



Heritage Academy Charter Schools, Inc.

Financial Statements

For the Year Ended August 31, 2019

Paul J. Christensen & Associates, LLC
Certified Public Accountants
Waco, Texas

TABLE OF CONTENTS

| | |
|---|------------|
| Certificate of Board | 3 |
| Independent Auditor's Report | 4–5 |
| Financial Statements: | 6 |
| Statement of Financial Position | 7 |
| Statement of Activities | 8 |
| Statement of Functional Expenses | 9 |
| Statement of Cash Flows | 10 |
| Notes to Financial Statements | 11–17 |
| Supplementary Information: | 18 |
| Schedule of Expenses | 19 |
| Schedule of Capital Expenses | 20 |
| Budgetary Comparison Schedule | 21 |
| Compliance and Internal Controls Section: | 22 |
| Independent Auditor's 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> | 23–24 |
| Schedule of Findings and Questioned Costs | 25 |

Heritage Academy Charter Schools, Inc.

Certificate of Board

Heritage Academy Charter Schools, Inc.
Name of Charter Holder

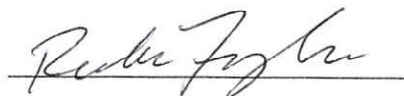
74-2823746
Federal Employer ID Number

Heritage Academy
Name of Charter School

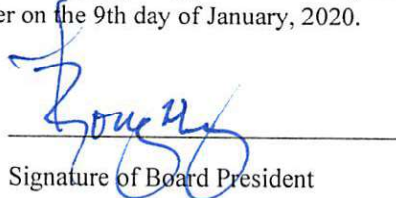
Bexar
County

015-815
Co. Distr. Number

We, the undersigned, certify that the attached Financial and Compliance Report of Heritage Academy Charter Schools, Inc. was reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2019 at a meeting of governing body of the charter holder on the 9th day of January, 2020.



Signature of Board Secretary



Signature of Board President

If the governing body of the charter holder does not approve the Independent Auditor's Report, it must forward a written statement discussing the reason(s) for not approving the report.

Paul J. Christensen & Associates, LLC

Certified Public Accountants

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Paul J. Christensen, C.P.A.
Gary L. Sauls, C.P.A.
Andrew W. Sauls, C.P.A.

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Heritage Academy Charter Schools, Inc.
San Antonio, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Heritage Academy Charter Schools, Inc. (a nonprofit organization) which comprise the statement of financial position as of August 31, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heritage Academy Charter Schools, Inc., as of August 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

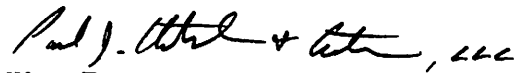
Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2020, on our consideration of Heritage Academy Charter Schools, Inc.'s internal control over financial reporting 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 solely 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 effectiveness of Heritage Academy Charter Schools, Inc.'s 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 Charter Schools, Inc.'s internal control over financial reporting and compliance.



Waco, Texas
January 9, 2020

FINANCIAL STATEMENTS

Heritage Academy Charter Schools, Inc.
Statement of Financial Position
August 31, 2019

Assets

| | |
|-----------------------------|----------------------------|
| Current Assets | |
| Cash and cash equivalents | \$ 1,135,850 |
| Due from governments | 127,489 |
| Prepaid expenses | <u>32,317</u> |
| Total current assets | 1,295,656 |
| Property and equipment, net | <u>721,675</u> |
| Total Assets | <u><u>\$ 2,017,331</u></u> |

Liabilities and Net Assets

| | |
|-----------------------------------|----------------------------|
| Current Liabilities | |
| Accounts payable | \$ 103,486 |
| Current portion of long-term debt | <u>45,282</u> |
| Total current liabilities | 148,768 |
| Total Liabilities | <u>148,768</u> |
| Net Assets | |
| Without donor restrictions | 169,092 |
| With donor restrictions | <u>1,699,471</u> |
| Total Net Assets | <u>1,868,563</u> |
| Total Liabilities and Net Assets | <u><u>\$ 2,017,331</u></u> |

The accompanying notes are an integral part of these financial statements.

Heritage Academy Charter Schools, Inc.

Statement of Activities

For the Year Ended August 31, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|-------------------------------|----------------------------|------------------|
| Revenues | | | |
| Local support: | | | |
| Interest and other income | \$ 56,268 | \$ - | \$ 56,268 |
| Total local support | 56,268 | - | 56,268 |
| State program revenues: | | | |
| Foundation school program act | - | 5,764,169 | 5,764,169 |
| Other state aid | - | 103,156 | 103,156 |
| Total state program revenues | - | 5,867,325 | 5,867,325 |
| Federal program revenues: | | | |
| ESEA, Title I, Part A | - | 146,143 | 146,143 |
| IDEA-Part B, Formula | - | 100,998 | 100,998 |
| IDEA-Part B, Pre-school | - | 420 | 420 |
| Career and Technical | - | 6,588 | 6,588 |
| ESEA, Title II, Part A | - | 18,217 | 18,217 |
| National School Lunch and Breakfast Program | - | 225,555 | 225,555 |
| ESEA, Title III, Part A | - | 11,813 | 11,813 |
| ESEA, Title IV, Part A | - | 14,342 | 14,342 |
| Total federal program revenues | - | 524,076 | 524,076 |
| Net assets released from restrictions: | | | |
| Restrictions satisfied by payments | 5,293,258 | (5,293,258) | - |
| Total Revenues | 5,349,526 | 1,098,143 | 6,447,669 |
| Expenses | | | |
| Program Services: | | | |
| 11 Instruction | 2,994,428 | - | 2,994,428 |
| 13 Curriculum development and instructional staff development | 67,700 | - | 67,700 |
| 21 Instructional leadership | 89,276 | - | 89,276 |
| 23 School leadership | 465,516 | - | 465,516 |
| 31 Guidance, counseling and evaluation services | 20,434 | - | 20,434 |
| 32 Social work services | - | - | - |
| 33 Health services | 53,579 | - | 53,579 |
| 34 Student (Pupil) Transportation | - | - | - |
| 35 Food services | 402,706 | - | 402,706 |
| 36 Cocurricular/extracurricular activities | 35,526 | - | 35,526 |
| 53 Data processing services | 10,515 | - | 10,515 |
| Total Program Services | 4,139,680 | - | 4,139,680 |
| Support services: | | | |
| 41 General administration | 458,266 | - | 458,266 |
| 51 Plant maintenance and operations | 783,790 | - | 783,790 |
| 52 Security and monitoring services | 3,460 | - | 3,460 |
| 71 Debt service | 4,404 | - | 4,404 |
| Total Support Services | 1,249,920 | - | 1,249,920 |
| Fundraising services: | | | |
| 81 Fundraising | 28,403 | - | 28,403 |
| Total Fundraising Services | 28,403 | - | 28,403 |
| Total Expenses | 5,418,003 | - | 5,418,003 |
| Change in Net Assets | (68,477) | 1,098,143 | 1,029,666 |
| Net Assets, Beginning of Year | 237,569 | 601,328 | 838,897 |
| Net Assets, End of Year | \$ 169,092 | \$ 1,699,471 | \$ 1,868,563 |

The accompanying notes are an integral part of these financial statements .

Heritage Academy Charter Schools, Inc.
Statement of Functional Expenses
For the Year Ended August 31, 2019

| | Program Services | Supporting Services | Fundraising Services | Total |
|---------------------------------|---------------------|------------------------|-------------------------|---------------------|
| Expenses | | | | |
| Salaries and wages | \$ 2,785,048 | \$ 315,952 | \$ - | \$ 3,101,000 |
| Benefits | 222,074 | 17,610 | - | 239,684 |
| Payroll taxes | 108,953 | 9,162 | - | 118,115 |
| Total Payroll Expenses | <u>3,116,075</u> | <u>342,724</u> | <u>-</u> | <u>3,458,799</u> |
| Professional services | 405,804 | 83,197 | - | 489,001 |
| Education service center | 4,336 | - | - | 4,336 |
| Repairs and maintenance | 1,582 | 155,355 | - | 156,937 |
| Utilities | - | 137,196 | - | 137,196 |
| Rentals | 24,299 | 336,850 | - | 361,149 |
| Miscellaneous contract services | 63,103 | - | - | 63,103 |
| Maintenance supplies | - | 25,748 | - | 25,748 |
| Textbooks | 101,851 | - | - | 101,851 |
| Food | 45,918 | - | - | 45,918 |
| Testing materials | 3,824 | - | - | 3,824 |
| General supplies | 257,113 | 20,764 | - | 277,877 |
| Travel | 29,293 | 51,457 | - | 80,750 |
| Insurance | - | 35,806 | - | 35,806 |
| Depreciation | 54,727 | 15,782 | - | 70,509 |
| Interest | - | 4,404 | - | 4,404 |
| Miscellaneous | 31,755 | 40,637 | 28,403 | 100,795 |
| Total Non-payroll Expenses | <u>1,023,605</u> | <u>907,196</u> | <u>28,403</u> | <u>1,959,204</u> |
| Total Expenses | <u>\$ 4,139,680</u> | <u>\$ 1,249,920</u> | <u>\$ 28,403</u> | <u>\$ 5,418,003</u> |

The accompanying notes are an integral part of these financial statements.

Heritage Academy Charter Schools, Inc.
Statement of Cash Flows
For the Year Ended August 31, 2019

Cash Flows from Operating Activities:

| | |
|--|------------------|
| Foundation school program payments | \$ 5,758,062 |
| Grant payments | 530,440 |
| Miscellaneous sources | 56,268 |
| Payments to vendors for goods and services rendered | (1,818,840) |
| Payments to charter school personnel for services rendered | (3,458,800) |
| Interest payments | (4,404) |
| Net Cash Provided/(Used) by Operating Activities | <u>1,062,726</u> |

Cash Flows from Investing Activities:

| | |
|--|------------------|
| Purchase of capital assets | (116,274) |
| Net Cash Provided/(Used) by Investing Activities | <u>(116,274)</u> |

Cash Flows from Financing Activities:

| | |
|--|-----------------|
| Principal payments on long-term debt | (51,440) |
| Net Cash Provided/(Used) by Financing Activities | <u>(51,440)</u> |

| | |
|---------------------------------|----------------------------|
| Net Increase (Decrease) in Cash | 895,012 |
| Cash at Beginning of Year | <u>240,838</u> |
| Cash at End of Year | <u><u>\$ 1,135,850</u></u> |

**Reconciliation of Change in Net Assets to Net Cash Provided
by Operating Activities:**

| | |
|---|----------------------------|
| Change in Net Assets | \$ 1,029,666 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Depreciation | 70,509 |
| (Increase) Decrease in assets: | |
| Due from governments | (99,704) |
| Prepaid expenses | 777 |
| Increase (Decrease) in liabilities: | |
| Accounts payable | 64,673 |
| Due to governments | (3,195) |
| Net Cash Provided/(Used) by Operating Activities | <u><u>\$ 1,062,726</u></u> |

The accompanying notes are an integral part of these financial statements.

Heritage Academy Charter Schools, Inc.
Notes To Financial Statements
August 31, 2019

NOTE 1 - Summary of Significant Accounting Policies

The financial statements of Heritage Academy Charter Schools, Inc. (the "Corporation") (a nonprofit organization) were prepared in conformity with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

Reporting Entity

The Corporation is a not-for-profit organization incorporated in the State of Texas in 1998 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Corporation is governed by a Board of Directors comprised of five members. The Board of Directors is selected pursuant to the bylaws of the Corporation and has the authority to make decisions, appoint the chief executive officer of the Corporation, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Corporation.

Since the Corporation received funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

Corporate Operations

The State Board of Education of the State of Texas granted the Corporation an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, Heritage Academy Charter Schools, Inc. was opened. Heritage Academy Charter Schools, Inc. was organized to provide educational services to at-risk students and their programs, services, activities and functions are governed by the Corporation's Board of Directors. For the year ended August 31, 2019, Heritage Academy Charter Schools, Inc. served grades Pre-Kindergarten through twelfth grade.

Heritage Academy Charter Schools, Inc. operated one charter school and did not conduct any other charter or non-charter activities.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles. The more significant of the Corporation's accounting policies are described below.

The Corporation is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions - net assets available for use in the general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board of Directors are reported as net assets without donor restrictions, board-designated.

Net Assets With Donor Restrictions - net assets subject to donor-imposed restrictions that are more restrictive than the Corporation's mission and purpose. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Contributions

The Corporation accounts for contributions as contributions without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in net assets with donor restrictions in the reporting period in which the support is recognized. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Cash and Cash Equivalents

For financial statement purposes, the Corporation considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets, which include land, buildings and improvements, vehicles, and furniture and equipment, are reported in the financial statements. Capital assets are defined by the Corporation as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from four to forty years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

Due From Governments

The Corporation considers all government grants and contracts as exchange transactions rather than contributions. The Corporation recognizes revenue from fee-for-service transactions as services are rendered and, for grants, as eligible expenditures are incurred. Advances from government agencies are recorded as deferred revenues. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables.

Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of any noncompliance with terms of the grant contract.

Impairment of Long-Lived Assets

The Corporation reviews the carrying value of capital assets for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. The Corporation did not recognize an impairment loss during the year ended August 31, 2019.

Note 1 - Summary of Significant Accounting Policies (continued)

State Funding

The amount of state foundation school program act revenue the Corporation earns may vary until the time when final values for all factors in the state aid formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation school program act revenue estimate for the year ended August 31, 2019 will change.

Revenue Recognition

Revenues from the State of Texas are based on reported attendance. Public and private grants received are recognized in the period received and when the terms of the grant are met.

Donated Services and Assets

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills that are provided by individuals possessing those skills and which would typically need to be purchased if not provided by donation are recorded at the estimated fair market value in the period received.

Contributions of donated noncash assets are recorded at the estimated fair market value in the period received.

Functional Allocation of Expenses

The Corporation provides educational services to all students. The relationship between functional expense classifications as summarized on the statement of activities and their natural expense classifications is presented in the statement of functional expenses.

New Accounting Pronouncement

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. The ASU generally should be applied retrospectively to all prior periods presents. In prior reports, the organization presented the classification of net assets as unrestricted, temporarily restricted, and permanently restricted. The new guidance requires two categories of net assets: with donor restrictions and without donor restrictions. In addition, the new guidance requires the organization to make certain expanded disclosures relating to (1) the liquidity of financial assets, and (2) expenses by both their natural and functional classification in one location in the financial statements.

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Corporation which will only be resolved when one or more future events occur or fail to occur. The Corporation's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingences related to legal proceedings that are pending against the Corporation or unasserted claims that may result in such proceedings, the Corporation's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates it is possible that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Corporation's financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

Heritage Academy Charter Schools, Inc.
Notes To Financial Statements
August 31, 2019

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents as of August 31, 2019 consist of the following:

| | |
|-----------------------|---------------------|
| Checking accounts | \$ 975,165 |
| Money market accounts | 26,629 |
| | <u>\$ 1,001,794</u> |

Note 3 - Due from Governments

At August 31, 2019, due from governments consisted of the following:

| | |
|-------------------------------------|-------------------|
| Foundation Program 2018-2019 | \$ 12,549 |
| ESEA, Title I Part A | 904 |
| School Breakfast | 2,341 |
| National School Lunch Program | 8,007 |
| IDEA-B Formula | 6,973 |
| Textbook and Kindergarten Materials | 96,715 |
| Total | <u>\$ 127,489</u> |

Note 4 - Restrictions on Net Assets

Net assets with donor restrictions are restricted for the benefit of the students of the Heritage Academy Charter Schools, Inc., the Foundation School Program, and for any activities supported by federal and local grants. Net assets with donor restrictions are comprised of local funds of \$169,092 as of August 31, 2019.

The assets with donor restrictions of federal and local funds are restricted to incur the expenditures for the grant purposes stipulated in the grant contracts.

Note 5 - Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors. During the year ended August 31, 2019, the Corporation released \$68,477 of funds with donor restrictions related to the Foundation School Program, federal grants and local grants.

Note 6 - Capital Assets

A summary of changes in capital assets is as follows:

Property and Equipment:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending Balance</u> | <u>Accumulated Depreciation</u> | <u>Net Capital Assets</u> |
|----------------------------|------------------------------|-------------------|--------------------|---------------------------|-------------------------------------|-------------------------------|
| Land | \$ 195,187 | \$ 17,816 | \$ - | \$ 213,003 | \$ - | \$ 213,003 |
| Buildings and Improvements | 403,551 | 37,377 | - | 440,928 | 15,782 | 425,146 |
| Vehicles | 178,307 | - | - | 178,307 | 171,140 | 7,167 |
| Furniture and Equipment | 735,074 | 61,081 | - | 796,155 | 719,796 | 76,359 |
| Total | <u>\$ 1,512,119</u> | <u>\$ 116,274</u> | <u>\$ -</u> | <u>\$ 1,628,393</u> | <u>\$ 906,718</u> | <u>\$ 721,675</u> |

Heritage Academy Charter Schools, Inc.
Notes To Financial Statements
August 31, 2019

Note 6 - Capital Assets (continued)

Capital assets acquired with public funds received by the Corporation for the operation of Heritage Academy Charter Schools, Inc. constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified in the Schedule of Capital Assets.

Depreciation expense for the year ended August 31, 2019 was \$70,509.

Note 7 - Long-Term Debt

During the fiscal year ended August 31, 2019, the Corporation entered into a loan agreement with Deborah Manning for the purchase of property for the Del Rio campus. The original loan amount was \$105,000 bearing interest at the rate of 6% and payable in 24 monthly payments of \$4,654.

The Corporation had outstanding loans payable of \$45,282 as of August 31, 2019.

| Fiscal Year Ending August 31, 2020 | Principal | Interest | Total |
|--|------------------|-----------------|------------------|
| | \$ 45,282 | \$ 1,256 | \$ 46,538 |
| Total | <u>\$ 45,282</u> | <u>\$ 1,256</u> | <u>\$ 46,538</u> |

Interest expense for the year ended August 31, 2019 was \$4,404.

Note 8 - Pension Plan Obligations

Plan Description

The Corporation contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiemployer defined benefit pension plan with one exception; all risks and costs are not shared by the Corporation, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas.

The plan operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

Charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district ("ISD") may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement.

Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas State legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a

Heritage Academy Charter Schools, Inc.
Notes To Financial Statements
August 31, 2019

Note 8 - Pension Plan Obligations (continued)

particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Contributions

State law provides for a member contribution rate of 7.7% for fiscal year 2019. The state's contribution rate as a non-employer contributing entity was 6.8% for fiscal year 2019.

Under provisions in state law, plan members are required to contribute 7.7% of their annual covered salary, and the state of Texas contributes an amount equal to 6.8% of the Corporation's covered payroll. The Corporation's contribution to TRS for the year ended August 31, 2019 was \$112,594, which includes \$40,844 in Non-OASDI participation surcharges. The Corporation's contributions did not represent more than 5% of the total contributions to the plan (i.e., total plan assets). There have been no changes that would affect the comparison of employer contributions from year to year.

Note 9 - Health Care Coverage

During the year ended August 31, 2019, employees of the Corporation were covered by a health insurance plan. The Corporation contributed \$225 per month per employee for the year ended August 31, 2019 to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

Note 10 - Risk Management Program

Worker's compensation coverage, general liability, professional liability and property coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have historically not exceeded commercial coverage.

Note 11 - Leases

The Corporation leases its facilities under non-cancellable operating leases, which contain varying renewal options. Approximate aggregate remaining minimum rental commitments as of August 31, 2019 under these leases are summarized as follows:

| <u>Fiscal Year Ending August 31,</u> | |
|--------------------------------------|-------------------|
| 2020 | \$ 216,000 |
| Total | <u>\$ 216,000</u> |

Rent expense for all operating leases for the year ended August 31, 2019 was \$361,149.

Note 12 - Income Tax

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business taxable income. The Corporation has no material unrelated business income for the year ended August 31, 2019.

Generally accepted accounting principles requires that the Corporation recognize in its financial statements the financial effects of a tax position, if that position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the tax position. The new requirements also provide guidance on measurement, classification, interest and penalties, and disclosure.

Heritage Academy Charter Schools, Inc.
Notes To Financial Statements
August 31, 2019

Note 12 - Income Tax (continued)

Tax positions taken related to the Corporation's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken would more likely than not be sustained by examination. Accordingly, the Corporation has not recorded an income tax liability for uncertain tax benefits. For the year ended August 31, 2019, there were no interest or penalties related to income taxes recorded or included in the financial statements. As of August 31, 2019, the Corporation's tax years 2016 through 2018 remain subject to examination.

Note 13 - Credit Risk

Financial instruments that potentially subject the Corporation to credit risk consist of cash at financial institutions. At times, the balances in cash accounts may be in excess of FDIC insurance limits. The financial institution pledges investment securities to compensate for deposits in excess of FDIC insurance limits.

Note 14 - Commitments and Contingencies

The Corporation receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the Corporation have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

Note 15 - Liquidity and Availability of Financial Resources

The Corporation has approximately \$1,114,571 of financial assets available within one year of the statements of financial position date to meet cash needs for general expenditures. This consist of cash and cash equivalents of \$1,135,850 and receivables of \$127,489, net of accounts payable of \$103,486 and the current portion of long-term debt of \$45,282 as of year-end. Although some of the financial assets are subject to donor or other contractual restrictions, restrictions are part of the Corporation's mission that make them available for general expenditure within one year of the statement of financial position date.

Note 16 - Evaluation of Subsequent Events

The Corporation has evaluated subsequent events through January 9, 2020, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Heritage Academy Charter Schools, Inc.
Schedule of Expenses
For the Year Ended August 31, 2019

Expenses

| | | | |
|----------------|--------------------------------------|----|------------------|
| 6100 | Payroll costs | \$ | 3,458,800 |
| 6200 | Professional and contracted services | | 1,211,788 |
| 6300 | Supplies and materials | | 461,993 |
| 6400 | Other operating costs | | 281,018 |
| 6500 | Debt | | 4,404 |
| Total Expenses | | \$ | <u>5,418,003</u> |

The accompanying notes are an integral part of these financial statements.

Heritage Academy Charter Schools, Inc.
Schedule of Capital Assets
August 31, 2019

| | | Ownership Interest | | |
|------|----------------------------|--------------------|---------------------|-------------------|
| | | Local | State | Federal |
| 1510 | Land | \$ - | \$ 213,003 | \$ - |
| 1520 | Buildings and Improvements | - | 440,928 | - |
| 1531 | Vehicles | 10,000 | 168,307 | - |
| 1539 | Furniture and equipment | - | 453,794 | 20,098 |
| 1549 | Furniture and equipment | - | 204,043 | 118,220 |
| | | <u>\$ 10,000</u> | <u>\$ 1,480,075</u> | <u>\$ 138,318</u> |

The accompanying notes are an integral part of these financial statements.

Heritage Academy Charter Schools, Inc.
Budgetary Comparison Schedule
For the Year Ended August 31, 2019

| | Budgeted Amounts | | Actual Amounts | Variance from Final Budget Positive (Negative) |
|---|------------------|-------------|-------------------|--|
| | Original | Final | | |
| Revenues | | | | |
| Local support: | | | | |
| 5740 Other revenues from local sources | \$ 5,500 | \$ 13,067 | \$ 12,554 | \$ (513) |
| 5750 Revenues from cocurricular, enterprising services or activities | 36,000 | 45,000 | 43,714 | (1,286) |
| Total local support | 41,500 | 58,067 | 56,268 | (1,799) |
| State program revenues: | | | | |
| 5810 Foundation school program act | 5,590,735 | 5,775,933 | 5,764,169 | (11,764) |
| 5820 State program revenues distributed by Texas Education Agency | 14,895 | 18,047 | 103,156 | 85,109 |
| 5830 State revenues from State of Texas government agencies | - | - | - | - |
| Total state program revenues | 5,605,630 | 5,793,980 | 5,867,325 | 73,345 |
| Federal program revenues: | | | | |
| 5920 Federal revenues distributed by the Texas Education Agency | 480,473 | 495,648 | 524,076 | 28,428 |
| Total federal program revenues | 480,473 | 495,648 | 524,076 | 28,428 |
| Total Revenues | 6,127,603 | 6,347,695 | 6,447,669 | 99,974 |
| Expenses | | | | |
| 11 Instruction | 2,770,636 | 2,871,977 | 2,994,428 | (122,451) |
| 13 Curriculum development and instructional staff development | 56,038 | 68,000 | 67,700 | 300 |
| 21 Instructional leadership | 87,634 | 89,500 | 89,276 | 224 |
| 23 School leadership | 515,324 | 479,217 | 465,516 | 13,701 |
| 31 Guidance, counseling and evaluation services | 61,219 | 20,500 | 20,434 | 66 |
| 33 Health services | 47,059 | 53,500 | 53,579 | (79) |
| 35 Food services | 280,000 | 385,000 | 402,706 | (17,706) |
| 36 Cocurricular/extracurricular activities | 36,034 | 31,500 | 35,526 | (4,026) |
| 41 General administration | 581,021 | 460,000 | 458,266 | 1,734 |
| 51 Plant maintenance and operations | 542,576 | 825,000 | 783,790 | 41,210 |
| 52 Security and monitoring services | 3,480 | 3,500 | 3,460 | 40 |
| 53 Data processing services | 9,043 | 10,500 | 10,515 | (15) |
| 71 Debt service | 55,844 | 4,500 | 4,404 | 96 |
| 81 Fundraising | 20,000 | 28,500 | 28,403 | 97 |
| Total Expenses | 5,065,908 | 5,331,194 | 5,418,003 | (98,249) |
| Change in Net Assets | 1,061,695 | 1,016,501 | 1,029,666 | (13,165) |
| Net Assets, Beginning of Year | 838,897 | 838,897 | 838,897 | - |
| Net Assets, End of Year | \$1,900,592 | \$1,855,398 | \$1,868,563 | \$ (13,165) |

Explanation for Budget Variances for the year ended August 31, 2019 (unaudited)

Function 36: Athletic supplies and equipment were purchased at the end of school year 2019 to be used in school year 2020.

The accompanying notes are an integral part of these financial statements.

COMPLIANCE AND INTERNAL CONTROLS SECTION

Paul J. Christensen & Associates, LLC

Certified Public Accountants

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<http://www.waco-cpa.com>

Paul J. Christensen, C.P.A.
Gary L. Sauls, C.P.A.
Andrew W. Sauls, C.P.A.

INDEPENDENT AUDITOR'S 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 Directors
Heritage Academy Charter Schools, Inc.
San Antonio, Texas

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 Heritage Academy Charter Schools, Inc. (the "Corporation") (a nonprofit organization), which comprise the statement of financial position as of August 31, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 9, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Heritage Academy Charter Schools, Inc.'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Heritage Academy Charter Schools, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Heritage Academy Charter Schools, Inc.'s internal control.

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 a 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. 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.

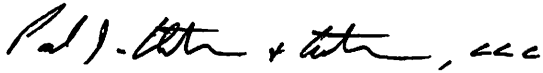
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Heritage Academy Charter Schools, Inc.'s financial statements are free from 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*.

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 Heritage Academy Charter Schools, Inc.'s internal control or on compliance. This report is in integral part of an audit performed in accordance with *Government Auditing Standards* in considering Heritage Academy Charter Schools, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Paul J. Blum", followed by a small flourish and three dots.

Waco, Texas
January 9, 2020

Heritage Academy Charter Schools, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended August 31, 2019

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued

Unmodified

Internal Control over Financial Reporting:

Material weakness(es) identified?

___ Yes X No

Significant deficiencies(s) identified that are not
considered to be material weaknesses?

___ Yes X No

Noncompliance material to financial statements noted?

___ Yes X No

II. FINANCIAL STATEMENT FINDINGS

None