



Heritage Academy Charter Schools, Inc.

Annual Financial Report

For the Year Ended August 31, 2023

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

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Certificate of Board

Heritage Academy Charter Schools, Inc.
Name of Charter Holder

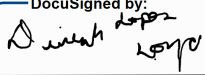
74-2823746
Federal Employer ID Number

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, 2023 at a meeting of governing body of the charter holder on the 19th day of January, 2024.

DocuSigned by:

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Signature of Board Secretary

DocuSigned by:

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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.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

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, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Heritage Academy Charter Schools, Inc. as of August 31, 2023, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Heritage Academy Charter Schools, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis-of-Matter

As discussed in Note 1 to the financial statements, in 2023, the school adopted FASB ASC 842, Leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Heritage Academy Charter School, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Heritage Academy Charter School, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Heritage Academy Charter School, Inc.'s ability to continue as a going concern for a reasonable period of time.

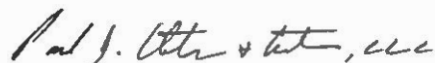
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 21 through 32 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also 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 19, 2024, 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 19, 2024

FINANCIAL STATEMENTS

Heritage Academy Charter Schools, Inc.
Statement of Financial Position
August 31, 2023

Assets

Current Assets		
Cash and cash equivalents	\$	4,768,668
Due from governments		321,788
Prepaid expenses		22,205
Total current assets		<u>5,112,661</u>
Property and equipment, net		1,006,534
Operating Right of Use Asset		<u>549,034</u>
Total Assets	\$	<u>6,668,229</u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$	52,155
Accrued wages		140,851
Other payroll liabilities		111,885
Current portion of lease liability, operating		302,174
Total current liabilities		<u>607,065</u>
Lease liability, operating		<u>252,820</u>
Total long-term liabilities		<u>252,820</u>
Total Liabilities		<u>859,885</u>
Net Assets		
Without donor restrictions		799,575
With donor restrictions		5,008,769
		<u>5,808,344</u>
Total Net Assets		<u>5,808,344</u>
Total Liabilities and Net Assets	\$	<u>6,668,229</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, 2023

	Total		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Local support:			
Interest and other income	\$ 80,175	\$ -	\$ 80,175
Total local support	80,175	-	80,175
State program revenues:			
Foundation school program act	-	6,093,990	6,093,990
Other state aid	-	87,439	87,439
Total state program revenues	-	6,181,429	6,181,429
Federal program revenues:			
ESEA, Title I, Part A	-	298,932	298,932
IDEA-Part B, Formula	-	97,040	97,040
IDEA-Part B, Pre-school National School Lunch and Breakfast Program	-	1,088	1,088
ESEA, Title II, Part A	-	181,443	181,443
Title III, Part A, ELA	-	10,279	10,279
TCLAS - ESSER III	-	30,646	30,646
ESSER II Grant	-	147,592	147,592
ESSER III Grant	-	39,879	39,879
IDEA-B Formula - ARP	-	422,674	422,674
ESEA, Title IV, Part A	-	1,632	1,632
Total federal program revenues	-	8,432	8,432
Net assets released from restrictions: Restrictions satisfied by payments	6,931,028	(6,931,028)	-
Total Revenues	7,011,203	490,038	7,501,241
Expenses			
Program Services:			
11 Instruction	4,363,654	-	4,363,654
13 Curriculum development and instructional staff development	101,813	-	101,813
21 Instructional leadership	116,116	-	116,116
23 School leadership	643,248	-	643,248
31 Guidance, counseling and evaluation services	213,894	-	213,894
33 Health services	54,473	-	54,473
35 Food services	290,581	-	290,581
36 Cocurricular/extracurricular activities	30,532	-	30,532
53 Data processing services	46,065	-	46,065
Total Program Services	5,860,376	-	5,860,376
Support Services:			
41 General administration	581,763	-	581,763
51 Plant maintenance and operations	653,972	-	653,972
52 Security and monitoring services	86,797	-	86,797
71 Debt service	183	-	183
Total Support Services	1,322,715	-	1,322,715
Fundraising services:			
81 Fundraising	8,260	-	8,260
Total Fundraising Services	8,260	-	8,260
Total Expenses	7,191,351	-	7,191,351
Change in Net Assets	(180,148)	490,038	309,890
Net Assets, Beginning of Year	197,148	5,301,306	5,498,454
Net Assets, End of Year	\$ 17,000	\$ 5,791,344	\$ 5,808,344

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, 2023

	Program Services	Supporting Services	Fundraising Services	Total
Expenses				
Salaries and wages	\$ 4,001,139	\$ 496,098	\$ -	\$ 4,497,237
Benefits	506,657	52,601	-	559,258
Payroll taxes	64,493	7,499	-	71,992
Total Payroll Expenses	<u>4,572,289</u>	<u>556,198</u>	<u>-</u>	<u>5,128,487</u>
Professional services	346,752	42,154	-	388,906
Education service center	6,358	50	-	6,408
Repairs and maintenance	922	196,105	-	197,027
Communications	70	-	-	70
Utilities	-	141,227	-	141,227
Rentals	286,053	75,294	-	361,347
Consulting services	-	50,400	-	50,400
Miscellaneous contract services	105,950	6,318	-	112,268
Gasoline	4,325	4,386	-	8,711
Maintenance supplies	-	25,300	-	25,300
Textbooks	6,939	-	-	6,939
Food	192,930	-	-	192,930
General supplies	184,456	64,961	-	249,417
Instructional supplies	11,439	-	-	11,439
Travel	23,044	25,891	-	48,935
Insurance	36,328	41,946	-	78,274
Depreciation	30,020	38,706	-	68,726
Interest	-	183	-	183
Miscellaneous	69,761	36,336	8,260	114,357
Total Non-payroll Expenses	<u>1,305,347</u>	<u>749,257</u>	<u>8,260</u>	<u>2,062,864</u>
Total Expenses	<u>\$ 5,877,636</u>	<u>\$ 1,305,455</u>	<u>\$ 8,260</u>	<u>\$ 7,191,351</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, 2023

Cash Flows from Operating Activities:	
Foundation school program payments	\$ 6,350,211
Grant payments	1,192,095
Miscellaneous sources	80,175
Payments to vendors for goods and services rendered	(1,970,098)
Payments to charter school personnel for services rendered	(5,135,291)
Interest payments	(183)
Net Cash Provided by Operating Activities	516,909
 Cash Flows from Investing Activities:	
Purchase of capital assets	(40,915)
Net Cash Used by Investing Activities	(40,915)
 Cash Flows from Financing Activities:	
Principal payments on long-term debt	(17,577)
Net Cash Used by Financing Activities	(17,577)
Net Increase in Cash and Cash Equivalents	458,417
Cash and Cash Equivalents - Beginning of Year	4,310,251
Cash and Cash Equivalents - End of Year	\$ 4,768,668
 Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:	
Change in Net Assets	\$ 309,890
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	68,726
(Increase) Decrease in assets:	
Due from governments	121,240
Prepaid expenses	2,619
Other assets	2,700
Operating Right of Use Asset	(549,034)
Increase (Decrease) in liabilities:	
Accounts payable	12,580
Accrued wages	(2,730)
Other payroll liabilities	(4,076)
	554,994
Net Cash Provided by Operating Activities	\$ 516,909

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

Heritage Academy Charter Schools, Inc.
Notes to Financial Statements
August 31, 2023

NOTE 1 - Summary of Significant Accounting Policies

The financial statements of Heritage Academy Charter Schools, Inc. (the “Charter Holder”) 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 Charter Holder 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 Charter Holder is governed by a Board of Directors comprised of five members. The Board of Directors is selected pursuant to the bylaws of the Charter Holder and has the authority to make decisions, appoint the chief executive officer of the Charter Holder, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Charter Holder.

Since the Charter Holder receives 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 Charter Holder 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. The Charter Holder was organized to provide educational services to at-risk students and their programs, services, activities and functions are governed by the Charter Holder’s Board of Directors. For the year ended August 31, 2023, the Charter Holder served grades Pre-Kindergarten through twelfth grade.

The Charter Holder operated one charter district, Heritage Academy, 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).

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the organization and changes therein are classified and reported as follows:

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. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other 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 those resources be maintained in perpetuity.

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.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Contributions

The Charter Holder accounts for contributions as 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 Charter Holder 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 Charter Holder 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 Charter Holder considers all government grants and contracts as exchange transactions rather than contributions. The Charter Holder 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 Charter Holder 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 Charter Holder did not recognize an impairment loss during the year ended August 31, 2023.

State Funding

The amount of state foundation school program act revenue the Charter Holder 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, 2023, will change.

Note 1 - Summary of Significant Accounting Policies (continued)

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 Charter Holder 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.

Basis of Consolidation

The General-Purpose financial statements are presented on an entity-wide consolidated basis including operations of the Organization not affiliated with any certain charter operation. Certain intercompany transactions are eliminated in the consolidation process because including them would make the overall financial statement presentation misleading.

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Charter Holder which will only be resolved when one or more future events occur or fail to occur. The Charter Holder'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 Charter Holder or unasserted claims that may result in such proceedings, the Charter Holder'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 Charter Holder'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.

Adoption of Accounting Pronouncement – Lease

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases (Topic 842)* to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

Effective September 1, 2022, the Charter Holder adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. The Charter Holder elected the package of practical expedients permitted in ASC Topic 842. As a result of the adoption of the new lease accounting guidance, the Charter Holder recognized on September 1, 2022 (a) lease liabilities of \$554,994, which represented the present value of the remaining lease payments of \$746,427 discounted using the Charter Holder's incremental borrowing rate of 7.5%, and (b) right-of-use assets of \$549,034, which represented the lease liability.

Heritage Academy Charter Schools, Inc.
Notes to Financial Statements
August 31, 2023

Note 2 - Cash and Cash Equivalents

Cash and cash equivalents as of August 31, 2023, consist of the following:

Checking accounts	<u>\$ 4,768,668</u>
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Note 3 - Due from Governments

At August 31, 2023, due from governments consisted of the following:

ESEA, Title I, Part A	\$ 12,173
IDEA-B Formula	210
National School Lunch and Breakfast Program	11,486
Title II, Part A -Supporting	9,729
TCLAS ESSER Grant III	10,474
ARP ESSER Grant III	33,346
State Foundation	243,157
Dyslexia Funding Support Grant	1,213
Total	<u>\$ 321,788</u>

Note 4 - Net Assets with Donor Restrictions

At August 31, 2023, net assets with donor restrictions in the amount of \$5,008,769 consisted of unexpended state program revenue

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 other events specified by the donors. During the year ended August 31, 2023, the Charter Holder released \$6,931,028 of funds with donor restrictions related to Foundation School Program and federal grants.

Note 6 - Capital Assets

A summary of changes in capital assets is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets</u>
Land	\$ 213,003	\$ -	\$ -	\$ 213,003	\$ -	\$ 213,003
Buildings and Improvements	730,638	25,100	-	755,738	137,401	618,337
Vehicles	371,839	-	-	371,839	254,107	117,732
Furniture and Equipment	823,744	15,815	-	839,559	782,097	57,462
Property and Equipment, Net	<u>\$ 2,139,224</u>	<u>\$ 40,915</u>	<u>\$ -</u>	<u>\$ 2,180,139</u>	<u>\$ 1,173,605</u>	<u>\$ 1,006,534</u>

Capital assets acquired with public funds received by the Charter Holder for the operation of the charter school constitute public property pursuant to Chapter 12 of the Texas Education Code.

Depreciation expense for the year ended August 31, 2023, was \$68,726.

Note 7 - Note Payable

The Charter Holder entered into a loan agreement with Schertz Bank & Trust for the purchase of two school buses during 2021. The original loan amount was \$193,532 bearing interest at the rate of 6.214% and payable in 36 monthly payments of \$5,922. The loan was paid off during the year.

Interest expense for the year ended August 31, 2023, was \$183.

Note 8 - Pension Plan Obligations

Plan Description

The Charter Holder 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 Charter Holder, 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 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 8.0 % for fiscal year 2023. The state's contribution rate as a non-employer contributing entity was 8.0% for fiscal year 2023.

Under provisions in state law, plan members are required to contribute 8.0% of their annual covered salary, and the state of Texas contributes an amount equal to 8.0% of the Charter Holder's covered payroll. The Charter Holder's contribution to TRS for the year ended August 31, 2023, was \$298,804, which includes \$73,211 in non-OASDI participation surcharges. The Charter Holder'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, 2023, employees of the Charter Holder were covered by a health insurance plan. The Charter Holder contributed \$271 to \$357 per month per employee based on the employee's years of service for the year ended August 31, 2023, 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 Charter Holder accounts for leases in accordance with FASB 842. The Charter Holder is the lessee for all of its leases. Upon adoption, a reporting entity should apply the provisions of ASC 842 at the beginning of the earliest period presented using a modified retrospective approach, which includes certain optional practical expedients that an entity may elect to apply. We adopted this standard September 1, 2022, using the modified retrospective approach. As a result, the opening net assets for September 1, 2022, was unaffected.

At the inception of a contract, the Charter Holder assesses whether the contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Charter Holder assesses whether:

- The contract involved the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- The Charter Holder has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- The Charter Holder has the right to direct the use of the asset. The Charter Holder has the right when it has decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Charter Holder has the right to direct the use of the asset if either the Charter Holder has the right to operate the assets or the Charter Holder designed the asset in a way that predetermined how and for what purpose it will be used.

A contract may contain multiple lease components; if so, the Charter Holder allocates the consideration in a contract to each lease component based on each component's relative stand-alone price. The Charter Holder is required to account for the right-to-use land and other assets separately unless the effect of doing so would be insignificant to the overall accounting for the transaction.

After separate lease components are identified, the Charter Holder applies the following steps to each separate lease component:

- Determine the lease term, generally calculated beginning at the lease commencement date.
- Determine the lease payments, which may include fixed payments, variable lease payments, amount the Charter Holder will probably owe under residual value guarantees and payments related to renewal or termination options that the Charter Holder are reasonably certain to exercise.
- Determine the discount rate for the lease based on information available at lease commencement. For the Charter Holder, the discount rate implicit in the lease unless that rate cannot be readily determined, in which case we are required to use the incremental borrowing rate which ranges from 5% to 8%.

Finance Leases

The Charter Holder classifies leases as finance leases if they are not short-term leases (see below) and they meet any of the following criteria:

- The lease transfers ownership of the underlying asset to the Charter Holder by the end of the lease term.
- The lease grants the Charter Holder an option to purchase the underlying asset that the Charter Holder is reasonably certain to exercise.
- The lease term is for a major part of the remaining economic life of the underlying asset. If the commencement date is at or near the end of the underlying asset's economic life, this test does not apply.
- The present value of the sum of (1) the lease payments and (2) any lessee residual value guarantee not reflected in the lease payments equal or exceed substantially all of the underlying asset's fair value.
- The underlying asset is of such specialized nature that is expected to have no alternative use to the lessor at the end of the lease term.

For finance leases, the Charter Holder recognizes a right-of-use (ROU) asset and a lease liability at lease commencement.

The finance lease ROU asset is initially measured at cost, which comprises the sum of (1) the initial amount of the finance lease liability, (2) initial direct costs incurred (incremental costs that would not have been incurred if the lease had not been obtained) and (3) any lease payments made before or at lease commencement, (4) reduced for any lease incentives received.

Subsequent to commencement, the Charter Holder measures the ROU asset at cost, less accumulated amortization and any accumulated impairment losses.

The Charter Holder amortizes the finance ROU asset on a straight-line basis over the period from the commencement date to the earlier (1) the end of the useful life of the ROU asset or (2) the end of the lease term. However, if the lease transfers ownership of the underlying asset to us, or if we are reasonably certain to exercise a purchase option to acquire the underlying, the Charter Holder amortize the ROU asset to the end of the underlying asset's useful life. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The finance lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the discount rate determined at commencement. Subsequent to commencement, we measure the finance lease liability on an amortized cost basis using the effective interest method. The lease liability is remeasured when (1) there is a change in future lease payment arising from a change in a rate or index, (2) there is a change in the estimate of the amount the Charter Holder expects to pay under a residual value guarantee or (3) if we change our assessment of whether we will exercise a purchase, extension, or termination option.

Finance lease ROU assets are included in property and equipment, net in the consolidated financial statement of the Charter Holder and in each District in the Statement of Financial Position. Finance lease liabilities are included in the current portion of long-term debt and long-term debt, net. Amortization on the ROU assets is included in the properly functional expense based on the use of the buildings.

Heritage Academy Charter Schools, Inc.
Notes to Financial Statements
August 31, 2023

Note 11 – Leases (continued)

The Charter Holder, Inc. leases its facilities under non-cancellable operating leases, which contain varying renewal options. Approximate aggregate remaining minimum rental commitments as of August 31, 2023, under these leases are summarized as follows:

<u>Fiscal Year Ending August 31,</u>	
2024	\$ 333,304
2025	<u>262,250</u>
Total payments due under lease liabilities	\$ 595,554
Less discount to present value	<u>40,559</u>
Total operating lease liabilities	<u><u>\$ 554,995</u></u>

ROU assets under operating lease for the year ended 2023 are as follows:

Buildings	\$ 549,034
Accumulated depreciation	<u>-</u>
	<u><u>\$ 549,034</u></u>

Rent expense for all operating leases for the year ended August 31, 2023, was \$361,347.

Note 12 - Income Tax

The Charter Holder 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 Charter Holder has no material unrelated business income for the year ended August 31, 2023.

Generally accepted accounting principles requires that the Charter Holder 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.

Tax positions taken related to the Charter Holder’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 Charter Holder has not recorded an income tax liability for uncertain tax benefits. For the year ended August 31, 2023, there were no interest or penalties related to income taxes recorded or included in the financial statements. As of August 31, 2023, the Charter Holder’s tax years 2019 through 2022 remain subject to examination.

Note 13 - Credit Risk

Financial instruments that potentially subject the Charter Holder 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.

Heritage Academy Charter Schools, Inc.
Notes to Financial Statements
August 31, 2023

Note 14 - Commitments and Contingencies

The Charter Holder 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 Charter Holder 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

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	<u>\$4,768,668</u>
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Except for the financial assets listed above, the Charter Holder's cash and cash equivalents and amounts due from governments are restricted by the Texas Education Agency and federal agencies for charter school operations.

Note 16 - Administrative Fees

For the year ended August 31, 2023, Heritage Academy Charter Schools, Inc. paid \$1,035,978 in administrative fees to the 501(c) (3) Charter Holder. The fees paid to the 501(c)(3) Charter Holder are restricted in nature. The fees have been eliminated from the combined Statement of Activities on page 8.

Note 17 - Evaluation of Subsequent Events

The Charter Holder has evaluated subsequent events through January 19, 2024, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Heritage Academy Charter Schools, Inc.
Statement of Cash Flows by Entity
For the Year Ended August 31, 2023

	<u>Heritage Academy</u>	<u>Charter Holder</u>	<u>Total</u>
<u>Assets</u>			
Current Assets			
Cash and cash equivalents	\$ 4,005,320	\$ 763,348	\$ 4,768,668
Due from governments	321,788	-	321,788
Prepaid expenses	15,500	6,705	22,205
Total current assets	<u>4,342,608</u>	<u>770,053</u>	<u>5,112,661</u>
Property and equipment, net	1,006,534	-	1,006,534
Operating Right of Use Asset	549,034	-	549,034
Total Assets	<u>\$ 5,898,176</u>	<u>\$ 770,053</u>	<u>\$ 6,668,229</u>
<u>Liabilities and Net Assets</u>			
Current Liabilities			
Accounts payable	\$ 50,442	\$ 1,713	\$ 52,155
Accrued wages	128,809	12,042	140,851
Other payroll liabilities	101,377	10,508	111,885
Current portion of lease liability, operating	302,174	-	302,174
Total current liabilities	<u>582,802</u>	<u>24,263</u>	<u>607,065</u>
Lease liability, operating	252,820	-	252,820
Total long-term liabilities	<u>252,820</u>	<u>-</u>	<u>252,820</u>
Total Liabilities	<u>835,622</u>	<u>24,263</u>	<u>859,885</u>
Net Assets			
Without donor restrictions	799,575	-	799,575
With donor restrictions	4,262,979	745,790	5,008,769
Total Net Assets	<u>5,062,554</u>	<u>745,790</u>	<u>5,808,344</u>
Total Liabilities and Net Assets	<u>\$ 5,898,176</u>	<u>\$ 770,053</u>	<u>\$ 6,668,229</u>

See independent auditor's report.

Heritage Academy Charter Schools, Inc.
Statement of Activities by Entity
For the Year Ended August 31, 2023

	Heritage Academy			Charter Holder		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues						
Local support:						
Interest and other income	\$ 78,675	\$ -	\$ 78,675	\$ -	\$ 1,037,478	\$ 1,037,478
Total local support	78,675	-	78,675	-	1,037,478	1,037,478
State program revenues:						
Foundation school program act	-	6,093,990	6,093,990	-	-	-
Other state aid	-	87,439	87,439	-	-	-
Total state program revenues	-	6,181,429	6,181,429	-	-	-
Federal program revenues:						
ESEA, Title I, Part A	-	298,932	298,932	-	-	-
IDEA-Part B, Formula	-	97,040	97,040	-	-	-
IDEA-Part B, Pre-school	-	1,088	1,088	-	-	-
National School Lunch and Breakfast Program	-	181,443	181,443	-	-	-
ESEA, Title II, Part A	-	10,279	10,279	-	-	-
Title III, Part A, ELA	-	30,646	30,646	-	-	-
TCLAS - ESSER III	-	147,592	147,592	-	-	-
ESSER II Grant	-	39,879	39,879	-	-	-
ESSER III Grant	-	422,674	422,674	-	-	-
IDEA-B Formula - ARP	-	1,632	1,632	-	-	-
ESEA, Title IV, Part A	-	8,432	8,432	-	-	-
Total federal program revenues	-	1,239,637	1,239,637	-	-	-
Net assets released from restrictions:						
Restrictions satisfied by payments	7,967,006	(7,967,006)	-	-	-	-
Total Revenues	8,045,681	(545,940)	7,499,741	-	1,037,478	1,037,478
Expenses						
Program Services:						
11 Instruction	4,363,654	-	4,363,654	-	-	-
13 Curriculum development and instructional staff development	101,813	-	101,813	-	-	-
21 Instructional leadership	116,116	-	116,116	-	-	-
23 School leadership	643,248	-	643,248	-	-	-
31 Guidance, counseling and evaluation services	217,840	-	217,840	-	12,214	12,214
32 Social work services	-	-	-	-	-	-
33 Health services	54,473	-	54,473	-	-	-
34 Student (Pupil) Transportation	-	-	-	-	-	-
35 Food services	290,581	-	290,581	-	-	-
36 Cocurricular/extracurricular activities	30,532	-	30,532	-	-	-
53 Data processing services	50,554	-	50,554	-	13,886	13,886
Total Program Services	5,868,811	-	5,868,811	-	26,100	26,100
Support Services:						
41 General administration	741,192	-	741,192	-	493,390	493,390
51 Plant maintenance and operations	733,702	-	733,702	-	251,249	251,249
52 Security and monitoring services	91,106	-	91,106	-	13,336	13,336
71 Debt service	183	-	183	-	-	-
Total Support Services	1,566,183	-	1,566,183	-	757,975	757,975
Fundraising services:						
81 Fundraising	8,260	-	8,260	-	-	-
Total Fundraising Services	8,260	-	8,260	-	-	-
Total Expenses	7,443,254	-	7,443,254	-	784,075	784,075
Change in Net Assets	602,427	(545,940)	56,487	-	253,403	253,403
Net Assets, Beginning of Year	197,148	4,808,919	5,006,067	-	492,387	492,387
Net Assets, End of Year	\$ 799,575	\$ 4,262,979	\$ 5,062,554	\$ -	\$ 745,790	\$ 745,790

See independent auditor's report.

Heritage Academy Charter Schools, Inc.
Statement of Activities by Entity
For the Year Ended August 31, 2023

	Total			Consolidated Total			
	Without Donor Restrictions	With Donor Restrictions	Total	Eliminations	Without Donor Restrictions	With Donor Restrictions	Total
Revenues							
Local support:							
Interest and other income	\$ 78,675	\$ 1,037,478	\$ 1,116,153	\$ 1,035,978	\$ 78,675	\$ 1,500	\$ 80,175
Total local support	78,675	1,037,478	1,116,153	1,035,978	78,675	1,500	80,175
State program revenues:							
Foundation school program act	-	6,093,990	6,093,990	-	-	6,093,990	6,093,990
Other state aid	-	87,439	87,439	-	-	87,439	87,439
Total state program revenues	-	6,181,429	6,181,429	-	-	6,181,429	6,181,429
Federal program revenues:							
ESEA, Title I, Part A	-	298,932	298,932	-	-	298,932	298,932
IDEA-Part B, Formula	-	97,040	97,040	-	-	97,040	97,040
IDEA-Part B, Pre-school	-	1,088	1,088	-	-	1,088	1,088
National School Lunch and Breakfast Program	-	181,443	181,443	-	-	181,443	181,443
ESEA, Title II, Part A	-	10,279	10,279	-	-	10,279	10,279
Title III, Part A, ELA	-	30,646	30,646	-	-	30,646	30,646
TCLAS - ESSER III	-	147,592	147,592	-	-	147,592	147,592
ESSER II Grant	-	39,879	39,879	-	-	39,879	39,879
ESSER III Grant	-	422,674	422,674	-	-	422,674	422,674
IDEA-B Formula - ARP	-	1,632	1,632	-	-	1,632	1,632
ESEA, Title IV, Part A	-	8,432	8,432	-	-	8,432	8,432
Total federal program revenues	-	1,239,637	1,239,637	-	-	1,239,637	1,239,637
Net assets released from restrictions	-	-	-	-	-	-	-
Restrictions satisfied by payments	7,967,006	(7,967,006)	-	-	6,931,028	(6,931,028)	-
Total Revenues	8,045,681	491,538	8,537,219	1,035,978	7,009,703	491,538	7,501,241
Expenses							
Program Services:							
11 Instruction	4,363,654	-	4,363,654	-	4,363,654	-	4,363,654
13 Curriculum development and instructional staff development	101,813	-	101,813	-	101,813	-	101,813
21 Instructional leadership	116,116	-	116,116	-	116,116	-	116,116
23 School leadership	643,248	-	643,248	-	643,248	-	643,248
31 Guidance, counseling and evaluation services	217,840	12,214	230,054	(16,160)	201,680	12,214	213,894
32 Social work services	-	-	-	-	-	-	-
33 Health services	54,473	-	54,473	-	54,473	-	54,473
34 Student (Pupil) Transportation	-	-	-	-	-	-	-
35 Food services	290,581	-	290,581	-	290,581	-	290,581
36 Cocurricular/extracurricular activities	30,532	-	30,532	-	30,532	-	30,532
53 Data processing services	50,554	13,886	64,440	(18,375)	32,179	13,886	46,065
Total Program Services	5,868,811	26,100	5,894,911	(34,535)	5,834,276	26,100	5,860,376
Support Services:							
41 General administration	741,192	493,390	1,234,582	(652,819)	88,373	493,390	581,763
51 Plant maintenance and operations	733,702	251,249	984,951	(330,979)	402,723	251,249	653,972
52 Security and monitoring services	91,106	13,336	104,442	(17,645)	73,461	13,336	86,797
71 Debt service	183	-	183	-	183	-	183
Total Support Services	1,566,183	810,175	2,324,158	(1,001,443)	564,740	810,175	1,322,715
Fundraising services:							
81 Fundraising	8,260	-	8,260	-	8,260	-	8,260
Total Fundraising Services	8,260	-	8,260	-	8,260	-	8,260
Total Expenses	7,443,254	836,275	8,227,329	(1,035,978)	6,407,276	836,275	7,191,351
Change in Net Assets	602,427	(344,737)	309,890	-	602,427	(344,737)	309,890
Net Assets, Beginning of Year	689,535	4,808,919	5,498,454	-	197,148	5,301,306	5,498,454
Net Assets, End of Year	\$ 1,291,962	\$ 4,464,182	\$ 5,808,344	\$ -	\$ 799,575	\$ 4,956,569	\$ 5,808,344

See independent auditor's report.

Heritage Academy Charter Schools, Inc.
Statement of Cash Flows by Entity
For the Year Ended August 31, 2023

	<u>Heritage Academy</u>	<u>Charter Holder</u>	<u>Total</u>
Cash Flows from Operating Activities:			
Foundation school program payments	\$ 6,133,887	\$ -	\$ 6,133,887
Grant payments	1,408,419	-	1,408,419
Miscellaneous sources	78,675	1,037,478	1,116,153
Payments to vendors for goods and services rendered	(2,689,096)	(318,037)	(3,007,133)
Payments to charter school personnel for services rendered	(4,666,618)	(467,616)	(5,134,234)
Interest payments	(183)	-	(183)
Net Cash Provided by Operating Activities	<u>265,084</u>	<u>251,825</u>	<u>516,909</u>
Cash Flows from Investing Activities:			
Purchase of capital assets	(40,915)	-	(40,915)
Net Cash Used by Investing Activities	<u>(40,915)</u>	<u>-</u>	<u>(40,915)</u>
Cash Flows from Financing Activities:			
Principal payments on long-term debt	(17,577)	-	(17,577)
Net Cash Used by Financing Activities	<u>(17,577)</u>	<u>-</u>	<u>(17,577)</u>
Net Increase in Cash and Cash Equivalents	206,592	251,825	458,417
Cash and Cash Equivalents - Beginning of Year	<u>3,798,727</u>	<u>511,524</u>	<u>4,310,251</u>
Cash and Cash Equivalents - End of Year	<u>\$ 4,005,319</u>	<u>\$ 763,349</u>	<u>\$ 4,768,668</u>
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:			
Change in Net Assets	\$ 56,487	\$ 253,403	\$ 309,890
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation	68,726	-	68,726
(Increase) Decrease in assets:			
Due from governments	121,240	-	121,240
Prepaid expenses	5,440	(2,821)	2,619
Other assets	-	2,700	2,700
Operating Right of Use Asset	(549,034)	-	(549,034)
Increase (Decrease) in liabilities:			
Accounts payable	10,867	1,713	12,580
Accrued wages	(1,059)	(1,671)	(2,730)
Other payroll liabilities	(2,576)	(1,500)	(4,076)
Lease liability, operating	554,994	-	554,994
Net Cash Provided by Operating Activities	<u>\$ 265,085</u>	<u>\$ 251,824</u>	<u>\$ 516,909</u>

See independent auditor's report.

Heritage Academy Charter Schools, Inc.
Schedule of Expenses
For the Year Ended August 31, 2023

Expenses	<u>Heritage Academy</u>
6100 Payroll costs	\$ 4,664,041
6200 Professional and contracted services	2,105,997
6300 Supplies and materials	473,699
6400 Other operating costs	199,334
6500 Debt	183
 Total Expenses	 <u><u>\$ 7,443,254</u></u>

See independent auditor's report.

Heritage Academy Charter Schools, Inc.
Schedule of Capital Assets
August 31, 2023

		Heritage Academy Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 204,415	\$ 3,900,891	\$ (99,986)
1510	Land	-	213,003	-
1520	Buildings and Improvements	-	755,738	-
1531	Vehicles	10,000	361,839	-
1539	Furniture and equipment	-	453,794	20,098
1549	Furniture and equipment	-	247,447	118,220
		\$ 214,415	\$ 5,932,712	\$ 38,332

See independent auditor's report.

Heritage Academy Charter Schools, Inc.
Budgetary Comparison Schedule
For the Year Ended August 31, 2023

	Heritage Academy			
	Budgeted Amounts		Actual Amounts	Variance from Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local support:				
5740 Other revenues from local sources	\$ 65,000	\$ 50,000	\$ 44,882	\$ (5,118)
5750 Revenues from cocurricular, enterprising services or activities	-	18,000	33,793	15,793
Total local support	<u>65,000</u>	<u>68,000</u>	<u>78,675</u>	<u>10,675</u>
State program revenues:				
5810 Foundation school program act	6,025,000	5,957,000	6,093,990	136,990
5820 State program revenues distributed by Texas Education Agency	1,000	83,741	87,439	3,698
Total state program revenues	<u>6,026,000</u>	<u>6,040,741</u>	<u>6,181,429</u>	<u>140,688</u>
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	1,475,571	1,219,788	1,239,637	19,849
5930 Federal revenues distributed by the Texas Department of Agriculture	-	-	-	-
Total federal program revenues	<u>1,475,571</u>	<u>1,219,788</u>	<u>1,239,637</u>	<u>19,849</u>
Total Revenues	<u>7,566,571</u>	<u>7,328,529</u>	<u>7,499,741</u>	<u>171,212</u>
Expenses				
11 Instruction	4,194,045	4,325,854	4,363,654	(37,800)
13 Curriculum development and instructional staff development	68,544	103,284	101,813	1,471
21 Instructional leadership	100,000	117,000	116,116	884
23 School leadership	735,331	593,000	643,248	(50,248)
31 Guidance, counseling and evaluation services	184,971	213,566	217,840	(4,274)
33 Health services	112,834	54,000	54,473	(473)
35 Food services	300,000	293,000	290,581	2,419
36 Cocurricular/extracurricular activities	35,000	30,946	30,532	414
41 General administration	885,680	731,114	741,192	(10,078)
51 Plant maintenance and operations	542,500	696,009	733,702	(37,693)
52 Security and monitoring services	55,000	92,069	91,106	963
53 Data processing services	20,000	44,001	50,554	(6,553)
71 Debt service	500	200	183	17
81 Fundraising	25,000	8,500	8,260	240
Total Expenses	<u>7,259,405</u>	<u>7,302,543</u>	<u>7,443,254</u>	<u>(140,711)</u>
Change in Net Assets	307,166	25,986	56,487	30,501
Net Assets, Beginning of Year	<u>5,006,067</u>	<u>5,006,067</u>	<u>5,006,067</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 5,313,233</u>	<u>\$ 5,032,053</u>	<u>\$ 5,062,554</u>	<u>\$ 30,501</u>

See independent auditor's report.

Heritage Academy Charter Schools, Inc.
Notes to Budgetary Comparison Schedule
For the Year Ended August 31, 2023

Original to Final Budget:

- Function 11 - Expenses budgeted in General Admin were identified per FASRG and moved to Curriculum.
- Function 21 - Additional special ed leadership expenses were identified during the fiscal year.
- Function 23 - School leadership positions were adjusted during the fiscal year.
- Function 31 - Additional needs identified during the fiscal year.
- Function 33 - A second nurse was added during the fiscal year.
- Function 36 - Extracurricular activities expenses came in lower than anticipated.
- Function 41 - General admin expenses came in lower than anticipated.
- Function 51 - Added additional square footage.
- Function 52 - Safety grants were allotted during the fiscal year and estimates were adjusted.
- Function 53 - Expenses budgeted in General Admin were identified per FASRG and moved to Data Processing.
- Function 71 - Initial debt budget was a holding spot for the final debt payments.
- Function 81 - Fundraising expenses came in lower than anticipated.

Actual to Final Budget:

- Function 52 - Safety projects identified during the grant writing process were completed earlier than expected.
- Function 53 - Annual renewal had not been encumbered at time of final budget.

Heritage Academy Charter Schools, Inc.
Schedule of Real Property Ownership Interest
Year Ended August 31, 2023

Description	Property Address	Total Assessed Value	Ownership Interest		
			Local	State	Federal
Del Rio School Campus	605 Amistad Blvd, Del Rio, Texas 78840	\$ 484,801		\$ 484,801	

See independent auditor's report.

Heritage Academy Charter Schools, Inc.
 Schedule of Related Party Transactions
 Year Ended August 31, 2023

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Condition</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During Fiscal Year</u>	<u>Principal Balance Due</u>
NONE								

See independent auditor's report.

Heritage Academy Charter Schools, Inc.
 Schedule of Related Party Compensation and Benefits
 Year Ended August 31, 2023

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Description of Terms and Condition</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During Fiscal Year</u>
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NONE

See independent auditor's report.

Heritage Academy Charter Schools, Inc.
 Schedule J-4
 For the Year Ended August 31, 2023

Data Codes	Section A: Compensatory Education Programs	Column 1	Responses
AP1	Did your LEA expend any state compensatory education program state allotment funds during the districts fiscal year?	Yes	
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes	
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.	\$723,015	
AP4	List the actual direct program expenditures for the state compensatory education programs during the LEA's fiscal year. (PIC's 24,26,28,29,30,34)	\$169,780	
	Section B: Bilingual Education Programs		
AP5	Did your LEA expend and state bilingual education program state allotment funds during the districts fiscal year?	Yes	
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes	
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year.	\$174,766	
AP8	List the actual direct program expenditures for the bilingual education programs during the LEA's fiscal year. (PIC's 25,35)	\$372,963	

See independent auditor's report.

COMPLIANCE AND INTERNAL CONTROL SECTION

Paul J. Christensen & Associates, LLC

Certified Public Accountants

2110 Austin Avenue
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(254)752-3436
FAX (254)752-3463
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Paul J. Christensen, C.P.A.
Gary L. 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 "Charter Holder") (a nonprofit organization), which comprise the statement of financial position as of August 31, 2023, 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 19, 2024.

Report on 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) as a basis for designing 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.

Report on 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.



Waco, Texas
January 19, 2024

Paul J. Christensen & Associates, LLC

Certified Public Accountants

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Gary L. Sauls, C.P.A.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance For Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Heritage Academy Charter Schools, Inc.'s (the "Charter Holder") (a nonprofit organization), compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Heritage Academy Charter Schools, Inc.'s major federal programs for the year ended August 31, 2023. Heritage Academy Charter Schools, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Heritage Academy Charter Schools, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Charter Holder and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Charter Holder's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Charter Holder's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Charter Holder's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Charter Holder's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Charter Holder's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Charter Holder's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Charter Holder's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

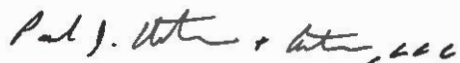
Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Waco, Texas
January 19, 2024

Heritage Academy Charter Schools, Inc.
 Schedule of Findings and Questioned Costs
 For the Year Ended August 31, 2023

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 No

Significant deficiency(ies) identified that are not
 considered to be material weakness(es)? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal Control over Major Programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not
 considered to be material weakness(es)? Yes No

Type of auditor's report issued on compliance for
 major programs Unmodified

Any audit findings disclosed that are required to be
 reported in accordance with 2 CFR section 200.516(a)? Yes No

Identification of Major Programs:

<u>CFDA Number(s)</u>	Name of Federal Program
84.010A	Title I, Part A - Improving Basic Title I, 1003 School Improvement
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Heritage Academy Charter Schools, Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended August 31, 2023

I. FINANCIAL STATEMENT FINDINGS

None

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

Heritage Academy Charter Schools, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2023

<u>Federal Grantor/Pass-Through/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education:</u>			
Passed-Through Texas Education Agency			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	23610101015815	\$ 208,687
ESEA, Title I, 1003 School Improvement	84.010A	23610141015815	43,480
ESEA, Title I, 1003 ESF-Focus	84.010A	226101577110009	46,765
Special Education Cluster (IDEA)			
IDEA - Part B, Formula	84.027A	236600010158156000	97,040
IDEA - Part B, Formula - ARP	84.027A	225350020158155000	1,632
IDEA - Part B, Preschool	84.173A	236610010158156000	1,088
Total Special Education Cluster (IDEA)			<u>99,760</u>
ESEA, Title II, Part A - Teacher and Principal Training	84.367A	22694501015815	10,279
Title III, Part A, ELA	84.365A	22671001015950	64
Title III, Part A, ELA	84.365A	23671001015950	30,582
ESEA, Title II Part A, Subpart I	84.424A	23680101015815	8,432
ESSER Grant II	84.425D	21521001015815	39,879
ESSER Grant III - ARP	84.425U	21528001015815	422,674
TCLAS	84.425U	21528042015815	147,592
Total U.S. Department of Education			<u>659,502</u>
<u>U.S. Department of Agriculture:</u>			
Passed-Through Texas Education Agency			
Child Nutrition Cluster			
School Breakfast Program	10.553	71402301	29,221
School Lunch Program	10.555	71302201	152,222
Total Child Nutrition Cluster and U.S. Department of Agriculture			<u>181,443</u>
Total Expenditures of Federal Awards			<u>\$ 1,239,637</u>

See accompanying notes to schedule of expenditures of federal awards.

Heritage Academy Charter Schools, Inc.
Notes To Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2023

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) presents the activity of all applicable federal award programs of Heritage Academy Charter Schools, Inc. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Corporation.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in Uniform Guidance, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2 - Indirect Cost Rate

Heritage Academy Charter Schools, Inc. has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.