

Financial Planning



Spark Growth Fiscal Policies, Procedures & Budget

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Accounting Procedures

The accounting procedures used by Spark Growth shall conform to Generally Accepted Accounting Principles (GAAP) to ensure accuracy of information and compliance with external standards.

Basis of Accounting

Policy: Spark Growth uses the accrual basis of accounting. The accrual basis is the method of accounting whereby revenue and expenses are identified with specific periods of time, such as a month or year, and are recorded as incurred. This method of recording revenue and expenses is without regard to date of receipt or payment of cash.

Procedures:

- Throughout the fiscal year, expenses are accrued into the month in which they are incurred. The books are closed no later than the last day of the month; after the close of the month. Invoices received after closing the books will be counted as a current-month expense.
- At the close of the fiscal year, this rule is not enforced. All expenses that should be accrued into the prior fiscal year are so accrued, in order to ensure that year-end financial statements reflect all expenses incurred during the fiscal year. Year-end books are closed no later than 90 days after the end of the fiscal year.
- Revenue is always recorded in the month in which it was earned or pledged.

Journal Entries

- Transactions like donations and expenses incurred are posted as journal entries weekly by the Financial Officer.
- Journal entries can be reviewed each month at the monthly board meetings.
- Once journal entries are reviewed at the board meetings, they can then be approved.

Bank Reconciliations

Policy: All bank statements will be opened and reviewed in a timely manner. Bank reconciliation and approval will occur within 30 days of the close of the month.

Procedures:

- All bank statements and cancelled checks will be opened, reviewed and initialed by the Financial Officer upon receipt.
- Once reviewed, bank statements are submitted to the Financial Officer for reconciliation.
- The Executive Director will review and approve reconciliation reports by signing and dating the report in the upper right hand corner at the first board meeting following month end closing.

Monthly Close

- Books are closed by the 5th of the following month; Sending out customer statements, paying suppliers, reconciling bank statement, and submitting sales tax reports to the state are some tasks to complete monthly.
- The basic monthly steps involved in closing the books:

After finishing entering the day-to-day transactions in the journals, we will be ready to "close the

books" for the period.

The Financial officer will:

1. Post entries to the general ledger. Transfer the account totals from your journals (sales and cash receipts journal and cash disbursements journal) to your general ledger accounts.
2. Total the general ledger accounts. By footing the general ledger accounts, you will arrive at a preliminary ending balance for each account.
3. Prepare a preliminary trial balance. Add all of the general ledger account ending balances together. Total debits should equal total credits. This will help assure you that your accounts balance prior to making adjusting entries.
4. Prepare adjusting journal entries. Certain end-of-period adjustments must be made before you can close your books. Adjusting entries are required to account for items that don't get recorded in your daily transactions, such as accrual of depreciation, accrual of real estate taxes, etc. In a traditional accounting system, adjusting entries are made in a general journal.
5. Foot the general ledger accounts again. This will give you the adjusted balance of each general ledger account.
6. Prepare an adjusted trial balance. Prepare another trial balance, using the adjusted balances of each general ledger account. Again, total debits must equal total credits.
7. Prepare financial statements. After tracking down and correcting any trial balance errors, you (or your accountant) are ready to prepare a balance sheet and income statement.
8. Prepare closing entries. Get your general ledger ready for the next accounting period by clearing out the revenue and expense accounts and transferring the net income or loss to owner's equity. This is done by preparing journal entries that are called closing entries in a general journal.
9. Prepare a post-closing trial balance. After you make closing entries, all revenue and expense accounts will have a zero balance. Prepare one more trial balance. Since all revenue and expense accounts have been closed out to zero, this trial balance will only contain balance sheet accounts. Remember that the total debit balance must equal the total credit balance. This will help ensure that all general ledger account balances are correct as of the beginning of the new accounting period.

**At some point in the future Spark Growth may see fit to pass the monthly financials to an outsource company to maintain the closing of the books monthly and/or yearly. We would like to keep this option open for future planning.*

Recordkeeping

Document Retention policy will be as follows:

| Document | Retention | Location / Storage |
|---|-------------|--------------------|
| Insurance policies (expired) | Permanently | MSS-File Cabinet |
| Insurance records, current accident reports, claims, policies, etc. | Permanently | SG Headquarters |
| Internal reports, miscellaneous | 3 years | MSS-File Cabinet |
| Inventories of products, materials, supplies | 10 years | MSS-File Cabinet |
| Invoices to customers | 10 years | MSS-File Cabinet |
| Invoices from vendors | 10 years | MSS-File Cabinet |

| | | |
|---|-------------|------------------|
| Journals | 10 years | SG Headquarters |
| Minute books of Board of Directors, including Bylaws and Articles of Incorporation | Permanently | SG Headquarters |
| Purchase orders | 3 years | MSS-File Cabinet |
| Sales records | 10 years | MSS-File Cabinet |
| Scrap and salvage records | 10 years | MSS-File Cabinet |
| Subsidiary ledgers | 10 years | MSS-File Cabinet |
| Tax returns and worksheets, revenue agents' reports, and other documents relating to determination of tax liability | Permanently | MSS-File Cabinet |
| Volunteer Time sheets and cards | 10 years | CS-File Cabinet |
| Accounts payable ledgers and schedules | 10 years | MSS-File Cabinet |
| Accounts receivable ledgers and schedules | 10 years | MSS-File Cabinet |
| Audit reports of accountants | Permanently | MSS-File Cabinet |
| Bank statements | 10 years | MSS-File Cabinet |
| Capital stock and bond records: ledgers, transfer payments, stubs showing issues, record of interest coupon, options, etc. | Permanently | MSS-File Cabinet |
| Cash books | 10 years | MSS-File Cabinet |
| Checks (canceled, with exception below) | 10 years | MSS-File Cabinet |
| Checks (canceled, for important payments; i.e., taxes, purchase of property, special contracts, etc. [checks should be filed with the papers pertaining to the underlying transaction]) | Permanently | MSS-File Cabinet |
| Contracts and leases (expired) | 10 years | MSS-File Cabinet |
| Contracts and leases still in effect | Permanently | MSS-File Cabinet |
| Correspondence, general | 4 years | MSS-File Cabinet |
| Correspondence (legal and important matters) | Permanently | MSS-File Cabinet |
| Depreciation schedules | 10 years | MSS-File Cabinet |
| Duplicate deposit slips | 10 years | MSS-File Cabinet |
| Volunteer personnel records (after termination) | 7 years | CS-File Cabinet |
| Volunteer applications | 3 years | CS-File Cabinet |
| Expense analyses and expense distribution schedules (includes allowance and reimbursement of volunteers, officers, etc., for travel and other expenses) | 10 years | MSS-File Cabinet |
| Financial statements (end-of-year) | Permanently | MSS-File Cabinet |
| General ledgers and end-of-year statements | Permanently | MSS-File Cabinet |

Any Records past their retention dates will be shredded by the financial officer as soon as possible

Internal Controls

Spark Growth employs several safeguards to ensure that financial transactions are properly authorized, appropriated and recorded.

Lines of Authority

The Board has the authority to approve fiscal policies and are required to review them annually and the Financial Officer may have the authority to approve expenses in accordance with the approved budget.

- The Board approves elements of the fiscal systems on a monthly and yearly basis; expenses, budgets, etc.
- Budgets are approved at monthly board meetings
- The Financial officer will develop and submit budgets for board meetings.
- The Board has the authority to change a fiscal policy. Policies are reviewed and changes approved as needed during monthly board meetings.

Conflict of Interest

Policy: All employees and members of the Board of Directors are expected to use good judgment, to adhere to high ethical standards, and to act in such a manner as to avoid any actual or potential conflict of interest. A conflict of interest occurs when the personal, professional, or business interests of an employee or Board member conflict with the interests of Spark Growth. Both the fact and the appearance of a conflict of interest should be avoided.

As per our bylaws:

The purpose of the conflict of interest policy is to protect this tax-exempt organization's (Organization) interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of Spark Growth 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 organizations.

Section 10.2 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 Spark Growth has a transaction or arrangement,
2. A compensation arrangement with Spark Growth or with any entity or individual with which Spark Growth has a transaction or arrangement, or

3. A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which Spark Growth is negotiating a transaction or arrangement.

(c) Affiliations

Affiliations with other organizations or entities, such as but not limited to, school board members, members of School or early care/education centers, and community members, shall uphold the mission and purpose of this Organization as stated in Article 3.CORPORATE PURPOSE; Section 3.2 Specific Purpose such that:

1. Affiliations do not bias what Spark Growth is doing
2. Affiliations are objective and impartial
3. Spark Growth is not influenced by other organizations
4. There are 'no strings attached', no obligation imposed upon by others.

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 Article 10 Section 2, 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.

Section 10.3. 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.
 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 Spark Growth 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 Spark Growth'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.

Segregation of Duties

Policy: Spark Growth's financial duties are distributed to the financial officer. Board members will verify all financial reports at board meetings to help ensure protection from fraud and error. The distribution of duties aims for maximum protection of Spark Growth's assets while also considering efficiency of operations.

Procedures: cash receipt and disbursement functions are separated among various board members .

- Check signers will involve the board in overseeing all expenses over \$50.00

Physical Security

Policy: Spark Growth maintains physical security of its assets to ensure that only people who are authorized have physical or indirect access to money, securities, real estate and other valuable property.

Procedures:

- The blank checks stored in the filing cabinet of the financial officer.
- Passwords will be used for any accounting software and passwords will be updated as needed to ensure proper security.
- Any cash or check donations will be immediately deposited into the corporate bank account.

Financial Planning & Reporting

Spark Growth's financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The presentation of the Financial Statements shall follow the recommendation of the Financial Accounting Standards Board (FASB) No. 117, "Financial Statements of Not-For-Profit Organizations." Under GAAP, revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Spark Growth are classified as unrestricted, temporarily restricted and permanently restricted.

Budgeting Process

Policy: Spark Growth's annual budget is prepared and approved annually for all departments. The budget is prepared by the Financial Officer in conjunction with the Board of Directors. The budget is to be approved by the Board of Directors prior to the start of each fiscal year. The budget is revised during the year if approved by the Board of Directors.

Procedures:

- The Financial Officer will work together with the Board of Directors to ensure that the annual budget is an accurate reflection of programmatic and infrastructure goals for the coming year.
- The Board of Directors will approve the annual budget at the Board meeting in December of each year.
- The budget can be modified at any Board meeting if placed on the agenda
- The Financial Officer will ensure that the budget is developed using Spark Growth's standard revenue recognition and cost allocation procedures.
- The Board of Directors shall review and approve a recommended fiscal year budget and submit it for approval. The budget shall contain revenues and expenses forecasted by month.
- The Board of Directors will review and approve the budget at its last meeting prior to the start of the fiscal year.

Internal Financial Reports

Policy: Spark Growth prepares regular financial reports on a monthly basis. All reports are finalized no later than 30 days after the close of the prior month.

Procedures:

- The Financial Officer is responsible for producing the following year-to-date reports within 30 days of the end of each month:, Budget v. Actual and updated Cash Flow Projection.

Tax Compliance

Exempt Organization Returns

- The annual Federal Form 990 and California Form 199 will be completed by the Financial Officer or an outsourced accounting firm (possibly Arightco).
- The tax forms filed each year will be completed no later than April 1st of each year.
- If Spark Growth chooses to employ a tax preparer the Financial Officer will act as the liaison.
- The Board will review the tax returns prior to filing and will have ultimate approval authority.
- The 990 made available to the Board of Directors at the board meeting following its filing.
- The 990 made available to the public via donation letters and on our website.

Revenue & Accounts Receivable

Revenue Recognition

Policy: All contributions will be recorded in accordance with GAAP, with specific attention to standards FASB 116 and 117. Contributions are recorded as pledged or received in accordance with FASB 116, and must be credited to the appropriate revenue lines as presented in the annual budget and coded as designated in Spark Growth's Chart of Accounts.

Procedures:

- The Financial Officer reviews all revenue in excess of \$5,000 and indicates on the letter or copy of the check how the revenue shall be recognized (as earned/contributed)
- The Financial Officer determines how and when revenue is recorded as received and/or released?
- The Financial Officer posts revenue to the general ledger.

If there is a question or uncertainty about how to recognize a particular contribution, the Financial Officer will ensure that the donor is contacted to clarify the intent of the contribution.

•The Financial Officer is responsible for posting revenue to the general ledger in accordance with the determination made by the Board.

Cash Receipts

- Funds generally come into Spark Growth (mail, EFT, cash, etc.) through the website and are processed through PayPal to be deposited into our corporate checking account.
- The Executive director opens the mail, the Financial Officer codes income and posts receipts in the accounting system.
- The Financial Officer copies checks received before depositing.
- Checks are endorsed immediately before depositing.

Deposits

Policy:

- Deposits are made upon receipt using digital depositing app via Pacific Marine Credit Union.

Expense & Accounts Payable

Purchases & Procurement

Policy: Any expenditure in excess of \$100.00 for the purchase of a single item should have board approval for purchase.

- Once Spark Growth has collected substantial donations, purchase orders may be used to record all requisitions.
- All board members have the authority to purchase.
- Any purchases needed over \$100.00 in value must be presented to the Board for voting on the request.

Petty Cash

Policy: The Executive Director and Assistant Director will each keep a petty cash box not to exceed \$100. Petty cash will be used primarily to purchase office supplies, snacks, delivery tips etc. Petty cash will be kept in a lockbox that is locked in a cabinet. Keys to the cash box and cabinet should be kept on the custodian's person.

Procedures:

- The petty cash custodians will be given \$100 to be kept in a lock box locked in their desk.

- When cash is used a record must be entered in the individual's petty cash spreadsheet. Receipts for all purchases are kept in the lock box.
- When cash is low the custodian will submit a check request form signed by their supervisor with a print out of the tracking spreadsheet and all receipts attached.
- A check will be cut in the amount to bring petty cash back to \$100. It is the custodian's responsibility to cash the check and keep track of funds in the box.

Asset Management

- What procedures are in place to ensure that employee volunteer time contributions are properly recorded and stored for the purposes of recordkeeping of the volunteer hours accrued in a calendar year.

Operating Reserve

Policy: The target minimum operating reserve fund for Spark Growth is three (3) months of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, program, and ongoing professional services.

Procedures:

- The amount of the operating reserve will be calculated each year after approval of the annual budget reported to the Board members with regular financial reports
- Spark Growth has a policy to maintain an operating reserve at a certain level (a specific dollar amount or months of expenses?)
- The operating reserve will be maintained in the same bank account of Spark Growth.
- The status of the operating reserve monitored will be reported to the Board at the monthly board meeting
- To use the operating reserves, the Executive Director will submit a request to the Finance Officer and the Board of Directors. The request will include the analysis and determination of the use of funds and plans for replenishment. Spark Growth's goal is to replenish the funds used within twelve (12) months to restore the operating reserve fund to the target minimum amount.