Arizona School for the Arts

Sustainability: Fiscal Viability

Arizona School for the Arts has structured its fiscal policies and procedures to allow for both careful management of its annual operating budget and for long term planning.

Financial Management Policies and Procedures

1. ASA will maintain its accounting records on an accrual basis for recording revenue and expenditures and will comply with GAAP accrual basis accounting procedures to fulfill IRS requirements.
2. The organization has an annual, independent audit of their financial statements, prepared by a certified public accountant.
3. In addition to the audit, the CPA prepares a management letter containing recommendations for improvements in the financial operations of the school.
4. The Board of Directors Finance Committee, is responsible for soliciting bids, interviewing auditors and hiring an auditor for the organization.
5. The Board of Directors Finance Committee reviews and approves the audit report and management letter and, with staff input and support, institutes any necessary changes.
6. The audit, or an organization prepared annual report which includes financial statements, is made available to service recipients, volunteers, contributors, funders and other interested parties.
7. The school files IRS form 990 in a timely basis within prescribed time lines.
8. The CFO reviews income annually to determine and report unrelated business income to the IRS.
9. One and three-year budgets are created and maintained. These budgets support the school's mission and stated goals. To that end, these budgets must:
    a. Contain enough detail to enable reasonably accurate projections of revenues and expenses, separation of capital and operational items, cash flow, and subsequent audit trails.
    b. Balance – Expenditures are planned in a way so that they equal or are less than anticipated revenues.
    c. Be in line with board-stated priorities.
10. Fixed assets are acquired and disposed of only upon proper authorization, and are adequately safeguarded and insured to 90% of replacement value. Assets worth more than $500 are properly recorded.
11. ASA will establish and adhere to a set of effective internal accounting controls which require good accounting practices:
    a. Reconciliation of all cash accounts monthly;
    b. Review to insure appropriate and accurate financial information;

c. Comply with government contracts, purchased service agreements, grant agreements, and bond agreements;
d. Payroll is prepared following appropriate state and federal regulations;
e. Persons employed on a contract basis meet all federal requirements for teaching and/or work in a public school. Disbursement records are kept so 1099's can be issued at year's end.
f. Internal controls include: the handling of cash and deposits; approval for overspending and disbursements; identifying authorized check signers and number of signatures required on checks in excess of specified dollar amounts; expense budgets are approved by the HOS and certain department expenses are submitted to the CFO for approval and payment.
g. Accounts receivable procedures include: maintaining billable contracts or other service income; procedures for periodic billing, follow-up and collection of all accounts; and substantiated documentation.

12. ASA operates in a manner which insures its long-term financial strength:
    a. ASA operates to maintain a positive cash flow. Budgets and financial statements (excluding non-cash expenses such as depreciation) are managed to produce revenues in excess of expenses.
    b. Cash is managed in a way that insures maximum liquidity, and safety.
    c. Restricted contributions are used only for the reason the donations were given.
    d. Restricted fund balances are not used for operations.
    e. Payroll and other debt obligations are paid in a timely manner.
    f. ASA is actively developing a reserve of funds to cover 3 months of operating expenses and a building maintenance fund.
13. ASA has established a plan identifying actions to take in the event of a reduction or loss in funding as follows:
    a. Monthly, the COO/CFO produces the following information for review by the Head of School and the Finance Committee:
        1. Balance sheet
        2. Profit and loss statement for current month and fiscal YTD
        3. Statement of income and expenditure vs. budget
        4. Statement of cash position and cash flow
        5. CFO notes explaining material variances
    b. Material variances in any of the Operating Statements alert the staff to issues that need to be addressed with the Finance Committee. Material adjustments are made with oversight from the Finance Committee and with Board approval.
14. If revenue and expenses are not in the desired relationship, programs and management activities must be re-evaluated and adjustments made.
15. If expenses need to be reduced, each program and or line item is reviewed to determine amounts of reduction.

16. All financial decisions are subject to financial analysis. This analysis occurs monthly and includes – cash flow analysis, budget deviation analysis, balance sheet analysis, and statement of activities analysis.
17. One technique used to analyze financial data is ratio analysis.
18. ASA has suitable insurance coverage that is reviewed yearly to insure that appropriate levels and types of coverage are in place.

Fiscal Authority

At the school level, the Head of School makes and authorizes all fiscal decisions based upon the procedures and limitations approved by the Board of Directors. The HOS, or the COO/CFO when designated by the HOS, is authorized to:

1. Sign checks in payment for all recurring school expenses including salaries, rent, utilities, vendor contracts, and approved budgeted expenses.
2. Non-budgeted expenditures over $2,500.00 are reported to the Finance Committee as part of the monthly meeting.

Fiscal Viability and Fundraising

Fundraising targets are based upon a $/student formula grounded in historic data and developed pro-ratably based on projected student enrollment each year. Because demand for the school is high, as demonstrated by an extensive waiting list for enrollment (roughly triple the capacity of the school), this formula is the best indicator of fundraising capacity. Currently, fundraising is under 10 % of ASA's annual budget.

ASA uses a variety of fundraising mechanisms. The two primary campaigns are the Tax Credit Fund Drive and the Annual Fund Drive that each comprises roughly half of the annual fundraising target. Given recent concerns regarding the Arizona Tax Credit program and potential threats to such program, the school has developed contingency plans that would include a fee schedule for the extra curricular programs supported by the Tax Credit and a targeted increase in the scope of the Annual Fund Drive. Because ASA supports a wide variety of opportunities for students beyond the core content areas, a substantial decrease in fundraising would necessitate a complete review of extra curricular activities and expenses.

ASA is currently not funded in any significant way by community philanthropic organizations. The school has begun to explore the possibility of undertaking a capital campaign. Any such campaign would be directed solely at improving facilities and amenities for our students and will not be relied upon to provide increased student capacity. Our current facilities provide sufficient space to effectuate our projected operating budgets.

Arizona School for the Arts

Sustainability: Audit Narrative

Arizona School for the Arts conducts yearly audits currently completed by Fester & Chapman, PC. The audits occur in the summer following the close of the fiscal year. All audits have been completed in a timely manner. Attached is the documentation for the audits completed for FYE 6/30/08 and 6/30/09.

The audit for FYE 6/30/08 reflected a normal operational year for ASA. ASA ended the year with a budget surplus. During the FYE 6/30/08 ASA lost their Chief Financial Officer in April of 2008. ASA then hired an outside part-time finance consultant to assist with the accounting and audit. The audit for FYE 6/30/08 was completed by Fester & Chapman, PC and the outside consultant. Accountant's notes were provided, and were minimal.

At the beginning of FY09, the school hired a permanent full-time CFO/COO who worked with the consultant during the transition to maintain the already established financials. During this time, ASA also made a decision to grow the school. The school secured bond financing in late October of 2008 and acquire two pieces of property adjacent to its current lease campus for the purposes of growth and permanence.

The audit for FYE 6/30/09 was begun in August of 2009 at which time the auditors discovered problems in the coding of income and expenses created by the outside finance consultant that had been carried over by the new CFO. The CFO and staff at ASA performed detailed forensic accounting, reconstructed all the coding and discovered the financial statements were materially misstated. The audit resumed after the corrected journal entries were applied by the CFO. A recommendation was made from Fester & Chapman, PC to the CFO to compare material revenue records to agreements or similar documentation to evaluate if revenue and the related receivable balances are accurately stated. In addition, a recommendation to the CFO was made to evaluate accrued expenses to determine if they appear reasonable.

The auditors returned with a financial statement that showed ASA had an accrual deficit for the FYE 6/30/09. However, with respect to operational cash flow in FY09 (which excludes non-cash expenses such as depreciation and interest expense that was offset by capitalized interest funded with our bonds), ASA largely maintained its cash balance, with a modest net use of cash of approximately $30 thousand.

The auditor's notes were reviewed by the CFO, Head of School, and by the Finance Committee. ASA issued a response to the auditor's notes: "*Accruals from June 2008 (for FYE 6/30/08) were recorded by a temporary finance consultant and appeared in the books for the next fiscal year. Immediately following last year's audit, ASA had a personnel transition – the*

consultant was replaced by a full-time permanent Chief Finance Officer. The error was not discovered until immediately prior to the audit for FYE 6/30/09. Personnel are now aware of the accrual process and GAAP will continue to be followed moving forward."

ASA now follows new monthly procedures for writing accruals, reconciling accounts, verifying balance sheet items, and reviewing the projections for the school's fiscal year. New procedures are in place in regards to monthly accruals for payroll, benefits, and interest payments. All accruals are prepared and reviewed monthly. The CFO will at the end of the year evaluate revenue and expense to ensure that the remaining of the fiscal year has properly recorded.

The procedures now being implemented do preserve the fiscal viability of the school. The CFO, Head of School, and Finance Committee meet monthly to review: cash flow, balance sheets, monthly revenue and expense, and actual vs. budget statements. The goal of the financial aspects of ASA is to maintain records in accordance with GAAP and work to ensure no material misstatements are occurring.