Business Plan – Organization's Fiscal Viability

Part I – Please see the budget template uploaded to online application tool.

Review of audit findings

In the 2008 and 2009 audits, two findings have appeared. Below is an outline of the findings and the actions Heritage has taken to demonstrate continuous improvement and compliance.

1. Findings related to Financial Reporting: see Reference 08-02[i] and Reference 09-02[ii] in audit reports

2008 Finding	Date & Action Taken	Results
1. Management is not comprised of individuals that posses the competencies required to prepare full disclosure financial statements in accordance with generally accepted accounting principles. Additionally, an independent review of the financial statements and all related disclosures…for completeness, consistency and compliance with generally accepted accounting principles.	2008 – Qualified certified public accountant (CPA) from Gallacher, Bosen & Goodman[iii] was retained to help with preparation of data for financial statements and independent reviews.	Finding did not appear in 2009 audit.
2. Property, plant, and equipment (PPE) listing were not reviewed for impairment to determine whether the assets still physically exist. Additionally, depreciation expense was not calculated or recorded.	2008 - CPA from Gallacher, Bosen & Goodman was retained to assist management in reviewing PPE impairment and depreciation expense recording.	Finding did not appear in 2009 audit.
3. Certain duties were not adequately segregated.	2008 - Duties related to payroll, timesheets, and expenses were divided up.	Most of finding reappeared in 2009 audit. Additional action taken in 2009 includes: Director reviews and initials expenses before disbursements and deposits are made.
4. Balance sheet did not agree to the register balance on the bank reconciliation.	Internal review of general ledger was conducted and corrections made. Adjustments were validated by CPA from Gallacher, Bosen & Goodman.	Finding did not appear in 2009 audit.
5. Membership and/or absences were not regularly reconciled to the (ADE) SAIS report.	2008 - Internal process created to conduct more regular reconciliation of data.	Finding reappeared on 2009 audit. (See #3 below for additional action.)

2009 Finding	Date & Action Taken	Results
1. Certain duties were not adequately segregated.	2009 - Director reviews and initials expenses before disbursements and deposits are made.	Pending 2010 audit.
2. Journal entries are not independently reviewed and approved prior to posting.	2009 - Internal review of general ledger by Director/Principal and CPA from Gallacher, Bosen & Goodman.	Pending 2010 audit.
3. Membership and/or absences were not regularly reconciled to the (ADE) SAIS report.	2009 - Internal process reexamined to understand flaws. Improvements implemented and a Business Manager hired to administer state data and attendance reconciliation.	Pending 2010 audit.

1. Findings related to the Control Environment: see Reference 08-01[iv] and Reference 09-01[v] in audits

2008 & 2009 Findings	Date & Action Taken	Results
1. Composition of the corporate board* does not include at least one financial expert capable of providing oversight of financial statements, including the application of generally accepted accounting principles.	*Although the wording in the audit was "Corporate Board" this phrase means the Governing Body of the school. 2008 - CPA from Gallacher, Bosen & Goodman was retained to assist he Governing Body.	Finding does not appear on 2009 audit.
2. Management is dominated by a single individual capable of exerting substantial influence over the entity's affairs.	2008 - Risks associated with the deficiency were assessed. The cost of mitigating the risks exceeded the benefits to be derived. Heritage is willing to accept the risks. Per audit, "corrective action is not necessary."[vi]	Finding reappears on 2009 audit. Similar action was taken and concluded that "corrective action is not necessary."[vii] Additional discussion on this matter is below.

Circumstances related to the structure of the school and its commitment to a low-overhead operation help to put the second finding in context. Heritage Academy operates one campus as a public charity with an educational purpose. Heritage engages many qualified resources to deliver on its educational mission and follows all local, state and federal laws.

When originally chartered, it was common for an individual to indemnify all legal and financial risk as the charters were only granted for five years. Although charters were extended to 15 years, the legal notes with our financial institution are still co-signed by a single individual. As the key stakeholder in the organization and operation of the school, it is deemed fair and appropriate by the Corporate Board of Directors and Governing Body for this person to play a role equal to the investment in the operations of the school.

A variety of indicators are used to ensure fiscal viability remains high.

1. Year-over-year financial strength as disclosed in our financial statements.
2. Low overhead, fast but thoughtful decision making and responsiveness to the financial environment.
3. Ongoing independent audits ensure complete transparency of our operations.
4. Strong waiting lists and parental support.

Parents repeatedly express appreciation for the efficiency of the school and the low overhead used in delivering our services. Parents appreciate the extra investment going to the classroom and our teachers.

Although Heritage has hired a Business Manager and has engaged external consultants, Heritage remains committed to a flat and efficient organization.

Further, Heritage believes in continuous improvement methodologies to control our processes and ensure integrity and quality. Combined with our internal controls, these tools enable us to provide a transparent and controlled environment capable of immediately responding to variation in the processes or environmental conditions.

Part II – Heritage Academy, Inc. continues a strong fiscal position within the AZ Charter School Industry. With conservative planning and financial practices, Heritage has remained financially strong year after year.

In 2009, Heritage expanded its existing facility to accommodate more students. Continued expansion and solvency in the face of significant budget concerns has also shown the strength of the fiscal viability at Heritage.

Accounting procedures

Pursuant to the charter contract, Heritage follows the Generally Accepted Accounting Principles. A number of controls, processes, and procedures are used to manage the cash flow, accounts payable, general ledger, audit and other financial activities of the organization to ensure financial integrity.

To begin with, general ledger and payroll responsibilities primarily reside with the Executive Assistant. Fiscal authority is distributed between the members of the administration with final approval by the Director/Principal.

To ensure payroll, expenses and capital improvement projects can be fully funded, cash flow reports are reviewed at least monthly sometimes weekly. Where risk is identified, immediate adjustments are made in spending to ensure continuity in teacher compensation and classroom activities.

In the past, two different accounting firms have provided ongoing financial accounting and audit support. These firms have been John C. Todd III, P.C.[viii] and Gallacher, Bosen & Goodman, CPA.[ix] One firm has assisted management in preparing the annual financial statement and conducting the annual audits. The other firm has helped management with general ledger and other accounting matters throughout the year. Going forward, we may use different firms as circumstances and needs dictate.

Processes used in fiscal decision-making

Fiscal decision-making processes are established to manage faculty expenditures and reimbursements. For example, when a teacher needs classroom supplies, they record the needed items and the costs on a Purchase Request Form. This request is reviewed and signed by the department chair and then reviewed by the Principal. Once approved by the Principal, the teacher is authorized to place the order. Having two signatures helps to control department and campus-wide expenditures.

Another important process is to multi-source large expenditures. Generally, at least two reputable quotes are received on expenditures larger than $1,000 to ensure the proper quality at the lowest price possible.

Site-level personnel with fiscal authority

Personnel with authority to permission expenditures include the Business Manager, Assistant Principal, and Director/Principal. Department chairs have authority to request expenditures within their budget, but do not have final authority to spend funds.

The Executive Assistant has authority to place routine office supply orders. Larger or irregular orders must be approved by the Business Manager, Assistant Principal, and Director/Principal

The organization's fiscal viability related to fundraising

A variety of fundraising methods support Heritage academics and extra-curricular activities. These include school dances, plays, sporting events, PTO events, and tax credits. Alumni, parents, corporations and other community stakeholders generously contribute cash and in-kind donations to Heritage.

Fundraising efforts are reviewed by key faculty and administration for solvency and integrity in the accounting. These efforts include work by the Parent Teacher's Organization, the Student Council as well as with the Heritage Academy accounts. Approximately three percent of the total revenue comes from fundraising contributions.

Philanthropic support from the community

Below are just a few of the individuals and businesses that have supported Heritage Academy over the last few years.

- Data Protection Specialists
- Milano's Music Center
- Peters' Concrete
- Wallin Esthetic Family Dentistry
- Braintree Forms
- Superior Equipment
- Neds's Krazy Sub
- Ditigal Mamo
- Higley Feed
- Wayne & Ann Sherwood
- Whiting Dental
- Intel Corporation
- Mesa T-Shirt Co.
- Hansen, Dalton & Associates
- Desert Voyagers
- Legend Express
- Sterling Investment
- Foresight Chiropractic

- Sweet Cakes Café
- Golfland
- Squeegee Steve's
- Waysher Construction
- Dr. Thomas Hale
- Overleys
- DKP & Co., Concrete
- Big O Tires
- True Imaging

Heritage expressed thanks and gratitude for the many generous supporters throughout the years. Additionally, Heritage is building more capacity to request and receive more sizable grants and planned giving. This additional fundraising capacity will enable additional philanthropic support from Heritage supporters.

Even with this added emphasis on fundraising, Heritage ensures its operations can be fully funded by state funds (e.g. equalization, classroom, instructional) without relying on additional grant funding from State or Federal sources.[x] This approach has proven effective in withstanding the recent reductions in State funding as evidenced by our year ending net assets have increased from $307,279 to $422,991 from 2008 to 2009 respectively.[xi]

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[i] See "Heritage Academy Inc., Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*, June 30, 2008," John C. Todd II. P.C. Certified Public Accountants, p. 6-7

[ii] See "Heritage Academy Inc., Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*, June 30, 2009," John C. Todd II. P.C. Certified Public Accountants, p. 6-7

[iii] http://gallachercpa.com/index.php

[iv] See "Heritage Academy Inc., Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*, June 30, 2008," John C. Todd II. P.C. Certified Public Accountants, p. 5

[v] See "Heritage Academy Inc., Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*, June 30, 2009," John C. Todd II. P.C. Certified Public Accountants, p. 5

[vi] Ibid 2008 audit, p. 5

[vii] Ibid 2009 audit, p. 5

[viii] http://www.jctodd2cpa.com/

[ix] http://gallachercpa.com/

[x] Heritage did accept ARRA funding in October 2009 at the same level as would have been the State funding level.

[xi] See "Heritage Academy Inc., Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*, June 30, 2009," John C. Todd II. P.C. Certified Public Accountants, p. 5