

San Tan Montessori School, Inc.

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Conflict of Interest Policy

Purpose The purpose of the conflict of interest policy is to protect this tax-exempt Corporation's interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the Corporation or might result in a possible excess benefit transaction. This policy is intended to supplement but not replace any applicable state and federal laws governing conflict of interest applicable to nonprofit and charitable Corporations.

Definitions

a. **Interested Person** -Any director, principal officer, or member of a committee with governing board delegated powers, who has a direct or indirect financial interest, as defined below, is an interested person.

b. **Financial Interest** -A person has a financial interest if the person has, directly or indirectly, through business, investment, or family:

(1) An ownership or investment interest in any entity with which the Corporation has a transaction or arrangement,

(2) A compensation arrangement with the Corporation or with any entity or individual with which the Corporation has a transaction or arrangement, or

(3) A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Corporation is negotiating a transaction or arrangement.

Compensation includes direct and indirect remuneration as well as gifts or favors that are not insubstantial. A financial interest is not necessarily a conflict of interest. Under Section 6.3.b, a person who has a financial interest may have a conflict of interest only if the appropriate governing board or committee decides that a conflict of interest exists.

Procedures

a. **Duty to Disclose.** In connection with any actual or possible conflict of interest, an interested person must disclose the existence of the financial interest and be given the opportunity to disclose all material facts to the directors and members of committees with governing board delegated powers considering the proposed transaction or arrangement.

b. **Determining Whether a Conflict of Interest Exists.** After disclosure of the financial interest and all material facts, and after any discussion with the interested person, he/she shall leave the governing board or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining board or committee members shall decide if a conflict of interest exists.

c. **Procedures for Addressing the Conflict of Interest.**

(1) An interested person may make a presentation at the governing board or committee meeting, but after the presentation, he/she shall leave the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.

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(2) The chairperson of the governing board or committee shall, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.

(3) After exercising due diligence, the governing board or committee shall determine whether the Corporation can obtain with reasonable efforts a more advantageous transaction or arrangement from a person or entity that would not give rise to a conflict of interest.

(4) If a more advantageous transaction or arrangement is not reasonably possible under circumstances not producing a conflict of interest, the governing board or committee shall determine by a majority vote of the disinterested directors whether the transaction or arrangement is in the Corporation's best interest, for its own benefit, and whether it is fair and reasonable. In conformity with the above determination it shall make its decision as to whether to enter into the transaction or arrangement.

d. Violations of the Conflicts of Interest Policy.

(1) If the governing board or committee has reasonable cause to believe a member has failed to disclose actual or possible conflicts of interest, it shall inform the member of the basis for such belief and afford the member an opportunity to explain the alleged failure to disclose.

(2) If, after hearing the member's response and after making further investigation as warranted by the circumstances, the governing board or committee determines the member has failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action.

Records of Proceedings

The minutes of the governing board and all committees with board delegated powers shall contain:

a. The names of the persons who disclosed or otherwise were found to have a financial interest in connection with an actual or possible conflict of interest, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the governing board's or committee's decision as to whether a conflict of interest in fact existed.

b. The names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection with the proceedings.

Compensation

a. A voting member of the governing board who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation.

b. A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation.

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c. No voting member of the governing board or any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Corporation, either individually or collectively, is prohibited from providing information to any committee regarding compensation.

Periodic Reviews

To ensure the Corporation operates in a manner consistent with charitable purposes and does not engage in activities that could jeopardize its tax-exempt status, periodic reviews shall be conducted. The periodic reviews shall, at a minimum, include the following subjects:

a. Whether compensation arrangements and benefits are reasonable, based on competent survey information, and the result of arm's length bargaining.

b. Whether partnerships, joint ventures, and arrangements with management Corporations conform to the Corporation's written policies, are properly recorded, reflect reasonable investment or payments for goods and services, further charitable purposes and do not result in inurement, impermissible private benefit or in an excess benefit transaction.

Use of Outside Experts

When conducting periodic reviews, the Corporation may, but need not, use outside advisors. If outside experts are used, their use shall not relieve the governing board of its responsibility for ensuring periodic reviews are conducted.

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Deposits

The following policy and procedures are designed to address cash and check deposits received outside of the business office.

Policy

- (1) Deposits should not be left in classrooms and must be immediately delivered to the Business Office as soon as possible.
- (2) All Deposits delivered to the Business Office must be counted by the sponsor with the total deposit amount written down on the Business Office Deposit Form. In addition, please provide information regarding the group who raised the funds and the purpose for the funds.

Procedures

- (1) Deposits must be secured at all times until the deposit is delivered to the business office for processing.
- (2) Prepare the deposit by counting all cash, coin and checks. Use the Business Office Deposit Form to write down the amount of cash, coin and checks along with the total deposit amount.
- (3) Deliver the deposit and the completed Business Office Deposit form to the business office. The business office will count cash, coin and checks to ensure their count matches what was submitted by the sponsor. Any discrepancy will immediately be reported back to the sponsor. The deposit will not be taken to the Bank for final processing until the discrepancy is resolved.
- (4) The Quickbooks accounting software is used to record all funds received by the business office so that each group knows what is in their account at all times.

Directors

General Powers

The property, affairs and activities of the Corporation shall be managed by the Board of Directors, which shall have all powers granted by the State of Arizona to the Board of Directors of a non-profit corporation. No resolution or motion to commit the Corporation on any matter shall be considered by the Corporation until it has been authorized by the Board of Directors.

Number and Qualifications

The Board of Directors shall consist of such number of directors, not fewer than one (1) and not more than thirty (30), as may be determined from time to time by the Board of Directors.

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Election of Directors

The members of the first Board of Directors of the Corporation are the persons named in the Corporation's Articles of Incorporation, and they shall serve until the first annual meeting of the Corporation's Board of Directors. Thereafter, at each annual meeting of directors, the then existing Board of Directors shall elect the directors to serve for the following year, and each director so elected shall serve for a term of one (1) year. A director shall serve for the term for which he is elected and until his successor is elected and qualified.

Removal

Any officer or director may be removed by affirmative vote of a majority of the current directors on the Board of Directors for failure to participate, non-performance of duties, or other cause deemed sufficient by the Board of Directors.

Vacancies

In case of a vacancy, the remaining directors may elect a successor for the remainder of the vacant term

Meetings

The Board of Directors shall meet at least quarterly and, in addition, the Board of Directors shall meet upon call by the President or upon written request filed with the Secretary by any two (2) or more directors. No notice must be given of regular meetings. At least two day's prior written notice shall be given of all special meetings, stating the date, time and place of the meeting. The notice of a special meeting need not describe the purpose of the meeting. Directors may participate in meetings of the directors through the use of any means of communication by which all directors participating may simultaneously hear each other during the meeting. The Board of Directors shall keep minutes of its meetings and a full account of its transactions.

Annual Meeting

The annual meeting of the Board of Directors, for the purpose of electing directors to serve during the following year and transacting any other business that properly comes before the meeting, shall be held in June of each year at a time and a place to be determined by the Board of Directors.

Quorum and Voting

At every meeting of the Board of Directors, a quorum shall consist of a majority of the current directors serving on the Board of Directors. Unless otherwise specified, the majority vote of those persons actually present at a meeting at which there is a quorum will prevail on all matters.

Compensation

Directors shall receive no compensation for their services as such but may, by resolution of the Board of Directors, be allowed reimbursement for their expenses actually and reasonably incurred on behalf of the Corporation.

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Informal Action by Directors

Any action of the directors may be taken without a meeting if a consent in writing setting forth the action taken is signed by all directors and filed with the minutes of the Corporation.

Honorary Board

The Board of Directors may, by resolution, form an Honorary Board of Directors (the "Honorary Board"), which shall have such duties and responsibilities as the Board of Directors shall determine. The Board of Directors shall elect members of the Honorary Board, and any persons so elected shall serve at the pleasure of the Board of Directors.

Disbursements

The following policy and procedures are designed to support segregation of duties thereby preventing single control over school finances. According to the USFRCS, the disbursement cycle consists of six processes: budgeting requisitioning, purchasing, receiving, paying, and recording.

Policy

1. Pursuant to ASRS 15-354. **Principals; supplies and materials purchases**, within thirty days of any purchase, the principal shall supply a receipt from the seller of supplies and materials showing the price paid for each item purchased. Receipts will be made available for Governing Board review upon request.
2. Purchases over \$3,000 are reviewed, signed and dated by the Office Manager indicating review that the expense met the definition of a valid school expense and evidence was present to record the revenue line item being used for the expense.
3. "Valid school expenses" and the use of funds for a "lawful purpose" shall be defined as the disbursement of school funds that are reasonably necessary to maintain the functioning of a school and non-profit organization. This includes maintenance of the school premises, providing an education to its attendees, and maintaining a positive employee environment.
4. The valid school expense definition applies to disbursements from the follow revenue sources:
 - *State Equalization Assistance*
 - *Classroom Site Funds*
 - *Instructional Improvement Funds*
 - *State and Federal Grants*
5. The Chief Financial Officer will ensure all purchases made pursuant to ASRS 15-354. **Principals; supplies and materials purchases** comply with the uniform system of

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financial records and for expenses over \$3,000 record the revenue line item being used for the expense per the annual budget submitted to the State.

6. Quickbooks entries will be used to document valid school expenses accordingly. Financial statements such as Profit and Loss and Balance Sheets illustrate the revenue line item used in addition to the corresponding expenses charged against that revenue.
7. Bank statement reconciliation functions will be kept separate. Bank statement reconciliation is performed by Outside Financial Consultants. Office Manager will continue to review and initial the bank reconciliation reports after the outside financial consultant has completed the reconciliation.
8. Job descriptions to support this policy include the Chief Financial Officer and Office Manager
 - **CFO** – Reports to the board. No checks are signed or produced without clear supporting documentation.
 - **Office Manager** – Reconciles bank statements and approves invoices over \$3,000

Procedures

1. The Quickbooks accounting software will be leveraged to implement specific access roles to certain functions such as creating a new vendor, entering employees, creating new payees and checks, etc.
2. The Chief Financial Officer will create a complete list of disbursements produced in Quickbooks to include in the Governing Board meeting packet.
3. Official approval of disbursements will take place during regularly scheduled board meetings. The report will be signed by the board indicating they have reviewed all disbursements and have no further questions regarding the payments.
4. Other reports include budget vs. actual expenses and cash flow projections.

References

*** Uniform System of Financial Records for Arizona Charter Schools*

*** Arizona Revised Statutes – Title 15*

*** Arizona State Board for Charter Schools “Let’s Do the Numbers: Seven Practices for Sound Fiscal Management of Charter Schools”*

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Financial Affairs; Books and Records

Fiscal Year

The fiscal year of the Corporation shall end on June 30 of each year.

Concentrations

The School receives a substantial amount of its support from the state government agencies of Arizona. If the State and its agencies significantly reduced the level of support provided to the School, it would have a material effect on the School's operations. Management is aware of the concentration and its potential impact. The School's compliance with certain laws and regulations is subject to review by their Sponsor and the State of Arizona, Office of the Auditor General and Department of Education. Such reviews could result in an adjustment of state equalization assistance.

Donor Imposed Restrictions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increases those net asset classes. If a restriction is fulfilled in the same time period in which the contribution is received, the School reports that support as unrestricted.

Property and Equipment

Land, buildings, and improvements with a cost of \$3,000 or more and vehicles, furniture and equipment with both a cost of \$3,000 or more and an estimated useful life of one year or more are capitalized. Assets are stated at cost. Assets donated are recorded at their estimated fair market value as of the date received. Amortization of buildings and improvements and depreciation of furniture and equipment are provided on a straight-line basis over the useful lives of the respective assets, ranging from 3 to 50 years.

Bank Accounts

The funds of the Corporation shall be deposited in one or more banks or financial institutions as designated by the Board of Directors. All checks shall be signed by such officers or board members as the Board of Directors may from time to time designate.

Contracts

The Board of Directors may authorize any officer or officers, agent or agents of the Corporation, in addition to the officers so authorized by these bylaws, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances. In the absence of such determination by the Board of Directors, contracts may be signed either by the Chairman of the Board of Directors or by the President of the Corporation or, in their absence, by a Vice President of the Corporation.

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Gifts

The Board of Directors may accept on behalf of the Corporation any contribution, gift, bequest or devise for the general purposes, or for any special purpose, of the Corporation.

Books and Records

The Corporation shall keep correct and complete books and records of account and shall keep minutes of the proceedings of the Board of Directors and committees of the Board of Directors. Books, records and minutes shall be in written form or in any other form capable of being converted into written form within a reasonable time.

Independent Annual Audits and Related Party Transactions

Auditor's Responsibility

The independent auditor's responsibility is to express an opinion on financial statements prepared and maintained by school management. The independent audit is conducted in accordance with auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that the audit is planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The aggregation of disbursements made from the following revenue sources that are under \$3,000 but are of like items or services, may be reviewed further to ensure reasonableness of the expense.

Reasonableness shall be based upon a reasonable person standard, that person being a non-educator or non-charter school employee. The disbursement of state funds and grants identified below shall strictly adhere to the "valid school expense" and "lawful purpose" definitions or to the stated purpose of the specific grant or funding.

- State Equalization Assistance
- Classroom Site Funds
- Instructional Improvement Funds
- State and Federal Grants

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A. “Valid school expense” and the use of funds for a “lawful purpose” shall be defined as the disbursement of school funds that are reasonably necessary to maintain the functioning of a school and non-profit organization. This includes maintenance of the school premises, providing an education to its attendees, and maintaining a positive employee environment.

1. Examples of disbursements related to the maintenance of the functioning of a school premise may include: staff salaries, utilities, or the purchase of goods and supplies related to a course of education.
2. Examples of disbursements related to the education of its attendees may include: costs to maintain extracurricular activities, field trips, costs of bringing outside educational speakers to the school.

B. Disbursement of school funds also applies to expenses reasonably necessary to maintain the functioning of a non-profit organization.

1. Examples of disbursements related to the maintenance of a non-profit organization may include: costs that contribute to turnover reduction, which includes providing professional development services, fostering positive working relationships, and maintaining a healthy workplace environment.

Related Party Transactions

Related party transactions are examined and reported each year during the mandated annual independent audit and board meeting.

Miscellaneous

Prohibition Against Sharing in Corporate Earnings

- A. No director, officer, or employee of, or member of a committee of, or other person connected with, the Corporation, or any other private individual, shall at any time receive any of the net earnings or pecuniary profit from the operations of the Corporation; provided that this shall not prevent the payment to any such person of such reasonable compensation for services rendered to or for the Corporation in effecting any of its purposes as shall be fixed by the Board of Directors; and no such person or persons shall be entitled to share in the distribution of any of the corporate assets upon the dissolution of the Corporation.
- B. All members of the Corporation shall be deemed to have expressly consented and agreed that upon such dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the assets of the Corporation, after all debts have been satisfied, then remaining in the hands of the Board of Directors shall be distributed, transferred, conveyed, delivered, and paid over, in such amounts as the Board of Directors may

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determine or as may be determined by a court of competent jurisdiction upon application of the Board of Directors, to one or more Corporations organized and operated exclusively for charitable, religious, scientific, testing for public safety, literary, or educational purposes and which would then qualify under the provisions of §501 (c)(3) of *the Internal Revenue Code* and the regulations thereunder as they now exist or as they may hereafter be amended.

Investments

The Corporation shall have the right to retain all or any part of any securities or property acquired by it in whatever manner, and to invest and reinvest any funds held by it, according to the judgment of the Board of Directors, without being restricted to the class of investments which is or may hereafter be permitted by law to be made or any similar restriction, provided, however, that no action shall be taken by or on behalf of the Corporation if such action is a prohibited transaction or would result in the denial of the tax exemption under §§503 or 507 of *the Internal Revenue Code* and the regulations thereunder as they now exist or as they may hereafter be amended.

Exempt Activities

Notwithstanding any other provision of these bylaws, no member, trustee, officer, employee, or representative of this Corporation shall take any action or carry on any activity by or on behalf of the Corporation not permitted to be taken or carried on by an Corporation exempt *under §501 (c)(3) of the Internal Revenue Code* and its regulations as they now exist or as they may hereafter be amended, or by an Corporation, contributions to which are deductible under §170(c)(2) of such Code and regulations as they now exist or as they may hereafter be amended.

Indemnification of Directors and Officers

The Corporation shall indemnify every person who, by reason of the fact that the person is or was a director or officer of the Corporation, incurs financial loss for judgments, fines and amounts paid or agreed to be paid in settlement of any claim, and in addition, the necessary and reasonable expenses, including attorney's fees, incurred in connection therewith. This indemnification shall be mandatory in all circumstances in which indemnification is permitted by the Arizona Revised Statutes, as amended from time to time, and such indemnification shall be permissive in all other circumstances in which indemnification is not prohibited by law. In addition, permissive indemnification of any such person who incurs loss and expenses as above mentioned shall be permitted in any circumstances in which such indemnification is not prohibited by law and in which it is determined that such person acted, or failed to act, in good faith and in a manner the person reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct was unlawful. As used in this bylaw, expenses shall include, but shall not be limited to, amounts of judgments, penalties or fines and interest thereon for reasonable periods of time, rendered, levied or adjudged against such persons, costs of the action, suit or proceeding, attorneys' fees, expert witness fees and amounts paid in settlement by such persons, provided that such settlement shall have been, or is thereafter, approved by the Board of Directors of this Corporation. This bylaw is made a part of these bylaws to comply with, and to take full advantage of, Arizona laws governing such indemnification.

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Seniority of Laws, Articles, Bylaws and Resolutions

The governing law relevant to the conduct of this Corporation shall be the laws of the United States, laws of the State of Arizona, the articles of incorporation of this Corporation, the bylaws of this Corporation, and the resolutions that are passed from time to time by the directors. If there is any inconsistency between these controlling bodies of law, then any inconsistency is to be resolved in favor of the senior body of law, and the junior bodies of law are deemed automatically amended. The officers and directors of the Corporation shall make every effort to generally amend the junior bodies of law whenever necessary so that inconsistencies will be corrected. However, whether or not these inconsistencies are corrected, the senior body of law will still prevail until such correction is made. The priority of the governing bodies of law are as follows: (a) laws of the United States; (b) laws of the State of Arizona; (c) articles of incorporation of this Corporation; (d) bylaws of this Corporation; and (e) resolutions passed by this Corporation.

Loans to Directors and Officers Prohibited

The Corporation shall not lend money to, or use its credit to assist, its directors or officers, whether or not employees. Any director or officer who assents to, or participates in, the making of any such loan shall be liable to the Corporation for the amount of such loan until the repayment of the loan.

Limitation of Liability of Directors

The personal liability of every director is and shall be eliminated or limited to the fullest extent permitted or authorized by the provisions of the Arizona Revised Statutes applicable to nonprofit Corporations, all amendments thereto and all revisions and replacements thereof.

Purchasing and Accounts Payable

Purchases - Campus level purchases are initiated by various members of the staff using a supply request form (see Exhibit A). Completed supply request forms are reviewed and signed by campus principals authorizing the purchase. After campus principals approve the purchase, they forward on to the CEO/Superintendent, Dr. Kristofer Sippel for final approval.

Accounts Payable - Bills, invoices and statements, etc. are reviewed by the CEO for accuracy and payment. All invoices are verified that they represent valid school expenses. "Valid school expenses" and the use of funds for a "lawful purpose" shall be defined as the disbursement of school funds that are reasonably necessary to maintain the functioning of a school and non-profit organization. This includes maintenance of the school premises, providing an education to its attendees, and maintaining a positive employee environment.

*The CEO initials invoices indicating approval to pay. Initialed invoices are submitted to the CFO for payment. The CFO processes payments, assigns the account code, and prints the checks using the accounting software, Quickbooks.

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Check stock is securely stored in a locked file cabinet in the CFO's office. All supporting documentation along with the unsigned checks, are provided to Office Manager. *Before signing each check, the Office Manager reviews the support to verify the check is for the proper amount and payable to proper vendor. Invoices over \$3,000 are further initialed by the Office Manager. Check stubs are attached to the bills/invoices/statements, etc. to cancel them and indicate they have been paid. Checks and support are then returned to CFO who mails the payments and files the supporting documents.

**See Disbursement policy for more details about this process*

Table of Authority

The following policy and procedures are designed to support segregation of duties thereby preventing single control over school finances.

Policy

1. The Table of Authority (see exhibit B) documents financial authority by job description.
2. The Table of Authority is saved on the Admin shared drive to support complete transparency relative to which employee has authority to approve invoices, make financial commitments on behalf of the organization, approve purchase orders, etc.
3. Once approved by the Governing Board, revisions to the Table of Authority must first be approved by the school administrative governing body and then presented to the Governing Board for final approval.

Procedures

1. Employees are required to refer to the table of authority when dealing or working with financial matters, decisions, commitments, etc.
2. Questions regarding table of authority limits are to be directed to the employee's immediate supervisor or to the CFO.

References

***Exhibit B – Table of Authority*