

HERITAGE ACADEMY

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

TABLE OF CONTENTS

Independent Auditors' Report .....	1-2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	3
Statement of Activities .....	4
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet .....	5
Statement of Revenues, Expenditures and Changes in Fund Balances .....	6
Notes to Financial Statements .....	7-12
Required Supplementary Information:	
Budgetary Comparison Schedule:	
General Fund .....	13
Notes to Required Supplementary Information .....	14
Supplementary Information:	
Nonmajor Governmental Funds:	
Combining Balance Sheet .....	15
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances .....	16
Schedule of Apportionment - Foundation Program .....	17
Schedule of General Revenues by Source .....	18
Schedule of General Governmental Expenditures by Function .....	19
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	20-21

# Rexroat, Harberd & Assoc., P.A.

## Certified Public Accountants

P.O. Box 7 - 125 North Buchanan - Jerome, Idaho 83338  
Telephone 208-324-2391 Fax 208-324-8266

October 9, 2012

### Independent Auditors' Report

Board of Trustees  
Heritage Academy  
Jerome, Idaho 83338

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Heritage Academy as of and for the year ended June 30, 2012, which collectively comprise Heritage Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Heritage Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Heritage Academy's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Heritage Academy as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 9, 2012, on our consideration of internal control over financial reporting of Heritage Academy and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 13 and 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not required to be part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Heritage Academy's financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining nonmajor fund financial statements are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The schedules have not been subjected to the auditing procedures applied in the audit of basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Reynold, Harber & Assoc., P.A.*

HERITAGE ACADEMY  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Cash on hand and in bank .....	\$ 97,917
Accounts receivable:	
State of Idaho:	
Foundation programs apportionment:	
Base support program .....	35,361
Other .....	36,724
Capital assets:	
Land .....	75,000
Other capital assets, less accumulated depreciation .....	<u>272,202</u>
Total assets .....	<u>517,204</u>
<u>LIABILITIES:</u>	
Accounts payable .....	17,066
Salaries payable .....	57,848
Long-term Liabilities:	
Current portion .....	57,165
Noncurrent portion .....	<u>230,146</u>
Total liabilities .....	<u>362,225</u>
<u>NET ASSETS:</u>	
Invested in capital assets, net of related debt .....	61,104
Restricted .....	...
Unrestricted .....	<u>93,875</u>
Total net assets .....	<u>\$ 154,979</u>

The accompanying notes are an integral part of the financial statements

HERITAGE ACADEMY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

<u>Functions/Programs:</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
<u>Governmental Activities:</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Instruction and instruction-related services .....	\$ 470,766	\$ ...	\$ 142,627	\$ (328,139)
Support services .....	218,370	...	5,445	(212,925)
Maintenance and operations .....	72,890	...	...	(72,890)
Transportation .....	91,553	...	...	(91,553)
Food services .....	59,635	14,125	37,636	(7,874)
Interest on long-term debt - unallocated .....	20,598	...	...	(20,598)
Depreciation - unallocated* .....	5,555	...	...	(5,555)
Total governmental activities .....	<u>\$ 939,367</u>	<u>\$ 14,125</u>	<u>\$ 185,708</u>	<u>(739,534)</u>
General Revenues:				
State assistance .....				642,093
Unrestricted investment earnings .....				446
Other local revenue .....				<u>2,654</u>
Total general revenues and special items .....				<u>645,193</u>
Change in net assets .....				(94,341)
Net assets-beginning of year .....				<u>249,320</u>
Net assets-ending .....				<u>\$ 154,979</u>

\* This amount includes all depreciation. There is no depreciation that is included in the direct expenses of the various programs.

The accompanying notes are an integral part of the financial statements

HERITAGE ACADEMY  
BALANCE SHEET-GOVERNMENTAL FUNDS  
JUNE 30, 2012

	General	Food Service	Title II-A Teacher Quality	Nonmajor Governmental	Total Governmental
<b>ASSETS:</b>					
Pooled cash and cash equivalents .....	\$ 95,430	\$ ...	\$ ...	\$ 2,487	\$ 97,917
Accounts receivable:					
State of Idaho:					
Foundation programs apportionment:					
Base support program .....	35,361	...	...	...	35,361
Utility deposits .....	1,481	...	...	...	1,481
Federal grants .....	...	...	23,381	9,603	32,984
Due from other funds .....	27,538	...	...	...	27,538
Total assets .....	<u>\$ 159,810</u>	<u>\$ ...</u>	<u>\$ 23,381</u>	<u>\$ 12,090</u>	<u>\$195,281</u>
<b>LIABILITIES AND FUND BALANCES:</b>					
<b>Liabilities:</b>					
Accounts payable .....	\$ 12,903	\$ ...	\$ 720	\$ ...	\$ 13,623
Salaries payable .....	53,122	...	...	4,726	57,848
Deferred revenue .....	...	...	...	3,895	3,895
Due to other funds .....	...	...	22,661	4,877	27,538
Total liabilities .....	<u>66,025</u>	<u>...</u>	<u>23,381</u>	<u>13,498</u>	<u>102,904</u>
<b>Fund Balances:</b>					
Restricted for:					
State Programs .....	...	...	...	2,487	2,487
Federal Programs .....	...	...	...	(3,895)	(3,895)
Unassigned .....	93,785	...	...	...	93,785
Total fund balances .....	<u>93,785</u>	<u>...</u>	<u>...</u>	<u>(1,408)</u>	<u>92,377</u>
Total liabilities and fund balances ...	<u>\$ 159,810</u>	<u>\$ ...</u>	<u>\$ 23,381</u>	<u>\$ 12,090</u>	<u>\$195,281</u>
<b>Reconciliation to the Statement of Net Assets:</b>					
Total fund balances .....					\$ 92,377
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:					
Land and buildings .....					352,757
Accumulated depreciation .....					(5,555)
Revenues were not collected in the current period and are not reported in the funds .....					2,259
Federal grant program revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds .....					3,895
Accounts payable were not paid in the current period and are not reported in the funds ...					(3,443)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:					
Loans payable .....					(286,098)
Accrued vacation .....					(1,213)
Net assets of governmental activities as reported on the Statement of Net Assets .....					<u>\$154,979</u>

The accompanying notes are an integral part of the financial statements

HERITAGE ACADEMY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2012

	<u>General</u>	<u>Food Service</u>	<u>Title II-A Teacher Quality</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental</u>
<b>REVENUE:</b>					
Interest on investments .....	\$ 346	\$ ...	\$ ...	\$ 100	\$ 446
Other local revenue .....	2,654	...	...	...	2,654
Federal assistance .....	...	37,636	26,473	117,704	181,813
State assistance .....	635,409	...	...	4,425	639,834
Sale of lunches .....	...	14,125	...	...	14,125
Total revenue .....	<u>638,409</u>	<u>51,761</u>	<u>26,473</u>	<u>122,229</u>	<u>838,872</u>
<b>EXPENDITURES:</b>					
Current:					
Instruction - salaries and benefits ..	316,543	...	...	37,061	353,604
Instruction - other .....	6,061	...	26,473	83,618	116,152
Support services .....	209,067	...	...	5,657	214,724
Maintenance and operations .....	72,890	...	...	...	72,890
Transportation .....	91,553	...	...	...	91,553
Non-instruction .....	...	59,635	...	...	59,635
Capital outlay .....	2,757	...	...	...	2,757
Debt service:					
Bond principal retirement .....	63,902	...	...	...	63,902
Bond interest charges and fees .....	20,598	...	...	...	20,598
Total expenditures .....	<u>783,371</u>	<u>59,635</u>	<u>26,473</u>	<u>126,336</u>	<u>995,815</u>
<b>EXCESS (DEFICIENCY) OF REVENUE</b>					
<b>OVER EXPENDITURES</b> .....	(144,962)	(7,874)	...	(4,107)	(156,943)
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers in .....	87,000	7,874	...	3,487	98,361
Operating transfers out .....	(11,361)	...	...	(87,000)	(98,361)
Total other financing sources (uses) .....	<u>75,639</u>	<u>7,874</u>	<u>...</u>	<u>(83,513)</u>	<u>...</u>
<b>EXCESS (DEFICIENCY) OF REVENUE AND</b>					
<b>OTHER FINANCING SOURCES OVER</b>					
<b>EXPENDITURES AND OTHER</b>					
<b>FINANCING USES</b> .....					
	(69,323)	...	...	(87,620)	(156,943)
FUND BALANCE JULY 1, 2011 .....	163,108	...	...	86,212	249,320
FUND BALANCE JUNE 30, 2012 .....	<u>\$ 93,785</u>	<u>\$ ...</u>	<u>\$ ...</u>	<u>\$ (1,408)</u>	<u>\$ 92,377</u>

Reconciliation to the Statement of Activities:

Total net change in fund balances .....	\$ (156,943)
Repayment of bond principal is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets .....	63,902
Governmental funds report the acquisition or construction of capital assets as expenditures, while governmental activities report depreciation expense to allocate the cost of these assets over their estimated useful life. Donated assets are set up at fair value with a corresponding amount of revenue recognized. In the current period, these amounts are:	
Capital outlay .....	2,757
Depreciation expense .....	(5,555)
Revenues and expenditures in the statement of activities that do not provide or use current financial resources are not reported as revenues or expenditures in the funds .....	(2,397)
Because some Federal grant revenues will not be collected for several months after the Academy's fiscal year ends, they are not considered "available" revenues in the governmental funds. Deferred tax revenues increased by this amount this year .....	3,895
Changes in Net Assets of Governmental Activities as reported on the Statement of Activities .....	<u>\$ (94,341)</u>

The accompanying notes are an integral part of the financial statements



**HERITAGE ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A) Basis of Presentation**

The financial statements of Heritage Academy (Academy) are presented in conformity with accounting principles generally accepted in the United States of America for governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative sources. GASB is responsible for establishing GAAP for state and local governments through its pronouncements and those of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements.

**B) Financial Reporting Entity**

Heritage Academy is a charter school located in Jerome in the southern portion of Idaho. The Academy provides public education to grade-school age children in the community. Operations of the Academy are the responsibility of a Board of Trustees. The Academy does not exercise sufficient control over any other governmental agencies or authorities to warrant including them as component units.

**C) Government-wide and Fund Financial Statements**

The Academy's financial statements include the activities of the Academy. The Academy's *government-wide financial statements* provide both short-term and long-term information about the Academy's overall financial status. *Fund financial statements* focus on the individual activities of Academy government, reporting the Academy's operations in more detail than the government-wide financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Academy's finances, in a manner similar to a private-sector business. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting.

The statement of net assets presents information on all of the Academy's assets and liabilities, with the difference between the two presented as net assets (deficit). Net assets are reported as one of three categories: invested in capital assets, net of related debt; restricted; or unrestricted. Restricted net assets are further classified as either net assets restricted by enabling legislation or net assets that are otherwise restricted.

The statement of activities presents information showing how the net assets (deficit) changed during the most recent fiscal year. All changes in net assets (deficit) are reported as soon as the underlying event gives rise to the change that occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Amounts reported as program revenues on the government-wide financial statements include (a) charges for services - amounts received from customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by the Academy, (b) program-specific operating grants and contributions, and (c) program-specific capital grants and contributions. General revenues consist of taxes and all other revenues that do not meet the definition of program revenues. Special items are significant transactions or events within the control of management that are either unusual in nature or infrequent in occurrence.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**Fund financial statements.** The Academy, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Academy's funds are reported in governmental funds. The Academy has no proprietary funds or fiduciary funds.

**HERITAGE ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

*Governmental funds.* Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements use a current financial resources measurement focus and the modified accrual basis of accounting, focusing on the near-term inflows and outflows of spendable resources, and balances of spendable resources available at fiscal year end.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collected within the current period or expected to be collected soon enough thereafter (usually 60 days) to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt, which is recognized when the obligations are expected to be liquidated with expendable available financial resources. Receipts become measurable and available when the cash is received by the government and are recognized as revenue at that time.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Academy maintains eight individual governmental funds. Information is presented separately for the following major funds:

*General Fund* - The General Fund is the Academy's primary operating fund, and accounts for all financial transactions except those required to be accounted for in another fund.

*Food Service Fund* - The Food Service Fund accounts for the accumulation of financial resources to be used for providing food to school children.

*Title II-A Teacher Quality* - The Title II-A Teacher Quality Fund accounts for financial resources to be used to increase student academic achievement through such strategies as improving teacher and principal quality and increasing the number of highly qualified teachers in the classroom.

Data from the other five governmental funds (non-major funds) are combined into a single, aggregated presentation identified as "Nonmajor Governmental."

The Academy adopts annual appropriated budgets for the General Fund and a combined budget for all other funds. Budgetary comparison schedules have been provided for the General Fund only as the budget for all other funds is a combined total.

When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first, then unrestricted resources as they are needed.

**D) Assets, Liabilities, and Net Assets/Fund Balances**

1. **Cash and Investments**

Idaho State statute authorizes the Academy to invest in a number of types of investments, including obligations of the U.S. Treasury, the State of Idaho or county, city or other taxing districts of the State of Idaho, commercial paper, corporate bonds, and repurchase agreements. Current Academy investments are limited to depository accounts.

2. **Inventories**

The Academy does not capitalize and reflect as inventory, expendable supplies on hand at fiscal year end. Materials and supplies are recorded as expenses of the period.

**HERITAGE ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

3. Capital Assets

Capital assets, which include property, plant, equipment, and land are reported in the government-wide financial statements. Assets are capitalized when they have a unit cost of \$4,000 or more.

Purchased or constructed capital assets are valued at cost or estimated historical cost if actual historical cost is not practicably determinable. Donated capital assets are recorded at their fair value at the time received.

Exhaustible capital assets are depreciated on the straight-line method over the asset's useful life. Depreciation expense is recorded in the government-wide financial statements. There is no depreciation recorded for land, construction in process, or other capital assets defined as inexhaustible. The Academy uses the guidance provided by the Association of School Business Officials to determine asset lives.

4. Long-term Debt Obligations

In the government-wide financial statements long-term debt is reported as a liability. Issuance costs are deferred and amortized using the effective interest rate method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and other financing uses, respectively.

5. Compensated Absences

The Academy accrues accumulated unpaid vacation, personal leave days, and associated employer-related costs when earned by the employee. Upon termination, employees are paid full value for any accrued vacation or personal leave days earned. Vacation and personal leave days that are expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability. Vacation and personal leave days that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

6. Deferred Revenue

In the government-wide statements deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. In the governmental fund statements revenues are also deferred for amounts that are unearned or unavailable.

E) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F) Interfund Transactions

Interfund transactions are reflected as either loans or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds." Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

G) Subsequent Events

Management has evaluated subsequent events through October 3, 2012, the date on which financial statements were available to be issued.

**HERITAGE ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 2 - CASH AND INVESTMENTS**

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Academy does not have a formal policy for custodial credit risk for deposits. At June 30, 2012, the carrying amount of the Academy's deposits with financial institutions (after considering outstanding and other reconciling items) was \$97,917 and the bank balance was \$108,643. Of the bank balance, the entire amount was covered by federal depository insurance.

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Governmental Activities:				
Land .....	\$ ...	\$ 75,000	\$ ...	\$ 75,000
Buildings and Improvements .....	...	277,757	...	277,757
Equipment .....	...	...	...	...
Totals at historical cost .....	<u>...</u>	<u>352,757</u>	<u>...</u>	<u>352,757</u>
Less accumulated depreciation for:				
Buildings and Improvements ...	...	5,555	...	5,555
Equipment .....	...	...	...	...
Total accumulated depreciation .....	<u>...</u>	<u>5,555</u>	<u>...</u>	<u>5,555</u>
Governmental activities capital assets, net .....	<u>\$ ...</u>	<u>\$ 347,202</u>	<u>\$ ...</u>	<u>\$ 347,202</u>

Depreciation expense of \$5,555 was charged to the general government and was not allocated to individual programs or activities.

**NOTE 4 - LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Governmental Activities					
Loan Payable-Land Title & Escrow .....	\$ ...	\$ 350,000	\$ 63,902	\$ 286,098	\$ 55,952
Future compensated absences .....	...	1,213	...	1,213	1,213
	<u>\$ ...</u>	<u>\$ 351,213</u>	<u>\$ 63,902</u>	<u>\$ 287,311</u>	<u>\$ 57,165</u>

The total interest incurred for the year ended June 30, 2012, was \$20,598 and was charged to expense.

**Loan Payable - Land, Title & Escrow:**

On July 8, 2011, the Board approved the purchase of the school building for a total of \$350,000. The note is secured by the building and carries an interest rate of 6.5%. Payments are \$6,500 each month with a maturity date of July 1, 2013, at which time all outstanding principal and interest shall be due in full.

**Future Compensated Absences:**

A liability of \$1,213 has been accrued for employee rights to receive compensation for future absences.

Principal and interest payments due on the bonds in future fiscal years are as follows:

<u>Fiscal Year Ended</u>	<u>Interest Due</u>	<u>Principal Due</u>	<u>Total Payment Due</u>
June 30, 2013	\$ 15,548	\$ 57,165	\$ 72,713
June 30, 2014	<u>1,247</u>	<u>230,146</u>	<u>231,393</u>
	<u>\$ 16,795</u>	<u>\$ 287,311</u>	<u>\$ 304,106</u>

**HERITAGE ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 5 - DEFICIT FUND BALANCE**

Funds reporting a deficit fund balance, fund equity, or net assets position at June 30, 2012, are:

Nonmajor Governmental Funds:		
Title I-A Basic		\$ 400
Title VI-B IDEA Special Education		3,495

**NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

At June 30, 2012, the composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Title II-A Teacher Quality	\$ 22,661
	Title I-A Basic	4,708
	Title VI-B IDEA Special Education	169
		<u>\$ 27,538</u>

The balances due resulted from loans made to cover operating cash deficits.

During the year ended June 30, 2012, the following amounts were transferred:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Albertson Grant	\$ 688	Reimburse expense paid out of the Albertson Grant for the General Fund
General Fund	Charter Schools	2,799	To bring negative cash balance in Charter Schools to zero
General Fund	Food Service	7,874	Required by State law to cover FICA taxes
Albertson Grant	General Fund	87,000	To fund General Fund expenses

**NOTE 7 - PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO**

The Public Employee Retirement System of Idaho (PERSI), a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and employer contribute. The plan provides benefits based on members' years of service, age and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. The authority to establish and amend benefit provisions is established in Idaho Code. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. After five years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each month of credited service, the annual service retirement allowance is 2.0% of the average monthly salary for the highest consecutive 42 months.

PERSI issues publicly available stand alone financial reports that include audited financial statements and required supplementary information. These reports may be obtained from PERSI's website [www.persi.idaho.gov](http://www.persi.idaho.gov).

The actuarially determined contribution requirements of Heritage Academy and its employees are established and may be amended by the PERSI Board of Trustees. For the year ended June 30, 2012, the required contribution rate as a percentage of covered payrolls for members was 6.23% for general members. The employer rate as a percentage of covered payroll was 10.39% for general members. Heritage Academy employer contributions required and paid were \$38,127 for the year ended June 30, 2012.

**NOTE 8 - RISK FROM LOSSES/CONTINGENT LIABILITIES**

The Academy purchases commercial insurance to protect assets from losses from worker's compensation claims, fire and casualty, and general liability.

**HERITAGE ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by a grantor cannot be determined at this time, although the Academy expects such amounts, if any, to be immaterial.

**Note 9 - FUND BALANCE**

In accordance with GASB Statement No. 54, fund balances are classified as follows:

- *Nonspendable* - This classification includes amounts that cannot be spent because they are either (a) not in a spendable form or (b) are legally or contractually required to be maintained intact.
- *Restricted* - This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Federal grant programs require that funds received be used only for those specific programs and are therefore classified as restricted.
- *Committed* - This classification includes amounts that can be spent only for specific purposes pursuant to constraints imposed by formal action of the Academy Board. These amounts cannot be used for any other purpose unless the Academy's Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed.
- *Assigned* - This classification includes amounts that are constrained by the Academy's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Academy's Board or Administrator.
- *Unassigned* - This classification includes the residual fund balance in the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Academy considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Academy considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Academy Board has provided otherwise in its commitment or assignment actions.

HERITAGE ACADEMY  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	Amounts	With Final
			Budget	Budget
			<u>Basis</u>	Over
				(Under)
<u>REVENUE:</u>				
Interest on investments .....	\$ ...	\$ ...	\$ 346	\$ 346
Other local revenue .....	150,000	150,000	2,654	(147,346)
State assistance .....	629,466	629,466	635,409	5,943
Other .....	500	500	...	(500)
Total revenue .....	<u>779,966</u>	<u>779,966</u>	<u>638,409</u>	<u>(141,557)</u>
<u>EXPENDITURES:</u>				
Instruction - salaries and benefits .....	477,599	477,599	316,543	(161,056)
Instruction - other .....	33,500	33,500	6,061	(27,439)
Support services .....	30,000	30,000	209,067	179,067
Maintenance and operations .....	77,580	77,580	72,890	(4,690)
Transportation .....	54,000	54,000	91,553	37,553
Contingency reserve .....	18,848	18,848	...	(18,848)
Capital outlay .....	...	...	2,757	2,757
Debt service .....	71,500	71,500	84,500	13,000
Total expenditures .....	<u>763,027</u>	<u>763,027</u>	<u>783,371</u>	<u>20,344</u>
<u>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</u> .....	16,939	16,939	(144,962)	(161,901)
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating transfers in .....	...	...	87,000	87,000
Operating transfers out .....	...	...	(11,361)	(11,361)
<u>EXCESS (DEFICIENCY) OF REVENUE AND OTHER</u>				
<u>FINANCING SOURCES OVER EXPENDITURES AND</u>				
<u>OTHER FINANCING USES</u> .....	<u>\$ 16,939</u>	<u>\$ 16,939</u>	<u>\$ (69,323)</u>	<u>\$ (86,262)</u>

HERITAGE ACADEMY  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2012

**NOTE 1 - BUDGETARY INFORMATION**

**A) Budgetary-GAAP Reporting Reconciliation**

The accompanying Budgetary Comparison Schedules compare the legally adopted budget with actual data on a budgetary basis. Accounting principles applied for purposes of developing data on the budgetary basis do not differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP).

**B) Budgetary Policies**

Heritage Academy prepares an annual budget of revenue and expenditures prior to the beginning of the fiscal year. The budget is prepared on the modified accrual basis of accounting. Budget figures are based on prior levels of revenue and expenditures taking into account specific items which may be planned in advance by the Academy such as capital outlay expenditures. Any excess of budgeted expenditures over budgeted revenue are temporary situations and are budgeted so as to utilize cash balances in the individual fund.

**C) Excess of Expenditures over Revenues**

The General Fund had an excess of expenditures over revenues for the year ended June 30, 2012.

**D) Title II-A Teacher Quality Budgetary Comparison Schedule Not Presented**

No Budgetary Comparison Schedule is presented for the Title II-A Teacher Quality Fund as no individual budget for this fund was legally adopted.



HERITAGE ACADEMY  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012

Special Revenue Funds

	Albertson Grant	Technology Fund	Title I-A Basic	Title VI-B IDEA Special Education	Charter Schools	Total
<b>ASSETS:</b>						
Cash on hand and in bank .....	\$ ...	\$ 2,487	\$ ...	\$ ...	\$ ...	\$ 2,487
Due from other funds .....	...	...	...	...	...	...
Other receivables .....	...	...	6,108	3,495	...	9,603
Total assets .....	<u>\$ ...</u>	<u>\$ 2,487</u>	<u>\$ 6,108</u>	<u>\$ 3,495</u>	<u>\$ ...</u>	<u>\$ 12,090</u>
<b>LIABILITIES:</b>						
Accounts payable:						
Due to other funds .....	\$ ...	\$ ...	\$ 4,708	\$ 169	\$ ...	\$ 4,877
Salaries and benefits payable .....	...	...	1,400	3,326	...	4,726
Deferred revenue .....	...	...	400	3,495	...	3,895
Total liabilities .....	<u>...</u>	<u>...</u>	<u>6,508</u>	<u>6,990</u>	<u>...</u>	<u>13,498</u>
<b>FUND EQUITY:</b>						
Fund balance .....	...	2,487	(400)	(3,495)	...	(1,408)
Total equity .....	<u>...</u>	<u>2,487</u>	<u>(400)</u>	<u>(3,495)</u>	<u>...</u>	<u>(1,408)</u>
Total liabilities and fund equity .....	<u>\$ ...</u>	<u>\$ 2,487</u>	<u>\$ 6,108</u>	<u>\$ 3,495</u>	<u>\$ ...</u>	<u>\$ 12,090</u>

HERITAGE ACADEMY  
COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2012

	Special Revenue Funds					
	Albertson	Technology	Title I-A	Title VI-B IDEA Special Education	Charter Schools	Total
<u>REVENUE:</u>	<u>Grant</u>	<u>Fund</u>	<u>Basic</u>	<u>Education</u>	<u>Schools</u>	<u>Total</u>
Federal assistance .....	\$ ...	\$ ...	\$26,383	\$17,089	\$ 74,232	\$117,704
State assistance .....	...	4,425	...	...	...	4,425
Other local revenue .....	100	...	...	...	...	100
Total revenue .....	100	4,425	26,383	17,089	74,232	122,229
<u>EXPENDITURES:</u>						
Instruction - salaries and benefits .....	...	...	19,566	17,495	...	37,061
Instruction - other .....	...	1,938	7,217	3,089	71,374	83,618
Support services .....	...	...	...	...	5,657	5,657
Total expenditures .....	...	1,938	26,783	20,584	77,031	126,336
<u>EXCESS (DEFICIENCY) OF REVENUE</u>						
<u>OVER EXPENDITURES</u> .....	100	2,487	(400)	(3,495)	(2,799)	(4,107)
<u>OTHER FINANCING SOURCES (USES):</u>						
Transfers in .....	688	...	...	...	2,799	3,487
Transfers out .....	(87,000)	...	...	...	...	(87,000)
Total other financing sources (uses) .....	(86,312)	...	...	...	2,799	(83,513)
<u>EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</u> .....	(86,212)	2,487	(400)	(3,495)	...	(87,620)
<u>FUND BALANCE, JULY 1, 2011:</u>						
As originally reported .....	86,212	...	...	...	...	86,212
Adjustment to correct error in prior year .....	...	...	...	...	...	...
As corrected .....	86,212	...	...	...	...	86,212
<u>FUND BALANCE JUNE 30, 2012</u> .....	\$ ...	\$ 2,487	\$ (400)	\$ (3,495)	\$ ...	\$ (1,408)

HERITAGE ACADEMY  
SCHEDULE OF APPORTIONMENT - FOUNDATION PROGRAM  
YEAR ENDED JUNE 30, 2012

Balance June 30, 2011 .....	\$	...
2011-12 Program .....		635,042
2011-12 Receipts .....		<u>(599,681)</u>
Balance June 30, 2012 .....		<u>\$ 35,361</u>

COMPARATIVE STATE APPORTIONMENT DATA

Fiscal		
<u>Year</u>		
2012 .....	\$	635,042

HERITAGE ACADEMY  
SCHEDULE OF GENERAL REVENUES BY SOURCE

<u>Year Ended June 30:</u>	<u>State Foundation Program</u>	<u>Other State Assistance</u>	<u>Federal Assistance</u>	<u>Interest on Investments</u>	<u>Sale of Lunches</u>	<u>Other</u>
2012 .....	\$ 635,042	\$ 4,792	\$ 181,813	\$ 346	\$ 14,125	\$ 2,754

HERITAGE ACADEMY  
SCHEDULE OF GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION

<u>Year Ended June 30:</u>	<u>Instruction</u>	<u>Support Services</u>	<u>Non- Instructional Services</u>	<u>Debt Service &amp; Retirement</u>	<u>Other Capital Outlay</u>
2012 .....	\$ 469,756	\$ 214,724	\$ 226,835	\$ 84,500	\$ ...

# Rexroat, Harberd & Assoc., P.A.

## Certified Public Accountants

P.O. Box 7 - 125 North Buchanan - Jerome, Idaho 83338  
Telephone 208-324-2391 Fax 208-324-8266

October 9, 2012

Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards

Board of Trustees  
Heritage Academy  
Jerome, Idaho 83338

We have audited the accompanying financial statements of the governmental activities and each major fund of the Heritage Academy as of and for the year ended June 30, 2012, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as noted in the next paragraph, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider Heritage Academy's lack of ability to prepare financial statements in conformity with generally accepted accounting principles to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We noted no significant deficiencies.

The Agency's response to the findings identified in our audit is described below.

*Response of Heritage Academy:* "We are hiring the auditor to assist us in preparing the financial statements as we do not have the expertise to do this ourselves. We consider this to be the best solution to our situation and, though we acknowledge that technically we have a material weakness in our internal control over financial reporting, we do not intend on making any changes at this time."

*Auditor Evaluation of the Response of Heritage Academy:* The response of Heritage Academy is consistent with the report's findings and conclusions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Academy's response to the findings identified in our audit are described above. We did not audit the response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and the Idaho Legislative Services Office and is not intended to be and should not be used by anyone other than these specified parties.

*Remoat, Harberd & Assoc., P.A.*