

HERITAGE ACADEMY

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

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October 1, 2013

Independent Auditors' Report

Board of Trustees
Heritage Academy
Jerome, Idaho 83338

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise Heritage Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 14 and 15 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.

Other 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 1, 2013, 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* in considering Heritage Academy's internal control over financial reporting and compliance.

Reinwat, Harberd & Assoc., P.A.

HERITAGE ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Total</u> <u>Governmental</u>
<u>ASSETS:</u>	
Pooled cash, cash equivalents and investments	\$ 45,428
Accounts receivable:	
State of Idaho:	
Foundation programs apportionment:	
Base support program	31,771
Federal grants	17,234
Utility deposits	105
Prepaid expenses	1,411
Restricted cash, cash equivalents and investments	2,500
Capital assets:	
Land	75,000
Other capital assets, less accumulated depreciation	266,647
Total assets	440,096
 <u>LIABILITIES:</u>	
Accounts payable	6,259
Salaries and benefits payable	63,240
Long-term liabilities:	
Current portion	42,628
Noncurrent portion	188,051
Total liabilities	300,178
 <u>NET POSITION:</u>	
Net investment in capital assets	116,977
Restricted for playground equipment	2,500
Unrestricted	20,441
Total net position	\$ 139,918

The accompanying notes are an integral part of the financial statements

HERITAGE ACADEMY
STATEMENT OF ACTIVITIES
JUNE 30, 2013

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	
<u>Functions/Programs:</u>				
<u>Governmental Activities:</u>				
Instruction and instruction-related services	\$ 571,243	\$ 5,915	\$ 104,030	\$ (461,298)
Support services	172,536	17,809	-	(154,727)
Maintenance and operations	41,115	-	-	(41,115)
Transportation	79,972	-	-	(79,972)
Food services	54,801	8,989	41,643	(4,169)
Capital outlay	-	-	-	-
Interest on long-term debt - unallocated	16,596	-	-	(16,596)
Depreciation - unallocated*	5,555	-	-	(5,555)
Total governmental activities	\$ 941,818	\$ 32,713	\$ 145,673	(763,432)
 General Revenues:				
State aid not restricted to a specific purpose				745,104
Unrestricted investment earnings				236
Other local revenue				-
Total general revenues and special items				745,340
Change in net position				(18,092)
Net position-beginning of year				154,979
Prior period adjustment				3,031
Net position-end of year				\$ 139,918

* 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, 2013

	General <u>Fund</u>	Food Service <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>ASSETS:</u>				
Pooled cash and cash equivalents	\$ 42,366	\$ -	\$ 3,062	\$ 45,428
Accounts receivable:				
State of Idaho:				
Foundation programs apportionment:				
Base support program	31,771	-	-	31,771
Federal grants	1,242	995	14,997	17,234
Due from other funds	9,969	-	-	9,969
Utility deposits	105	-	-	105
Prepaid expenses	-	-	1,411	1,411
Restricted cash and cash equivalents	2,500	-	-	2,500
<u>TOTAL ASSETS</u>	\$ 87,953	\$ 995	\$ 19,470	\$ 108,418
<u>LIABILITIES:</u>				
Accounts payable	\$ 5,260	\$ 37	\$ 962	\$ 6,259
Salaries and benefits payable	59,130	-	4,110	63,240
Due to other funds	-	3,430	6,539	9,969
<u>TOTAL LIABILITIES</u>	64,390	3,467	11,611	79,468
<u>DEFERRED INFLOWS OF RESOURCES:</u>				
Unavailable revenue - Federal grants	-	-	3,133	3,133
<u>TOTAL DEFERRED INFLOWS OF RESOURCES</u>	-	-	3,133	3,133
<u>FUND BALANCES:</u>				
Nonspendable:				
Utility deposits and prepaid expenses	105	-	1,411	1,516
Restricted for:				
State Programs	-	-	2,117	2,117
Federal Programs	-	(2,472)	1,198	(1,274)
Playground Equipment	2,500	-	-	2,500
Assigned for:				
SEM expenses	205	-	-	205
Unassigned	20,753	-	-	20,753
<u>TOTAL FUND BALANCES</u>	23,563	(2,472)	4,726	25,817
<u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>	\$ 87,953	\$ 995	\$ 19,470	\$ 108,418

Reconciliation to the Statement of Net Position:

Total Fund Balances - Governmental Funds	\$ 25,817
Amounts reported for governmental activities in the statement of net position are different because:	
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	(11,110)
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 outflows of resources in the funds	3,133
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	(224,670)
Accrued vacation	(6,009)
Total Net Position - Governmental Activities	\$ 139,918

The accompanying notes are an integral part of the financial statements

HERITAGE ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Food Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUE:				
Interest on investments	\$ 236	\$ -	\$ -	\$ 236
Federal assistance	17,809	36,155	89,387	143,351
State assistance	745,104	-	10,083	755,187
Contributions	7,581	5,488	-	13,069
Other local revenue	5,915	-	2,486	8,401
Sale of lunches	-	8,989	-	8,989
Total revenue	776,645	50,632	101,956	929,233
EXPENDITURES:				
Current:				
Instruction - salaries and benefits	451,324	-	56,663	507,987
Instruction - other	22,485	-	39,397	61,882
Support services	175,043	-	-	175,043
Maintenance and operations	41,115	-	-	41,115
Transportation	79,972	-	-	79,972
Non-instruction	-	54,801	-	54,801
Capital outlay	-	-	-	-
Debt service:				
Bond principal retirement	61,428	-	-	61,428
Bond interest charges and fees	16,596	-	-	16,596
Total expenditures	847,963	54,801	96,060	998,824
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(71,318)	(4,169)	5,896	(69,591)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	1,697	169	1,866
Operating transfers out	(1,866)	-	-	(1,866)
Total other financing sources (uses)	(1,866)	1,697	169	-
EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(73,184)	(2,472)	6,065	(69,591)
FUND BALANCE JULY 1, 2012	96,747	-	(1,339)	95,408
FUND BALANCE JUNE 30, 2013	\$ 23,563	\$ (2,472)	\$ 4,726	\$ 25,817

Reconciliation to the Statement of Activities:

Total net changes in fund balances - governmental funds	\$ (69,591)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Repayment of bond principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Position	61,428
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. Donated assets are set up at fair value with a corresponding amount of revenue recognized. In the current period, these amounts are:	
Capital outlay	-
Depreciation expense	(5,555)
Some Federal grant revenues will not be collected for several months after the Academy's fiscal year ends, they do not provide current financial resources and are not reported as revenues in the governmental funds	3,133
Revenues reported in the governmental funds were reported as revenue in the Statement of Activities in the prior year under full accrual	(6,154)
Expenditures reported in the governmental funds were reported as expense in the State of Activities in the prior year under full accrual	3,443
Expenses in the Statement of Activities that do not require the use of current financial resources are not reported in the governmental funds:	
Compensated absences	(4,796)
Change in net position of governmental activities	\$ (18,092)

The accompanying notes are an integral part of the financial statements

HERITAGE ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Heritage Academy (Academy) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting financial reporting principles. The Academy's significant accounting policies are described below.

A) Reporting Entity

Heritage Academy is a charter school organized under the laws of the State of Idaho and is 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.

B) 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 position presents information on all of the Academy's assets and liabilities, with the difference between the two presented as net position. Net position is reported as one of three categories: net investment in capital assets; restricted; or unrestricted. Restricted net position is further classified as either restricted by enabling legislation or otherwise restricted.

The statement of activities presents information showing how net position changed during the most recent fiscal year. All changes in net position 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 Federal grants 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 inter-fund 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, 2013

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 seven 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.

Data from the other five governmental funds (nonmajor 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.

C) Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/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.

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.

HERITAGE ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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 Outflows/Inflows of Resources

In addition to assets, the statement of financial position and the balance sheet may include a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Academy has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position and the balance sheet may include a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Academy does not have any of this type of item on the statement of financial position but it does on the balance sheet. Federal grant program revenues which are unavailable (will not be collected soon enough after year-end to pay for the current year's expenditures) are shown as deferred inflows of resources on the balance sheet.

D) 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.

E) 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.

HERITAGE ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

F) Subsequent Events

Management has evaluated subsequent events through October 1, 2013, the date on which financial statements were available to be issued.

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2013, the balance of deposits and investments is as follows:

Pooled cash, cash equivalents and investments:	
Deposits in financial bank institutions	\$ 47,863
Cash on hand	65
	<u>\$ 47,928</u>

A reconciliation of this cash to the basic financial statement is as follows:

Pooled cash, cash equivalents and investments per the Statement of Net Position	\$ 45,428
Restricted cash, cash equivalents and investments per the Statement of Net Position	2,500
	<u>\$ 47,928</u>

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, 2013, the carrying amount of the Academy's deposits with financial institutions (after considering outstanding and other reconciling items) was \$47,928 and the bank balance was \$54,750. Of the bank balance, the entire amount was covered by federal depository insurance.

An outside party donated money and restricted the use to purchasing playground equipment. This cash is shown as restricted.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Governmental Activities:				
Land	\$ 75,000	\$...	\$...	\$ 75,000
Buildings and Improvements	277,757	...	...	277,757
Equipment .....	...	...	...	...
Totals at historical cost	<u>352,757</u>	<u>...</u>	<u>...</u>	<u>352,757</u>
Less accumulated depreciation for:				
Buildings and Improvements ...	5,555	5,555	...	11,110
Equipment .....	...	...	...	...
Total accumulated depreciation	<u>5,555</u>	<u>5,555</u>	<u>...</u>	<u>11,110</u>
Governmental activities capital assets, net	<u>\$ 347,202</u>	<u>\$ (5,555)</u>	<u>\$...</u>	<u>\$ 341,647</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, 2013, was as follows:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Governmental Activities					
Loan Payable-Magic Valley					
Christian School	\$ 286,098	\$...	\$ 61,428	\$ 224,670	\$ 36,619
Future compensated absences	1,213	6,009	1,213	6,009	6,009
	<u>\$ 287,311</u>	<u>\$ 6,009</u>	<u>\$ 62,641</u>	<u>\$ 230,679</u>	<u>\$ 42,628</u>

HERITAGE ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

The total interest incurred for the year ended June 30, 2013, was \$16,596 and was charged to expense.

Loan Payable - Magic Valley Christian School:

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 were \$6,500 each month with a maturity date of July 1, 2013, at which time all outstanding principal and interest was due in full. On July 26, 2013, an agreement was reached with the seller to extend the due date of the loan. Beginning July 1, 2013, payments will be \$4,300 each month for twelve months and then will be \$2,800 each month for the next twelve months. The maturity date will be July 1, 2015, at which time all outstanding principal and interest will be due in full.

Future Compensated Absences:

A liability of \$6,009 has been accrued for employee rights to receive compensation for future absences.

Principal and interest payments due 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, 2014	\$ 13,481	\$ 42,628	\$ 56,109
June 30, 2015	10,665	20,135	30,800
June 30, 2016	910	167,916	168,826
	<u>\$ 25,056</u>	<u>\$ 230,679</u>	<u>\$ 255,735</u>

NOTE 5 - DEFICIT FUND BALANCE

Funds reporting a deficit fund balance, fund equity, or net assets position at June 30, 2013, are:

Major Funds:	
Food Service	\$ 2,472
Nonmajor Governmental Funds:	
Title VI-B IDEA Special Education	1,603
Title II-A Teacher Quality	1,444

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2013, the composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Title I-A Basic	\$ 1,083
	Title VI-B IDEA Special Education	3,268
	Title II-A Teacher Quality	2,188
	Food Service	3,430
		<u>\$ 9,969</u>

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

During the year ended June 30, 2013, the following amounts were transferred:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Title VI-B IDEA Special Education	\$ 169	To cover expenses in excess of revenues in the prior year
General Fund	Food Service	1,697	Required by State law to cover FICA taxes

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

HERITAGE ACADEMY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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.

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, 2013, 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 \$48,247 and \$38,127 for the two years ended June 30, 2013 and 2012, respectively.

NOTE 8 - RISK FROM LOSSES/CONTINGENT LIABILITIES

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, students and guests; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant change in insurance coverage from the previous fiscal year. Settled claims have not exceeded commercial insurance coverage in any of the last two years.

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
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

Note 10 - PRIOR PERIOD ADJUSTMENT

During the current year, it was determined that certain prior year transactions were recorded incorrectly.

Health insurance expense was pre-paid for the following fiscal year, but expensed in the prior year. To correct this error, the beginning fund balance of the General Fund was increased by \$2,849 and beginning fund balance of the Title I-A Basic Fund was increased by \$69. In addition, beginning net position for governmental activities was increased by \$2,918.

Checks were voided in the current year that were expensed in the prior fiscal year. To correct this error, the beginning fund balance of the General Fund was increased by \$113. In addition, beginning net position for the governmental activities was increased by the same amount.

HERITAGE ACADEMY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		Actual	Variance
	<u>Original</u>	<u>Final</u>	Amounts	With Final
			Budgetary	Budget
				Over
				(Under)
<u>REVENUE:</u>				
Local revenue	\$ 5,150	\$ 5,150	\$ 13,732	\$ 8,582
Federal assistance	5,000	5,000	17,809	12,809
State assistance	708,896	708,896	745,104	36,208
Other	-	-	-	-
Total revenue	<u>719,046</u>	<u>719,046</u>	<u>776,645</u>	<u>57,599</u>
<u>EXPENDITURES:</u>				
Salaries	438,999	438,999	446,521	7,522
Benefits	160,552	160,552	123,767	(36,785)
Purchased services	126,658	126,658	169,874	43,216
Supplies & materials	15,000	15,000	22,383	7,383
Capital outlay	13,500	13,500	-	(13,500)
Debt retirement	80,000	80,000	78,024	(1,976)
Insurance & judgments	7,400	7,400	7,394	(6)
Total expenditures	<u>842,109</u>	<u>842,109</u>	<u>847,963</u>	<u>5,854</u>
<u>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</u>	<u>(123,063)</u>	<u>(123,063)</u>	<u>(71,318)</u>	<u>51,745</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	(1,866)	(1,866)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,866)</u>	<u>(1,866)</u>
<u>EXCESS (DEFICIENCY) OF REVENUE AND OTHER</u>				
<u>FINANCING SOURCES OVER EXPENDITURES AND</u>				
<u>OTHER FINANCING USES</u>	<u>\$ (123,063)</u>	<u>\$ (123,063)</u>	<u>\$ (73,184)</u>	<u>\$ 49,879</u>

HERITAGE ACADEMY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2013

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, 2013.

D) Food Service Fund Budgetary Comparison Schedule Not Presented

No budgetary Comparison Schedule is presented for the Food Service Fund as no budget for this fund was legally adopted.

HERITAGE ACADEMY
COMBINING BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2013

Special Revenue Funds						
		Title VI-B				
		IDEA			Title II-A	
		Special	Title III	Teacher		
<u>ASSETS:</u>	<u>Fund</u>	<u>Basic</u>	<u>Education</u>	<u>ESEA</u>	<u>Quality</u>	<u>Total</u>
Pooled cash and cash equivalents	\$ 3,059	\$ -	\$ -	\$ 3	\$ -	\$ 3,062
Other receivable	-	7,859	3,354	-	3,784	14,997
Prepaid expenses	-	1,411	-	-	-	1,411
	\$ 3,059	\$ 9,270	\$ 3,354	\$ 3	\$ 3,784	\$ 19,470
 <u>LIABILITIES:</u>						
Accounts payable	\$ 942	\$ 20	\$ -	\$ -	\$ -	\$ 962
Salaries and benefits payable	-	2,514	-	-	1,596	4,110
Due to other funds	-	1,083	3,268	-	2,188	6,539
	942	3,617	3,268	-	3,784	11,611
 <u>DEFERRED INFLOWS OF RESOURCES:</u>						
Unavailable revenue - Federal grants	-	-	1,689	-	1,444	3,133
	-	-	1,689	-	1,444	3,133
 <u>FUND BALANCES:</u>						
Nonspendable:						
Prepaid expenses	-	1,411	-	-	-	1,411
Restricted for:						
State Programs	2,117	-	-	-	-	2,117
Federal Programs	-	4,242	(1,603)	3	(1,444)	1,198
	2,117	5,653	(1,603)	3	(1,444)	4,726
<u>TOTAL FUND BALANCES</u>						
<u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>	\$ 3,059	\$ 9,270	\$ 3,354	\$ 3	\$ 3,784	\$ 19,470

HERITAGE ACADEMY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

	Special Revenue Funds					
	Title VI-B					
		IDEA			Title II-A	
	Technology	Title I-A	Special	Title III	Teacher	
<u>REVENUE:</u>	<u>Fund</u>	<u>Basic</u>	<u>Education</u>	<u>ESEA</u>	<u>Quality</u>	<u>Total</u>
Federal assistance	\$ -	\$ 39,241	\$ 19,926	\$ 453	\$ 29,767	\$ 89,387
State assistance	10,083	-	-	-	-	10,083
Other local revenue	-	2,458	-	-	28	2,486
Total revenue	10,083	41,699	19,926	453	29,795	101,956
<u>EXPENDITURES:</u>						
Instruction - salaries and benefits	-	28,544	16,561	-	11,558	56,663
Instruction - other	10,453	7,171	1,642	450	19,681	39,397
Support services	-	-	-	-	-	-
Total expenditures	10,453	35,715	18,203	450	31,239	96,060
<u>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</u>	(370)	5,984	1,723	3	(1,444)	5,896
<u>OTHER FINANCING SOURCES (USES):</u>						
Operating transfers in	-	-	169	-	-	169
Operating transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	169	-	-	169
<u>EXCESS (DEFICIENCY) OF REVENUE AND OTHER</u>						
<u>FINANCING SOURCES OVER EXPENDITURES AND</u>						
<u>OTHER FINANCING USES</u>	(370)	5,984	1,892	3	(1,444)	6,065
<u>FUND BALANCE JULY 1, 2012</u>	2,487	(331)	(3,495)	-	-	(1,339)
<u>FUND BALANCE JUNE 30, 2013</u>	\$ 2,117	\$ 5,653	\$ (1,603)	\$ 3	\$ (1,444)	\$ 4,726

HERITAGE ACADEMY
SCHEDULE OF APPORTIONMENT - FOUNDATION PROGRAM
YEAR ENDED JUNE 30, 2013

Balance June 30, 2012	\$	35,361
2012-13 Program		718,459
2012-13 Receipts		<u>(722,049)</u>
Balance June 30, 2013	\$	<u>31,771</u>

COMPARATIVE STATE APPORTIONMENT DATA

Fiscal		
<u>Year</u>		
2013	\$	718,459
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>
2013	\$ 718,459	\$36,728	\$ 143,351	\$ 226	\$ 8,989	\$21,470
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 & Retirement</u>	<u>Other Capital Outlay</u>
2013	\$ 572,184	\$ 172,659	\$ 174,958	\$ 78,024	\$...
2012	469,756	214,724	226,835	84,500	...

Rexroat, Harberd & Assoc., P.A.

Certified Public Accountants

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October 1, 2013

Independent Auditors' 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, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Heritage Academy (Academy) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 1, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as noted in the next paragraph, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses.

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.

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*.

Heritage Academy's Response to Findings

The Academy's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Heritage Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Reynold, Harberd & Assoc., P.A.

HERITAGE ACADEMY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013

Finding 2013-01:

Criteria - Heritage Academy is responsible for the preparation of the financial statements and the related notes in accordance with accounting principles generally accepted in the United States of America.

Condition - Heritage Academy does not have a person on staff with the expertise to prepare financial statements and related notes in accordance with accounting principles generally accepted in the United States of America.

Context - As the auditors, we have been retained to prepare the financial statements and related notes in accordance with accounting principles generally accepted in the United States of America.

Effect - A material weakness in internal control exists as the auditor cannot be a part of Heritage Academy's internal control.

Cause - Heritage Academy does not have the funds available to hire someone with the expertise to prepare the financial statements and related notes in accordance with accounting principles generally accepted in the United States of America.

Recommendation - Should funds become available in the future, the Academy should consider hiring a person with the expertise to prepare the financial statements and related notes in accordance with accounting principles generally accepted in the United States of America.

Views of Responsible Officials and Planned Corrective Actions - 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.

Finding 2013-02:

Criteria - The fund cash accounts for Heritage Academy should reflect the correct cash balance for each fund.

Condition - The fund cash account for the General Fund was over-reported by \$56,699 and the fund cash account for the Albertson Grant Fund was under-reported by \$56,699. Consequently, the Academy operated during most of the year with an incorrect cash balance in the General Fund which could have led to errors in decision making.

Context - As part of the audit procedures, there was a review of the detail general ledger. It was noted that the Albertson Grant Fund cash balance had a negative balance and had no current year transactions in the fund.

Effect - A material weakness in internal control exists as this deficiency in internal control could result in a reasonable possibility that a material misstatement of the Academy's financial statements could occur and not be prevented, or detected and corrected, on a timely basis.

Cause - A journal entry to reclass the balance of cash out of the Albertson Grant Fund to the General Fund was made in November 2012 that had already been entered in the prior year.

Recommendation - There should be a monthly review of the cash balances in each fund to determine if they are accurate.

Views of Responsible Officials and Planned Corrective Actions -

The Business Manager will do a monthly review of the cash balances in each fund to determine if they are accurate. The Board Treasurer will also do a monthly review of cash balances.

HERITAGE ACADEMY
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013

Finding 2013-03:

Criteria - The money Heritage Academy receives as reimbursement from Federal grants should be full reimbursement for expenditures incurred and allowed by the grants.

Condition - The Title I-A Basic Fund received duplicate reimbursements of \$5,402 which results in the Academy having to pay out that amount in expenditures in the next fiscal year with no reimbursement. The Title VI-B IDEA Special Education Fund had \$1,689 of expenditures for which no reimbursement was requested which results in that amount being requested and reimbursed in the next fiscal year. The Title II-A teacher Quality had \$2,298 of expenditures which exceeded the grant amount allowed which resulted in this amount being paid for by the General Fund for which no reimbursement will be made.

Context - As part of the audit procedures, a review of the Federal grants was made to determine if expenditures were allowable under the grant and if the amount requested and received tied to the total expenditures.

Effect - A material weakness in internal control exists as this deficiency in internal control could result in a reasonable possibility that a material misstatement of the Academy's financial statements could occur and not be prevented, or detected and corrected, on a timely basis.

Cause - The Academy had no effective internal control in place to ensure that Federal grant funds being requested were not being missed and were not being requested more than once for the same expenditures.

Recommendation - A spreadsheet should be utilized which lists Federal grant expenditures for each fund by month that matches the general ledger totals. This spreadsheet should also track reimbursements received for each grant which should also be matched to the total expenditures incurred.

Views of Responsible Officials and Planned Corrective Actions -

The Business Manager has prepared a spreadsheet to track Federal grant reimbursements and expenditures. The general ledger will be used to track expenditures and match them to reimbursement totals from the State Controller's Office and the Federal Grand Reimbursements reports.