

HERITAGE ACADEMY, INC.

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

TABLE OF CONTENTS

| | |
|--|-------|
| Independent Auditor's Report | 1-2 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 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 | 7-15 |
| Required Supplementary Information: | |
| Budgetary Comparison Schedule: | |
| General Fund | 16 |
| Food Service Fund | 17 |
| Schedule of Employer's Share of Net Pension Liability | 18 |
| Schedule of Employer Contributions | 19 |
| Notes to Required Supplementary Information | 20 |
| Supplementary Information: | |
| Nonmajor Governmental Funds: | |
| Combining Balance Sheet | 21 |
| Combining Statement of Revenues, Expenditures, and Changes in Fund Balances | 22 |
| Schedule of Apportionment - Foundation Program | 23 |
| Schedule of General Revenues by Source | 24 |
| Schedule of General Governmental Expenditures by Function | 25 |
| 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 <i>Government Auditing Standards</i> | 26-27 |
| Schedule of Findings and Responses | 28-29 |

Rexroat, Harberd & Assoc., P.A.

Certified Public Accountants

P.O. Box 7 - 125 North Buchanan - Jerome, Idaho 83338
Telephone 208-324-2351 Fax 208-324-8266

October 6, 2016

Independent Auditor's Report

Board of Trustees
Heritage Academy, Inc.
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, Inc., as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of Heritage Academy, Inc., 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, Inc., as of June 30, 2016, 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 16 and 17; the Employer Pension schedules on page 18 and 19; and the Notes to Required Supplementary Information on page 20 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 operational, 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 the basic financial statements of Heritage Academy, Inc. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated October 6, 2016, on our consideration of internal control over financial reporting of Heritage Academy, Inc., 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, Inc.'s internal control over financial reporting and compliance.

Rexroat, Harberd & Assoc., P.A.

HERITAGE ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2016

| | <u>Total Governmental</u> |
|--|-------------------------------|
| <u>ASSETS:</u> | |
| Pooled cash, cash equivalents and investments | \$ 110,961 |
| Accounts receivable: | |
| State of Idaho: | |
| Foundation programs apportionment: | |
| Base support program | 25,947 |
| Federal grants | 7,249 |
| Other receivable | 27 |
| Restricted cash, cash equivalents and investments | 44,382 |
| Capital assets: | |
| Land | 75,000 |
| Other capital assets, less accumulated depreciation | 249,982 |
| Total assets | 513,548 |
| <u>DEFERRED OUTFLOWS OF RESOURCES:</u> | |
| Changes in pension assumptions or other inputs | 10,303 |
| Net difference between projected and actual investment earnings on pension plan investments | 104,122 |
| Employer contributions to pension plan made subsequent to the measurement date for the net pension liability | 76,269 |
| Total deferred outflows of resources | 190,694 |
| <u>LIABILITIES:</u> | |
| Accounts payable | 1,782 |
| Salaries and benefits payable | 95,661 |
| Long-term liabilities other than pensions: | |
| Current portion | 51,410 |
| Noncurrent portion | 47,693 |
| Net pension liability | 282,919 |
| Total liabilities | 479,465 |
| <u>DEFERRED INFLOWS OF RESOURCES:</u> | |
| Differences between expected and actual pension experience related to the pension plan | 33,915 |
| Net difference between projected and actual investment earnings on pension plan investments | 148,571 |
| | 182,486 |
| <u>NET POSITION:</u> | |
| Net investment in capital assets | 228,310 |
| Restricted | 44,382 |
| Unrestricted | (230,401) |
| Total net position | \$ 42,291 |

The accompanying notes are an integral part of the financial statements

HERITAGE ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

| | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue</u> |
|--|---------------------|-----------------------------|---|------------------------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>and Changes in Net Position</u> |
| | | | | <u>Governmental Activities</u> |
| <u>Functions/Programs:</u> | | | | |
| <u>Governmental Activities:</u> | | | | |
| Instruction and instruction-related services | \$ 749,406 | \$ - | \$ 176,618 | \$ (572,788) |
| Support services | 318,641 | - | - | (318,641) |
| Maintenance and operations | 56,489 | - | 10,471 | (46,018) |
| Transportation | 82,509 | - | 73,073 | (9,436) |
| Food services | 94,616 | 1,035 | 103,088 | 9,507 |
| Capital outlay | - | - | - | - |
| Interest on long-term debt - unallocated | 8,153 | - | - | (8,153) |
| Depreciation - unallocated* | 5,555 | - | - | (5,555) |
| Total governmental activities | <u>\$ 1,315,369</u> | <u>\$ 1,035</u> | <u>\$ 363,250</u> | <u>(951,084)</u> |
| General Revenues: | | | | |
| State aid not restricted to a specific purpose | | | | 1,014,860 |
| Unrestricted investment earnings | | | | 268 |
| Other local revenue | | | | 13,025 |
| Total general revenues and special items | | | | <u>1,028,153</u> |
| Change in net position | | | | 77,069 |
| Net position-beginning of year | | | | (34,778) |
| Net position-end of year | | | | <u>\$ 42,291</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, 2016

| | General Fund | Food Service Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|-------------------|-------------------------|-----------------------------------|--------------------------------|
| <u>ASSETS:</u> | | | | |
| Pooled cash and cash equivalents | \$ 84,594 | \$ 18,246 | \$ 8,121 | \$ 110,961 |
| Accounts receivable: | | | | |
| State of Idaho: | | | | |
| Foundation programs apportionment: | | | | |
| Base support program | 25,947 | - | - | 25,947 |
| Federal grants | 691 | - | 6,558 | 7,249 |
| Other | 27 | - | - | 27 |
| Due from other funds | 4,269 | - | - | 4,269 |
| Restricted cash and cash equivalents | 44,382 | - | - | 44,382 |
| <u>TOTAL ASSETS</u> | <u>\$ 159,910</u> | <u>\$ 18,246</u> | <u>\$ 14,679</u> | <u>\$ 192,835</u> |
| <u>LIABILITIES:</u> | | | | |
| Accounts payable | \$ 1,616 | \$ 166 | \$ - | \$ 1,782 |
| Salaries and benefits payable | 91,762 | 1,610 | 2,289 | 95,661 |
| Due to other funds | - | - | 4,269 | 4,269 |
| <u>TOTAL LIABILITIES</u> | <u>93,378</u> | <u>1,776</u> | <u>6,558</u> | <u>101,712</u> |
| <u>DEFERRED INFLOWS OF RESOURCES:</u> | | | | |
| Unavailable revenue - Federal grants | - | - | 2,289 | 2,289 |
| <u>TOTAL DEFERRED INFLOWS OF RESOURCES</u> | <u>-</u> | <u>-</u> | <u>2,289</u> | <u>2,289</u> |
| <u>FUND BALANCES:</u> | | | | |
| Restricted for: | | | | |
| State Programs | - | - | 8,121 | 8,121 |
| Federal Programs | - | 16,470 | (2,289) | 14,181 |
| Playground Equipment | 4,347 | - | - | 4,347 |
| Student-Occupied building maintenance | 39,921 | - | - | 39,921 |
| Employee funds | 114 | - | - | 114 |
| Unassigned | 22,150 | - | - | 22,150 |
| <u>TOTAL FUND BALANCES</u> | <u>66,532</u> | <u>16,470</u> | <u>5,832</u> | <u>88,834</u> |
| <u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u> | <u>\$ 159,910</u> | <u>\$ 18,246</u> | <u>\$ 14,679</u> | <u>\$ 192,835</u> |

Reconciliation to the Statement of Net Position:

| | |
|--|------------------|
| Total Fund Balances - Governmental Funds | \$ 88,834 |
| 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 | (27,775) |
| 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 | 2,289 |
| Pension related deferred outflows of resources not reported in the funds | 190,694 |
| Pension related deferred inflows of resources not reported in the funds | (182,486) |
| 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 | (96,672) |
| Accrued vacation | (2,431) |
| Net pension liability | (282,919) |
| Total Net Position - Governmental Activities | <u>\$ 42,291</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, 2016

| | General Fund | Food Service Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|-----------------|-------------------------|-----------------------------------|--------------------------------|
| REVENUE: | | | | |
| Interest on investments | \$ 268 | \$ - | \$ - | \$ 268 |
| Federal assistance | 63,512 | 101,194 | 112,518 | 277,224 |
| State assistance | 1,098,404 | - | 17,032 | 1,115,436 |
| Contributions | 3,292 | 1,894 | - | 5,186 |
| Other local revenue | 9,733 | - | - | 9,733 |
| Sale of lunches | - | 1,035 | - | 1,035 |
| Total revenue | 1,175,209 | 104,123 | 129,550 | 1,408,882 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction - salaries and benefits | 625,091 | - | 90,955 | 716,046 |
| Instruction - other | 31,084 | - | 21,990 | 53,074 |
| Support services | 330,741 | - | - | 330,741 |
| Maintenance and operations | 56,489 | - | - | 56,489 |
| Transportation | 82,509 | - | - | 82,509 |
| Non-instruction | - | 96,488 | - | 96,488 |
| Capital outlay | - | - | - | - |
| Debt service: | | | | |
| Loan principal retirement | 46,180 | - | - | 46,180 |
| Loan interest charges and fees | 8,153 | - | - | 8,153 |
| Total expenditures | 1,180,247 | 96,488 | 112,945 | 1,389,680 |
| EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES | (5,038) | 7,635 | 16,605 | 19,202 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating transfers in | 985 | 1,988 | - | 2,973 |
| Operating transfers out | (1,988) | - | (985) | (2,973) |
| Total other financing sources (uses) | (1,003) | 1,988 | (985) | - |
| EXCESS (DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | (6,041) | 9,623 | 15,620 | 19,202 |
| FUND BALANCE JULY 1, 2015 | 72,573 | 6,847 | (9,788) | 69,632 |
| FUND BALANCE JUNE 30, 2016 | \$ 66,532 | \$ 16,470 | \$ 5,832 | \$ 88,834 |

Reconciliation to the Statement of Activities:

| | |
|--|-----------|
| Total net changes in fund balances - governmental funds | \$ 19,202 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Repayment of loan principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Position | 46,180 |
| The decrease in the compensated absences liability in the Statement of Activities does not affect the use of current financial resources and is not reported in the governmental funds | 8,446 |
| 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: | |
| Current year grant revenues | 2,289 |
| Prior year grant revenues | (18,733) |
| Changes in pension related deferred outflows of resources, deferred inflows of resources, and net pension liability do not require the use of current financial resources and are not reported in the governmental funds | 25,240 |
| Change in net position of governmental activities | \$ 77,069 |

The accompanying notes are an integral part of the financial statements

HERITAGE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Heritage Academy, Inc., (the Academy) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Academy's more significant accounting policies follows.

A) Reporting Entity

Heritage Academy, Inc., is a charter school organized under the laws of the State of Idaho and is located in Jerome in the southern portion of Idaho. It is legally separate from and fiscally independent of other state and local governments. The Academy provides public education to children in the local area. Operations of the Academy are the responsibility of a five member Board of Directors. The Academy receives State, local, and federal government funding and must adhere to the legal requirements of each funding entity.

In evaluating how to define the Academy for financial reporting purposes, management has identified no potential component units. The decision to include a potential component unit in the reporting entity would have been made by applying criteria set forth in accounting principles generally accepted in the United States of America. The Academy's financial statements present only the funds of those organizational entities for which its governing board is financially accountable.

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 statement of net position and the statement of activities display information about the Academy. These statements include the financial activities of the overall government. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses. These statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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.

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, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due.

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. It accounts for all resources used to finance Academy maintenance and operation except those required to be accounted for in other funds.

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 six governmental funds (nonmajor funds) are combined into a single, aggregated presentation identified as "Nonmajor Governmental."

The Academy adopts annual budgets for the General Fund and a combined budget for all other funds. Budgetary comparison schedules have been provided for all major funds.

When both restricted and unrestricted resources are available for use for governmental activities, 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. Inventories

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

2. 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.

HERITAGE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

3. Lapsing of Appropriations
At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The unencumbered appropriation balance is carried forward to the succeeding fiscal year and is not re-appropriated.

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 are 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 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. Currently, pension related items, as listed in Note 7, are the only 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 statement of financial position reports pension related items, as listed in Note 7, as deferred inflows of resources. The balance sheet reports Federal grant program revenues which are unavailable (will not be collected soon enough after year-end to pay for the current year's expenditures) as deferred inflows of resources.

7. Pensions
For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to/deductions from Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 7 for a more detailed description of the participation of Heritage Academy, Inc., in the Public Retirement System of Idaho.

8. Net Position
In the government-wide financial statements, net position is reported in three categories: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets is separately reported because the District reports all District assets which make up a significant portion of total net position. Restricted net position account for the portion of net position restricted by parties outside the District. Unrestricted net position is the remaining net position not included in the previous two categories.

HERITAGE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

9. Fund Balance Classifications

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, committed, assigned, and unassigned fund balance classifications.

Nonspendable - 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 - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. Federal grant programs require that funds received be used only for those specific programs and are therefore classified as restricted.

Committed - amounts that can be spent only for specific purposes determined by a formal action of the Academy Board which is the highest level of decision-making authority for the Academy. 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 - amounts that do not meet the criteria to be classified as restricted nor committed but that are intended to be used for specific purposes. This intent can be expressed by the Academy's Board or Administrator.

Unassigned - all other spendable amounts.

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.

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 the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

E) Inter-fund Transactions

On fund financial statements, inter-fund 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 funds are netted as part of the reconciliation to the government-wide presentation.

F) Subsequent Events

Management has evaluated subsequent events through the date of the independent auditor's report, the date on which financial statements were available to be issued.

NOTE 2 - DEPOSITS 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.

HERITAGE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

The Academy maintains a cash and investment pool that is available for use by all funds. At June 30, 2016, the carrying amount of the pool was \$155,343. A reconciliation of this amount to the amounts in the financial statements is as follows:

| | |
|---|------------------|
| Pooled cash, cash equivalents and investments | \$110,961 |
| Restricted cash, cash equivalents and investments | <u>44,382</u> |
| | <u>\$155,343</u> |

Deposits - 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 regarding custodial credit risk. At June 30, 2016, the bank balance was \$159,195 which was entirely covered by federal depository insurance.

Investments - The Academy had no investments at June 30, 2016.

Restricted Assets - The restricted cash balance was restricted for specific uses. Donations made to the Academy which require the proceeds be used to purchase playground equipment were \$4,347; amounts required to be used for student-occupied building maintenance were \$39,921; and funds collected from employees to be used specifically for the benefit of employees were \$114.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

| | Balance <u>June 30, 2015</u> | Additions | Deletions | Balance <u>June 30, 2016</u> |
|--|---------------------------------|-------------------|---------------|---------------------------------|
| 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 ... | 22,220 | 5,555 | ... | 27,775 |
| Equipment | ... | ... | ... | ... |
| Total accumulated depreciation | <u>22,220</u> | <u>5,555</u> | <u>...</u> | <u>27,775</u> |
| Governmental activities capital assets, net | <u>\$ 330,537</u> | <u>\$ (5,555)</u> | <u>\$...</u> | <u>\$ 324,982</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, 2016, was as follows:

| | Balance <u>June 30, 2015</u> | Additions | Reductions | Balance <u>June 30, 2016</u> | Amounts Due Within <u>One Year</u> |
|--------------------------------------|---------------------------------|-----------------|------------------|---------------------------------|--|
| Governmental Activities | | | | | |
| Loan Payable-Magic Valley | | | | | |
| Christian School | \$ 142,852 | \$... | \$ 46,180 | \$ 96,672 | \$ 48,979 |
| Future compensated absences | 10,877 | 2,431 | 10,877 | 2,431 | 2,431 |
| | <u>\$ 153,729</u> | <u>\$ 2,431</u> | <u>\$ 57,057</u> | <u>\$ 99,103</u> | <u>\$ 51,410</u> |

The total interest incurred for the year ended June 30, 2016, was \$8,153 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 were \$4,300 each month for twelve months and then would be \$2,800 each month for the next twelve months. The

HERITAGE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

maturity date was July 1, 2015, at which time all outstanding principal and interest would be due in full. On May 30, 2014, the agreement was amended to change the maturity date to June 1, 2018, with payments of \$4,485 beginning July 1, 2014. The balance of the loan payable at June 30, 2016, was \$96,672.

Future Compensated Absences:

A liability of \$2,431 has been accrued for employee rights to receive compensation for future absences.

Principal and interest payments due in future fiscal years:

| <u>Fiscal Year Ended</u> | <u>Interest Due</u> | <u>Principal Due</u> | <u>Total Payment Due</u> |
|--------------------------|---------------------|----------------------|------------------------------|
| June 30, 2017 | \$ 4,842 | \$ 51,410 | \$ 56,252 |
| June 30, 2018 | <u>1,562</u> | <u>47,693</u> | <u>49,255</u> |
| | <u>\$ 6,404</u> | <u>\$ 99,103</u> | <u>\$ 105,507</u> |

NOTE 5 - DEFICIT FUND BALANCE

Funds reporting a deficit fund balance, fund equity, or net position at June 30, 2016, are:

Nonmajor Governmental Funds:

Title II-A Teacher Quality \$ 2,289

NOTE 6 - INTER-FUND RECEIVABLES, PAYABLES AND TRANSFERS

At June 30, 2016, the composition of inter-fund balances, which resulted from loans made from the General Fund to cover operating cash deficits in other funds, is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|----------------------------|-----------------|
| General Fund | Title I-A Basic | \$ 35 |
| | IDEA Part B School-Age | 164 |
| | Title II-A Teacher Quality | <u>4,070</u> |
| | | <u>\$ 4,269</u> |

During the year ended June 30, 2016, the following amounts were transferred:

| <u>Transfer from</u> | <u>Transfer to</u> | <u>Amount</u> | <u>Purpose</u> |
|----------------------|--------------------|---------------|---|
| General Fund | Food Service | \$ 1,988 | Required by State law to cover FICA taxes |
| Title III ESEA | General Fund | 985 | Excess funds |

NOTE 7 - PENSION PLAN

Plan Description

Heritage Academy, Inc., (Employer) contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

Pension Benefits

The Base Plan provides retirement, disability, death and survivor benefits for eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% of the average monthly salary for the highest consecutive 42 months.

HERITAGE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

Member and Employer Contributions

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) that are adequate to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% of the employer rate. As of June 30, 2015, it was 6.79%. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.32%. Contributions of Heritage Academy, Inc., were \$68,121 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, Heritage Academy, Inc., reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Heritage Academy, Inc.'s proportion of the net pension liability was based on its share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2015, Heritage Academy, Inc.'s proportion was .0214847 percent.

For the year ended June 30, 2016, Heritage Academy, Inc., recognized pension expense of \$56,378. At June 30, 2016, Heritage Academy, Inc., reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$... | \$ 33,915 |
| Changes in assumptions or other inputs | 10,303 | ... |
| Net difference between projected and actual earnings on pension plan investments | 104,122 | 148,571 |
| Heritage Academy, Inc., contributions subsequent to the measurement date | <u>76,269</u> | <u>...</u> |
| | <u>\$190,694</u> | <u>\$182,486</u> |

The \$76,269 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the June 30, 2015, measurement date will be recognized as a reduction of the net pension liability at the June 30, 2016, measurement date.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2014, the beginning of the measurement period ended June 30, 2015, is 5.5 years and 5.6 years for the measurement period ended June 30, 2014.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows (using the future measurement dates for PERSI):

| Year Ended June 30: | |
|----------------------------|-------------|
| 2016 | \$ (29,021) |
| 2017 | (29,021) |
| 2018 | (29,021) |
| 2019 | 21,064 |
| 2020 | (2,061) |

HERITAGE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

Actuarial Assumptions

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|----------------------------|-----------------------------------|
| Inflation | 3.25% |
| Salary increases | 4.5 - 10.00% |
| Salary inflation | 3.75% |
| Investment rate of return | 7.10%, net of investment expenses |
| Cost-of-living adjustments | 1% |

Mortality rates were based on the RP - 2000 combined table for healthy males or females as appropriate with the following offsets:

- Set back 3 years for teachers
- No offset for male fire and police
- Forward one year for female fire and police
- Set back one year for all general employees and all beneficiaries

An experience study was performed in 2012 for the period July 1, 2007 through June 30, 2011, which reviewed all economic and demographic assumptions other than mortality. Mortality and all economic assumptions were studied in 2014 for the period from July 1, 2009 through June 30, 2013. The Total Pension Liability as of June 30, 2015, is based on the results of an actuarial valuation for that date.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of the System's assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are as of January 1, 2014.

| <u>Asset Class</u> | <u>Index</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return*</u> |
|----------------------------|----------------------------|--------------------------|--|
| Core Fixed Income | Barclays Aggregate | 30.00% | 0.80% |
| Broad US Equities | Wilshire 5000/Russell 3000 | 55.00% | 6.90% |
| Developed Foreign Equities | MSCI ACWI ex USA | 15.00% | 7.55% |

*Arithmetic return

HERITAGE ACADEMY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

Actuarial Assumptions:

| | |
|--|---------------------|
| Assumed Inflation - Mean | 3.25% |
| Assumed Inflation - Standard Deviation | 2.00% |
| Portfolio Arithmetic Mean Return | 8.42% |
| Portfolio Long-Term Expected Geometric Rate of Return | 7.50% |
| Assumed Investment Expenses | <u>0.40%</u> |
| Long-Term Expected Geometric Rate of Return, Net of Investment Expenses | <u>7.10%</u> |

Discount Rate

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for pension plan administrative expense.

Sensitivity of the Employer's proportionate share of the net pension liability to changes in the discount rate

The following presents the Employer's proportionate share of the net pension liability calculated using the discount rate of 7.10 percent, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate:

| | 1% Decrease <u>(6.1%)</u> | Current Discount Rate <u>(7.10%)</u> | 1% Increase <u>(8.1%)</u> |
|--|------------------------------|---|------------------------------|
| Employer's proportionate share of the net pension liability (asset) | <u>\$689,087</u> | <u>\$282,919</u> | <u>\$(54,756)</u> |

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Payables to the pension plan

At June 30, 2016, Heritage Academy, Inc., reported no payables to the defined benefit pension plan for legally required employer contributions or for legally required employee contributions which had been withheld from employee wages but not yet remitted to PERSI.

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.

HERITAGE ACADEMY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016.

| | <u>Budgeted Amounts</u> | | Actual | Variance |
|---|-------------------------|------------------|-------------------|--------------------|
| | <u>Original</u> | <u>Final</u> | Amounts | With Final |
| | | | Budgetary | Budget |
| | | | | Over |
| | | | <u>Basis</u> | <u>(Under)</u> |
| <u>REVENUE:</u> | | | | |
| Local revenue | \$ 12,650 | \$ 12,650 | \$ 13,293 | \$ 643 |
| Federal assistance | 75,000 | 75,000 | 63,512 | (11,488) |
| State assistance | 1,091,646 | 1,091,646 | 1,098,404 | 6,758 |
| Other | - | - | - | - |
| Total revenue | <u>1,179,296</u> | <u>1,179,296</u> | <u>1,175,209</u> | <u>(4,087)</u> |
| <u>EXPENDITURES:</u> | | | | |
| Salaries | 604,923 | 604,923 | 632,093 | 27,170 |
| Benefits | 201,967 | 201,967 | 202,325 | 358 |
| Purchased services | 271,560 | 271,560 | 271,809 | 249 |
| Supplies & materials | 14,100 | 14,100 | 11,406 | (2,694) |
| Capital outlay | 24 | 24 | - | (24) |
| Debt retirement | 53,844 | 53,844 | 54,333 | 489 |
| Insurance & judgments | 8,281 | 8,281 | 8,281 | - |
| Total expenditures | <u>1,154,699</u> | <u>1,154,699</u> | <u>1,180,247</u> | <u>25,548</u> |
| <u>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</u> | <u>24,597</u> | <u>24,597</u> | <u>(5,038)</u> | <u>(29,635)</u> |
| <u>OTHER FINANCING SOURCES (USES):</u> | | | | |
| Operating transfers in | - | - | 985 | 985 |
| Operating transfers out | - | - | (1,988) | (1,988) |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>(1,003)</u> | <u>(1,003)</u> |
| <u>EXCESS (DEFICIENCY) OF REVENUE AND OTHER</u> | | | | |
| <u>FINANCING SOURCES OVER EXPENDITURES AND</u> | | | | |
| <u>OTHER FINANCING USES</u> | <u>\$ 24,597</u> | <u>\$ 24,597</u> | <u>\$ (6,041)</u> | <u>\$ (30,638)</u> |

HERITAGE ACADEMY
BUDGETARY COMPARISON SCHEDULE
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2016

| | <u>Budgeted Amounts</u> | | Actual | Variance |
|---|-------------------------|-----------------|-----------------|----------------|
| | <u>Original</u> | <u>Final</u> | Amounts | With Final |
| | | | Budgetary | Budget |
| | | | | Over |
| | | | <u>Basis</u> | <u>(Under)</u> |
| <u>REVENUE:</u> | | | | |
| Federal assistance | \$ 86,000 | \$ 86,000 | \$ 101,194 | \$ 15,194 |
| Contributions | 3,500 | 3,500 | 1,894 | (1,606) |
| Sale of lunches | 2,000 | 2,000 | 1,035 | (965) |
| Total revenue | <u>91,500</u> | <u>91,500</u> | <u>104,123</u> | <u>12,623</u> |
| <u>EXPENDITURES:</u> | | | | |
| Salaries | 29,105 | 29,105 | 29,066 | (39) |
| Benefits | 10,702 | 10,702 | 14,924 | 4,222 |
| Purchased services | - | - | - | - |
| Supplies & materials | 42,635 | 42,635 | 52,498 | 9,863 |
| Capital outlay | - | - | - | - |
| Total expenditures | <u>82,442</u> | <u>82,442</u> | <u>96,488</u> | <u>14,046</u> |
| <u>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</u> | <u>9,058</u> | <u>9,058</u> | <u>7,635</u> | <u>(1,423)</u> |
| <u>OTHER FINANCING SOURCES (USES):</u> | | | | |
| Operating transfers in | - | - | 1,988 | 1,988 |
| Operating transfers out | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>1,988</u> | <u>1,988</u> |
| <u>EXCESS (DEFICIENCY) OF REVENUE AND OTHER</u> | | | | |
| <u>FINANCING SOURCES OVER EXPENDITURES AND</u> | | | | |
| <u>OTHER FINANCING USES</u> | <u>\$ 9,058</u> | <u>\$ 9,058</u> | <u>\$ 9,623</u> | <u>\$ 565</u> |

HERITAGE ACADEMY, INC.
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
PERSI - BASE PLAN
LAST 10 - FISCAL YEARS*
JUNE 30, 2016

| | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| Employer's: | | |
| Portion of the net pension liability | 0.0214847% | 0.0214146% |
| Proportionate share of the net pension liability | \$ 282,919 | \$ 157,645 |
| Covered-employee payroll | \$ 601,776 | \$ 580,149 |
| Proportionate share of the net pension liability as a percentage of its covered-employee payroll | 47.01% | 27.17% |
| Plan fiduciary net position as a percentage of the total pension liability | 91.38% | 94.95% |

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Academy will present information for those years for which information is available.

Data reported is measured as of July 1, 2015 (measurement date).

HERITAGE ACADEMY, INC.
SCHEDULE OF EMPLOYER CONTRIBUTIONS
PERSI - BASE PLAN
LAST 10 - FISCAL YEARS*
JUNE 30, 2016

| | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| Statutorily required contribution | \$ 70,277 | \$ 69,597 |
| Contributions in relation to the statutorily required contribution | \$ 69,018 | \$ 66,599 |
| Contribution (deficiency) excess | \$ 1,259 | \$ 2,998 |
| Employer's covered-employee payroll | \$ 601,776 | \$ 580,149 |
| Contributions as a percentage of covered-employee payroll | 11.47% | 11.48% |

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Academy will present information for those years for which information is available.

Data reported is measured as of June 30, 2016.

HERITAGE ACADEMY, INC.
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

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, Inc., 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) Budgeted Excess of Expenditures over Revenues

None of the funds had an excess of budgeted expenditures over budgeted revenues for the year ended June 30, 2016.

NOTE 2 - PENSION INFORMATION

A) Changes of benefit terms

None to report.

B) Changes in Composition of the Population Covered by the Benefit Terms

None to report.

C) Changes of Assumptions

None to report.

HERITAGE ACADEMY
COMBINING BALANCE SHEET-GOVERNMENTAL FUNDS
JUNE 30, 2016

Special Revenue Funds

| <u>ASSETS:</u> | <u>Technology</u> | <u>Safe &</u> | <u>Title I-A</u> | <u>IDEA</u> | <u>Title III</u> | <u>Title II-A</u> | <u>Total</u> |
|---|-------------------|-------------------|-------------------|---------------|------------------|-------------------|------------------|
| <u>Fund</u> | <u>Drug Free</u> | <u>Basic</u> | <u>School-Age</u> | <u>ESEA</u> | <u>Teacher</u> | <u>Quality</u> | <u>Total</u> |
| Pooled cash and cash equivalents | \$ 7,019 | \$ 1,102 | \$ - | \$ - | \$ - | \$ - | \$ 8,121 |
| Other receivable | - | - | 35 | 164 | - | 6,359 | 6,558 |
| Prepaid expenses | - | - | - | - | - | - | - |
| | <u>\$ 7,019</u> | <u>\$ 1,102</u> | <u>\$ 35</u> | <u>\$ 164</u> | <u>\$ -</u> | <u>\$ 6,359</u> | <u>\$ 14,679</u> |
| <u>LIABILITIES:</u> | | | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Salaries and benefits payable | - | - | - | - | - | 2,289 | 2,289 |
| Due to other funds | - | - | 35 | 164 | - | 4,070 | 4,269 |
| | <u>-</u> | <u>-</u> | <u>35</u> | <u>164</u> | <u>-</u> | <u>6,359</u> | <u>6,558</u> |
| <u>DEFERRED INFLOWS OF RESOURCES:</u> | | | | | | | |
| Unavailable revenue - Federal grants | - | - | - | - | - | 2,289 | 2,289 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,289</u> | <u>2,289</u> |
| <u>FUND BALANCES:</u> | | | | | | | |
| Nonspendable: | | | | | | | |
| Prepaid expenses | - | - | - | - | - | - | - |
| Restricted for: | | | | | | | |
| State Programs | 7,019 | 1,102 | - | - | - | - | 8,121 |
| Federal Programs | - | - | - | - | - | (2,289) | (2,289) |
| <u>TOTAL FUND BALANCES</u> | <u>7,019</u> | <u>1,102</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(2,289)</u> | <u>5,832</u> |
| <u>TOTAL LIABILITIES, DEFERRED INFLOWS OF</u> | | | | | | | |
| <u>RESOURCES, AND FUND BALANCES</u> | <u>\$ 7,019</u> | <u>\$ 1,102</u> | <u>\$ 35</u> | <u>\$ 164</u> | <u>\$ -</u> | <u>\$ 6,359</u> | <u>\$ 14,679</u> |

HERITAGE ACADEMY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

| | Special Revenue Funds | | | | | | |
|---|-----------------------|---------------------|--------------------|--------------------------------|-------------------|----------------------------------|-----------------|
| | Technology | Safe & Drug Free | Title I-A Basic | IDEA Part B - School-Age | Title III ESEA | Title II-A Teacher Quality | Total |
| <u>REVENUE:</u> | | | | | | | |
| Federal assistance | \$ - | \$ - | \$ 56,747 | \$ 31,942 | \$ - | \$ 23,829 | \$ 112,518 |
| State assistance | 12,799 | 4,233 | - | - | - | - | 17,032 |
| Other local revenue | - | - | - | - | - | - | - |
| Total revenue | <u>12,799</u> | <u>4,233</u> | <u>56,747</u> | <u>31,942</u> | <u>-</u> | <u>23,829</u> | <u>129,550</u> |
| <u>EXPENDITURES:</u> | | | | | | | |
| Instruction - salaries and benefits | - | 1,183 | 41,179 | 25,903 | - | 22,690 | 90,955 |
| Instruction - other | 12,740 | 2,948 | 5,034 | 1,268 | - | - | 21,990 |
| Support services | - | - | - | - | - | - | - |
| Total expenditures | <u>12,740</u> | <u>4,131</u> | <u>46,213</u> | <u>27,171</u> | <u>-</u> | <u>22,690</u> | <u>112,945</u> |
| <u>EXCESS (DEFICIENCY) OF REVENUE</u> | | | | | | | |
| <u>OVER EXPENDITURES</u> | <u>59</u> | <u>102</u> | <u>10,534</u> | <u>4,771</u> | <u>-</u> | <u>1,139</u> | <u>16,605</u> |
| <u>OTHER FINANCING SOURCES (USES):</u> | | | | | | | |
| Operating transfers in | - | - | - | - | - | - | - |
| Operating transfers out | - | - | - | - | (985) | - | (985) |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(985)</u> | <u>-</u> | <u>(985)</u> |
| <u>EXCESS (DEFICIENCY) OF REVENUE AND OTHER</u> | | | | | | | |
| <u>FINANCING SOURCES OVER EXPENDITURES AND</u> | | | | | | | |
| <u>OTHER FINANCING USES</u> | <u>59</u> | <u>102</u> | <u>10,534</u> | <u>4,771</u> | <u>(985)</u> | <u>1,139</u> | <u>15,620</u> |
| <u>FUND BALANCE JULY 1, 2015</u> | <u>6,960</u> | <u>1,000</u> | <u>(10,534)</u> | <u>(4,771)</u> | <u>985</u> | <u>(3,428)</u> | <u>(9,788)</u> |
| <u>FUND BALANCE JUNE 30, 2016</u> | <u>\$ 7,019</u> | <u>\$ 1,102</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (2,289)</u> | <u>\$ 5,832</u> |

HERITAGE ACADEMY, INC.
SCHEDULE OF APPORTIONMENT - FOUNDATION PROGRAM
YEAR ENDED JUNE 30, 2016

| | |
|-----------------------------|--------------------|
| Balance June 30, 2015 | \$ 52,080 |
| 2015-16 Program | 999,980 |
| 2015-16 Receipts | <u>(1,026,113)</u> |
| Balance June 30, 2016 | <u>\$ 25,947</u> |

COMPARATIVE STATE APPORTIONMENT DATA

| Fiscal <u>Year</u> | |
|-----------------------|------------|
| 2016 | \$ 999,980 |
| 2015 | 965,062 |
| 2014 | 909,087 |
| 2013 | 718,459 |
| 2012 | 635,042 |

HERITAGE ACADEMY, INC.
SCHEDULE OF GENERAL REVENUES BY SOURCE

| <u>Year Ended June 30:</u> | State Foundation <u>Program</u> | Other State <u>Assistance</u> | Federal <u>Assistance</u> | Interest on <u>Investments</u> | Sale of <u>Lunches</u> | <u>Other</u> |
|----------------------------|---------------------------------------|-------------------------------------|------------------------------|--------------------------------------|------------------------------|--------------|
| 2016 | \$ 999,980 | \$115,456 | \$ 277,224 | \$ 268 | \$ 1,035 | \$14,919 |
| 2015 | 965,062 | 96,095 | 273,523 | 201 | 1,508 | 28,374 |
| 2014 | 909,087 | 55,772 | 166,406 | 135 | 10,406 | 22,122 |
| 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, INC.
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> |
|----------------------------|--------------------|-----------------------------|--|--|-------------------------------------|
| 2016 | \$ 769,120 | \$ 330,741 | \$ 235,486 | \$ 54,333 | \$... |
| 2015 | 747,891 | 287,627 | 213,212 | 53,999 | ... |
| 2014 | 739,683 | 202,942 | 187,920 | 51,602 | ... |
| 2013 | 569,869 | 175,043 | 175,888 | 78,024 | ... |
| 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 208-324-2351 Fax 208-324-8266

October 6, 2016

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, Inc.
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, Inc., (Academy) as of and for the year ended June 30, 2016, 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 6, 2016.

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 first paragraph of this section 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 described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 item 2016-001 listed in the accompanying schedule of findings and responses 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 consider items 2016-002 listed in the accompanying schedule of findings and responses to be a significant deficiency.

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, Inc.'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, Inc.'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, INC.
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016

Finding 2016-001:

Criteria - Heritage Academy, Inc., 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, Inc., 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, Inc.'s internal control.

Cause - Heritage Academy, Inc., 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 - It is very common in smaller school districts to not have a CPA on staff. Often, smaller school districts even share business managers. 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. Additionally, the Heritage Academy, Inc., Administrator does have an MBA and the Business Manager has a Masters in Accounting.

Finding 2016-002:

Criteria - Per federal grant rules and the Heritage Academy, Inc., Employee Handbook, all employees involved with Federal programs must keep track of the time spent on Federal and non-Federal programs using a Personnel Activity Report which is to be turned in to the Business Manager on a monthly basis. These reports are to be tied out to payroll expense allocations for accuracy. These reports are the basis for determining the federal grant reimbursement amounts allowed for payroll and related expenses.

Condition - There were Personnel Activity Reports for all employees that had payroll allocated to federal grant programs. One employee consistently had more payroll being allocated to a federal grant program than was reflected on the Personnel Activity Report.

Context - As part of the audit procedures, a review of the Personnel Activity Reports was made to determine if the reports are being completed accurately and tied to payroll expense allocations.

Effect - A significant deficiency 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 - While the Personnel Activity Reports were being completed for all employees involved with federal programs, the reports for one employee that were completed were not being monitored for accuracy.

HERITAGE ACADEMY, INC.
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016

Recommendation - The Personnel Activity Reports need to be reviewed for accuracy and payroll allocations should match the allocation of time as reported by the employee.

Views of Responsible Officials and Planned Corrective Actions - The Business Manager and the federal program administrator will review the Personnel Activity Reports for accuracy and payroll allocations will match the allocation of time as reported by the employee.