily receipts into the accounting software, prints a copy of the deposit and attaches the bank receipt. The receipt is marked as posted.

7. The Principal periodically verifies the deposit slips and reconciles them back to the receipts log.
8. When the bank statement is received, it is forwarded unopened to the Principal who opens and reviews it and the canceled checks for abnormalities (i.e. withdrawals, checks made out to employees, etc.), and signs off on the bank statement. It is then forwarded to the Accountant to be reconciled.

Reconciliation

This process verifies what checks have cleared and what deposits have been credited to the bank account. With the proper internal controls in place, this function is one test for identifying misappropriation by noting deposits that have not been made timely or what checks have cleared the bank and not been recorded in the general ledger.

1. The Principal receives the bank statements unopened. She opens the statements and reviews the cancelled checks, debit memos and deposits for any unusual items. She then initials the bank statement and forwards it to the GB to review and after it has been reviewed by GB the reviewer will initial statement then return to Principal.
2. The Principal will place the statements in the appropriate binder for the Accountant.
3. The Accountant receives the bank statement. The Accountant will note the Principal's proper approval of the bank statement.
4. The Accountant will begin reconciling the account by going into QuickBooks and selecting *Reconcile*.
5. The Accountant will compare each deposit and cancelled check against the check register. At each instance of a match, the Accountant will "click" the item in QuickBooks and the software will signify what (if any) differences remain. Any discrepancies will be discussed with the Principal.
6. When the Accountant is finished, print out a *detail* report of the reconciliation, sign off on the reconciliation. Outstanding deposits, stale-dated checks, unposted charges, etc. should be noted and cleared if determined to be stale.
7. The Treasurer will review the bank statements, bank reconciliation and the financial statements prior to GB meetings.

Allocation Receivable

In order prepare internal monthly financials a statement that reflects income amounts which match monthly expenses, the following procedure is used to allocate per pupil income on a monthly basis throughout the year. The Per Pupil Allocation is based on the number of students and posted to the general ledger using the following procedures:

1. Estimate the number of students enrolled in the school and multiply times the rate per student. This will calculate the projected annual income.
2. Divide the annual income by 12 months and post 1/12 of the annual tuition each month, using a journal entry to debit Accounts Receivable-Other and credit Per Pupil income.
3. When the checks from the State are received, they are posted to Accounts Receivable-Other. Thus, the balance in the accounts receivable is reduced.
4. The monthly estimates will be adjusted based on the actual October 15th student enrollment when available.

Month End Closing/Financial Reports

Procedures to close each month, reports needed, checklists followed, Financial Statements & Reports issued

End of the Month Closing

At the end of each month, follow the checklist to assist you in completing all the steps necessary to prepare the monthly financial reports. After the checklist has been completed, and the General Journal entries have been entered; then the financial reports and statements can be created.

Monthly checklist

The following is a checklist that can be used to complete all work necessary:

Kula Aupuni Niihau A Kahelelani Aloha (KANAKA)

BOOKKEEPING CHECKLIST

Month/Year: _____

Done?	
Month	Quarter

Cash:

- 1 Enter all Checks for the Month
- 2 Enter all Cash Receipts for the Month
- 3 Enter all Bank charges and Miscellaneous for the Month
- 4 Prepare Bank Reconciliation:
 - Balance per Bank
 - Outstanding Checks
 - + Outstanding Deposits
 - = Book Balance per G/L

BOOKKEEPING CHECKLIST (continued)

5

Provide a copy of Bank Reconciliation and Statements to Principal.

Payables and Expenses:

--	--

1 Make sure **all** checks written **are** included in Bank Reconciliation above:
(Such as manual checks not cleared)

2 Make sure all unpaid invoices are entered as accounts payable. (Accrue if appropriate)
3 Enter debit card and credit card charges individually

--	--

4 Print the A/P aged invoice report and look for payables that are past due. Cut checks as checking acct. balance allows, or make sure that non payment is OK.

--	--

5 Look at the current month expenses and make sure that each expense account that normally has a monthly entry does. Such as:

- Rent
- Phone
- Utilities
- Supplies
- Lease Payments
- Health Insurance
- Payroll
- Payroll Taxes/Liabilities

--	--

14 Keep a separate schedule for all 1099 vendors - you will need it at the end of the year.

Accounts Receivable and Revenue:

1 All cash receipts posted and verified through Bank Reconciliation process.
2 Determine if any sales or revenue is earned and the cash is not yet received.
3 Determine if any revenue is deferred.

--	--

4 Print accounts receivable customer detail report looking for past due accounts.

--	--

5 Notify the Principal of past due accounts for their collection and follow-up.

Payroll:

--	--

1 Check to be sure that all journal entries have been made per the Ceridian Reports.

Fixed Assets:

1 Balance to Year-end Fixed Asset report.
2 Discuss with supervisor any unusual items.

3 Look for new assets purchased and old assets disposed.

General:

- 1 Update and Post Prepaid Insurance schedule.
- 2 Print Financials and G/L for final review by Principal and Treasurer:
- 3 Prepare and Post adjusting entries as needed.
- 4 Fill out checklists used in the month, including this one.
- 5 Assemble Financials and work papers for Principal and Treasurer review:

--	--

Roll
forward
6 equity:

Beginning Equity
+ Net Income
- Distributions
= Ending Equity

Financial Reports

Once all the items on the checklist have been completed, the first draft of the financial reports can be created and given to the Principal for review. From the QuickBooks *Reports* menu choose and print the following:

1. *Standard Balance Sheet* for the current year-to-date.
2. *Profit and Loss, Budget vs Actual*, both for the annual and the year-to-date variances.
3. *Profit and Loss, by Class* for year-to-date. This report can also be *Profit and Loss, Budget vs. Actual, by Class* if the budget is entered using classes.
4. *Accounts Payable and Accounts Receivable Aging Reports*

Once the Principal has reviewed the reports, make any adjusting entries necessary and reprint. Monthly, the Local School Board of Directors receives the above reports. If requested, detail reports are given to the Finance committee.

Miscellaneous Procedures

Fixed Assets

The GB decides upon procurement policies for fixed assets. For any purchases that was not included in the annual budget and is over \$5,000.00, the item is requisitioned by the requesting staff or GB member. This is done by the procedures detailed in the cash disbursements section. The GB must then approve the purchase.

The School should keep a detailed listing of fixed assets which shows each asset individually. This is a good internal control because it allows for accountability for asset tracking and retention. It helps assure that assets purchased are accounted for each year and don't get removed without noting in the accounting records. Assets disposed are also tracked on the detailed fixed assets listing so that all assets are properly safeguarded.

In the course of regular bookkeeping, when large items of school equipment or furniture are purchased, make a copy of the invoice and file it in the appropriate Fixed Assets folder. At fiscal year end, compile the purchases into a list. Have the Principal review and identify what items to capitalize. Create a general journal entry to credit the expense account and debit the appropriate Fixed Asset account for the capitalized items.

Depreciation is computed annually using the straight line method. Items with a cost of \$1,000.00 or more are capitalized. The new capitalized items should be added to the Depreciation schedule. Further update the schedule as needed and create a general journal entry to credit the Accumulated Depreciation account and debit the Depreciation expense account.

RESTRICTED FUNDS AND CLASSES

The School will receive grant funds and restricted donations from time to time. These funds are to be accounted for separately for three reasons:

1. The restricted funds received are identified as such.

2. The use of the funds (expenditures) is applied directly to the restricted funds.
3. The remaining balance of restricted funds can be known at any time.

In order to properly track the receipt, use and balance of restricted funds, the Classes feature in QuickBooks is used. Every accounting transaction in QuickBooks has the ability to be coded by class. As a result, the School can print out any report in QuickBooks by class such as profit and loss by class, transactions by class and cash disbursements by class. These reports are extremely valuable when reporting restricted fund activity to various grantors, government agencies and segregating the School activity from grant activity.

Restricted receipts are recorded in Quickbooks by using classes on transactions that are entered into the accounting system. For bills, deposits, general ledger entries and all transactions, the class field is to be filled in. Ideally, the class is determined by the Principal when coding and approving invoices. However, the routine operating expenses can be classed by the accountant.

There are also situations where certain entries will need to be split and allocated to different classes. For instance, the rent can be coded to the one expense account (rent expense) but separated to different classes based on approved budgets.

The procedures for running class profit and loss reports are as follows:

1. Open the reports menu in Quickbooks.
2. Choose Profit and Loss by Class.
3. At the “modify reports” screen, enter the appropriate beginning and ending dates and select filter for the class desired.
4. Select “class” and choose the name of the restricted fund that you are researching. Press “ok” and the profit and loss statement specific to that fund will be displayed.
5. To display a detail of the transactions that make up this report total, place the cursor on the net income line and double click with the mouse. This enables you to “drill down” and produce a detail report.

For other reports by class, you can use the filter option under modify report. Simply click on modify report and then click on the filter tab. Then select the class filter and choose the class or classes you want to see. The remaining classes will be filtered out of the report.

A separate file folder should be maintained for each restricted fund. This folder will contain correspondence and information concerning the donor and the restrictions on the funds. All reporting dates and requirements are to be noted and put into the accounting schedule. Fiscal reports will be filed in the folder when produced.

DEFERRED REVENUE

Deferred revenue represents cash received but is not yet earned. For example, the School receives a grant check for \$120,000 to be used for a particular purpose during the year. All of this is deferred revenue until it is earned. It is important for the users of the financial statements to see this amount as a liability on the balance sheet until earned. Then, only the portion earned should be recorded on the profit and loss statement under that grant's class.

When deferred revenue is received:

1. Set up a grant folder (if not done yet) with the grant agreement and check copies and all correspondence related to the grant.
2. Set-up a specific class in QuickBooks for this particular grant.
3. Deposit the check into the bank and code the receipts to deferred revenue, a liability account.
4. Note in the grant file how this grant is to be earned. i.e. as funds are spent, passage of time, as services are rendered, etc.
5. At each month end, record revenue earned on this grant by making a general journal entry to debit deferred revenue and credit grant revenue for amounts earned that month.