

HERITAGE CHARTER ACADEMY, INC.

Formerly known as Unity Charter School of Cape Coral, Inc

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

**Financial Statements
with Independent Auditor's Reports Thereon**

June 30, 2019

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**HERITAGE CHARTER ACADEMY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management of Heritage Charter Academy, Inc. (the "School") offers the following narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2019. Readers are encouraged to use this information in conjunction with information furnished in the School's financial statements. This summary should not be taken as a replacement for the audit, which consists of the basic financial statements and other supplemental information.

FINANCIAL HIGHLIGHTS

- ❖ For the fiscal year ended June 30, 2019, the School's revenues exceeded expenses by approximately \$21,000
- ❖ The School has a governmental total fund balance (deficit) at year end of approximately (\$223,409) after current year operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to School's basic financial statements. The School's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the School through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the understanding of the financial condition of School. This document also includes the Report of Independent Auditors 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*, as well as the management letter required by the Rules of the Auditor General, Chapter 10.850, *Audits of Charter Schools and Similar Entities*.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the School's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the School's financial status as a whole.

The two government-wide statements report the School's net position and the current year changes. Net position is the difference between the School's total assets and total liabilities. Measuring net position is one way to evaluate the School's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include the School's basic services. The business-type activities are those services that the School charges for that are not directly related to the School's mission. For the year ended June 30, 2019, the School had no business-type activities or component units.

Fund Financial Statements

The fund financial statements provide a more detailed look at the School's most significant activities. A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. All of the operations of the School are presented in governmental funds only.

Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. The School's basic services are accounted for in governmental funds. These funds focus on how assets that can readily be converted into cash flow in and out, and what monies are left at year-end will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*. This method also has a current financial resources focus. As a result, the governmental fund financial statements provide a detailed short-term view of the financial resources available to finance the School's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The School adopts an annual budget for its general fund, as required by the Florida Statutes. The budget is legally adopted by management of the School and its Board. A budgetary comparison schedule has been included as part of the required supplementary information. The budgetary comparison schedule shows four columns: 1) the original budget as adopted by the Board, 2) the final budget as amended by the Board, 3) the actual resources, charges and ending balances in the general fund, and 4) the variance between the final budget and the actual resources and charges.

Notes to Financial Statements

The notes to financial statements provide additional information essential to the full understanding of the information reported in the government-wide and fund financial statements. The notes to the financial statements start on page 15 of this report.

GOVERNMENT-WIDE ANALYSIS OF THE SCHOOL

Net Position

The School's combined net position as of June 30, 2019 and 2018 are summarized as follows:

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Assets:			
Current assets	\$ 78,844	\$ 52,995	\$ 25,849
Capital assets, net	16,736	16,736	-
Total assets	<u>95,580</u>	<u>69,731</u>	<u>25,849</u>
Liabilities:			
Current and other liabilities	<u>302,253</u>	<u>297,479</u>	<u>4,774</u>
Total liabilities	<u>302,253</u>	<u>297,479</u>	<u>4,774</u>
Net Position:			
Investment in capital assets, net of related debt	16,736	16,736	-
Unrestricted (deficit)	<u>(223,409)</u>	<u>(244,484)</u>	<u>21,075</u>
Total net position	<u>\$ (206,673)</u>	<u>\$ (227,748)</u>	<u>\$ 21,075</u>

The change in current assets increased due to current surplus. Current and other liabilities increased due to an increase in accounts payable. The change in total net position is due to the results of current year operations.

Change in Net Position

The School's total revenues exceeded total expenses by approximately \$21,000 in fiscal 2019—see table below.

	2019	2018	Change
Revenues:			
Federal sources	\$ -	\$ 141,888	\$ (141,888)
State and local sources	1,030,984	1,302,614	(271,630)
Contributions and other revenues	20,946	288,847	(267,901)
Total revenues	<u>1,051,930</u>	<u>1,733,349</u>	<u>(681,419)</u>
Expenses:			
Instruction	492,562	691,886	(199,324)
Pupil personnel services	184,660	10,892	173,768
Instructional staff training	-	-	-
Board	6,352	10,933	(4,581)
General administration	51,005	64,280	(13,275)
School administration	220,996	176,361	44,635
Facilities acquisition & construction	-	153,692	(153,692)
Fiscal services	-	181,072	(181,072)
Food services	11,439	80,693	(69,254)
Central services	-	22,660	(22,660)
Transportation	28,944	68,454	(39,510)
Operation of plant	34,897	123,423	(88,526)
Community services	-	12,989	(12,989)
Unallocated depreciation	-	2,092	(2,092)
Total expenses	<u>1,030,855</u>	<u>1,599,427</u>	<u>(568,572)</u>
Change in net position	<u>\$ 21,075</u>	<u>\$ 133,949</u>	<u>\$ (112,874)</u>

The School's revenue and expenses have significantly decreased.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As the School completed the year, its governmental funds reported a combined fund balance (deficit) of (\$223,409).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2019, the School invested approximately \$20,000 in capital assets, net of accumulated depreciation of approximately \$4,000.

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Capital assets			
Furniture & equipment	\$ 20,920	\$ 20,920	\$ -
Total	20,920	20,920	-
Less – accumulated depreciation	<u>(4,184)</u>	<u>(4,184)</u>	<u>-</u>
Total capital assets	<u>\$ 16,736</u>	<u>\$ 16,736</u>	<u>\$ -</u>

There were no major capital asset additions this year.

More detailed information about the School's capital assets is presented in Note 3 to the financial statements.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the School's administrative offices at 2107 Santa Barbara Blvd., Cape Coral, Florida 33991



McCRAZY & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors of Heritage Charter Academy, Inc.,
a Charter School and Component Unit of the District
School Board of Lee County, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of Heritage Charter Academy, Inc. (the "School"), a charter school and component unit of the District School Board of Lee County, Florida, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis of Opinion

Management has not presented government-wide financials to display the financial position and changes in financial position of its governmental activities. Based on representation of new management the monthly regularly required statements were not provided to the county and

government -wide statements are not available. Significant and important account information to create books and records were not available. Additionally, proper information was not available to ensure the notes to the financial statements were complete and accurate. Therefore, the accounting information was not complete and sufficient and we have rendered a “Disclaimer of Opinion.”

Disclaimer of Opinion

Because of the significance of the matters described in the Basis of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis of an audit opinion. Accordingly, we do not express an opinion on the financial statements

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages 1-6 and 27-28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2019, on our consideration of the School’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the School’s internal control over financial reporting and compliance.

McCrary & Associates, PLLC

Altamonte Springs, Florida
October 26, 2019

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HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

Statement of Net Position

June 30, 2019

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 58,239
Prepaid expenses	20,605
Capital assets:	
Furniture, fixtures and equipment	20,920
Less accumulated depreciation	<u>(4,184)</u>
Total capital assets, net	<u>16,736</u>
Total assets	<u><u>\$ 95,580</u></u>
LIABILITIES	
Accounts payable and accrued expenses	<u>\$ 302,253</u>
Total liabilities	<u>302,253</u>
NET POSITION	
Invested in capital assets, net of related debt	16,736
Unrestricted	<u>(223,409)</u>
Total net position	<u><u>\$ (206,673)</u></u>

The accompanying notes to financial statements are an integral part of this statement.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

Statement of Activities

For the Year Ended June 30, 2019

	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental Activities:						
Instruction	\$ 492,562	\$ -	\$ -	\$ -	\$ (492,562)	\$ (492,562)
Pupil personnel services	184,660	-	-	-	(184,660)	(184,660)
Board	6,352	-	-	-	(6,352)	(6,352)
General administration	51,005	-	-	-	(51,005)	(51,005)
School administration	220,996	-	-	-	(220,996)	(220,996)
Food services	11,439	-	-	-	(11,439)	(11,439)
Transportation services	28,944	-	-	-	(28,944)	(28,944)
Operation of plant	34,897	-	-	-	(34,897)	(34,897)
	<u>\$ 1,030,855</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(1,030,855)</u>	<u>(1,030,855)</u>
Total primary government						
General revenues:						
State and local sources					1,030,984	1,030,984
Contributions and other revenues					20,946	20,946
					<u>1,051,930</u>	<u>1,051,930</u>
Total general revenues						
Changes in net position					21,075	21,075
Net position at beginning of year					<u>(227,748)</u>	<u>(227,748)</u>
Net position at end of year					<u>\$ (206,673)</u>	<u>\$ (206,673)</u>

The accompanying notes to financial statements are an integral part of this statement.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

Balance Sheet - Governmental Funds

June 30, 2019

	General Fund
ASSETS	
Cash and cash equivalents	\$ 58,239
Prepaid expenses	<u>20,605</u>
Total assets	<u><u>\$ 78,844</u></u>
LIABILITIES	
Accounts payable and accrued expenses	<u>\$ 302,253</u>
Total liabilities	<u>302,253</u>
FUND BALANCE	
Spendable:	
Unassigned	<u>(244,014)</u>
Total fund balances	<u>(223,409)</u>
Total liabilities and fund balances	<u><u>\$ 78,844</u></u>

The accompanying notes to financial statements are an integral part of this statement.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position**

June 30, 2019

Total fund balances - general fund \$ (223,409)

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the capital assets are \$20,290 and the accumulated depreciation is \$4,184.

16,736

Total net position - governmental activities

\$ (206,673)

The accompanying notes to financial statements are an integral part of this statement.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

**Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds**

For the Year Ended June 30, 2019

	General Fund
Revenues	
State and local sources	\$ 1,030,984
Contributions and other revenues	20,946
Total revenues	<u>1,051,930</u>
Expenditures	
Current:	
Instruction	492,562
Pupil personnel services	184,660
Board	6,352
General administration	51,005
School administration	220,996
Food service	11,439
Transportation services	28,944
Operation of plant	34,897
Total expenditures	<u>1,030,855</u>
Net changes in fund balance	21,075
Fund balances at beginning of year	<u>(244,484)</u>
Fund balances at end of year	<u>\$ (223,409)</u>

The accompanying notes to financial statements are an integral part of this statement.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities**

For the Year Ended June 30, 2019

Net changes in fund balances - total general fund	\$ 21,075
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$XXX) in the current period.

Change in net position of governmental activities	\$ 21,075
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The accompanying notes to financial statements are an integral part of this statement.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

Notes to Financial Statements

For the Year Ended June 30, 2019

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Heritage Charter Academy, Inc. (the "School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes and the Florida Not-for-Profit Corporation Act. The governing body of the School is the not-for-profit corporation Board of Directors, which is composed of three members.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Lee County Florida, (the "School Board"). The School is considered a component unit of the School Board and meets the definition of a governmental entity under the Governmental Accounting Standards Board ("GASB").

Basis of Presentation

Based on the guidance provided in the American Institute of Certified Public Accountants Audit and Accounting Guide – *Audits for States and Local Governments* and provisions in the Florida Statutes, the School is considered as a governmental organization for financial statement reporting purposes. The School is required by its agreement with the School Board to use the governmental reporting model and follow the fund and accounting structure provided in the "Financial and Program Cost Accounting and Reporting for Florida Schools – The Red Book" issued by the FDOE.

Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the School in a manner similar to a private-sector business. The statement of net position and statement of activities are designed to provide financial information about the School as a whole on an accrual basis of accounting. The statement of net position provides information about the School's financial position, its assets and its liabilities, using an economic resources measurement focus.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

**Notes to Financial Statements
(continued)**

The statement of activities presents a comparison between direct expenses and program revenue for each function or program of the School's governmental activities. Direct expenses are those specifically associated with a program or function, therefore, are clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of goods and services offered by the program and grants and contributions that are restricted for meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues.

Fund Financial Statements

The governmental fund financial statements report detailed information about the School's most significant funds, not the School as a whole. A fund is a group of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance related requirements. Certain funds are established by law while others are created by grant agreements. The following are individual governmental funds reported in the fund financial statements:

- General Fund – the School's primary operating fund that accounts for all financial resources of the school, except those that are required to be accounted for in another fund.
- Capital Projects Fund – to account for all resources for the acquisition of capital items by the School purchased with capital outlay funds.
- Debt Service Fund – to account for the accumulation of resources for, and payment of general long-term debt principal, interest, and related costs.

For the purpose of these statements, the general, capital projects fund and debt service fund are considered major funds.

Basis of Accounting

Basis of accounting refers to when revenues and expenses/expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses/expenditures are recognized when a liability is incurred, regardless of the timing the related cash flows take place.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

**Notes to Financial Statements
(continued)**

The governmental fund financial statements are reported using the modified accrual basis of accounting. Under this method, revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectable within a current period. The School considers revenues to be available if they are collected within 60 days after the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenues is recognized at the time the expenditure is made. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from the acquisition of long-term debt are reported as other financing sources.

Budgetary Basis Accounting

Budgets are prepared using the modified accrual basis of accounting and the governing board must approve all budgets and amendments. During the fiscal year, expenditures were controlled at the object level. Budgets may be amended by resolution of the Board prior to the date of the annual report.

Cash and Cash Equivalents

The School's cash and cash equivalents consist primarily of demand deposits with financial institutions.

As State of Florida Statutes and the School's policy require, all deposits be made into and held by financial institutions designated by the treasurer of the State of Florida as qualified public depositories as defined by Chapter 280 of the Florida Statutes. This statute requires that every qualified public depository institution maintain eligible collateral to secure the public entity's funds. The minimum collateral to be pledged by the institution, the collateral eligible for pledge, and reporting requirements of the qualified public depositor to the treasurer is defined by the ability to assess members of the pool should the need arise. The School's deposits are held in a qualified public depository. They are covered by the collateral pool as the School has identified itself as a public entity at June 30, 2019.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

**Notes to Financial Statements
(continued)**

Capital Assets and Depreciation

The School's capital assets with useful lives of more than one year are stated at historical cost and are reported in the statement of net position in the government-wide financial statements. Donated capital assets are recorded at their estimated fair value on the date donated. The School capitalizes assets with a cost of \$750 or more. Expenditures of normal maintenance and repair that do not add to the asset value or extend the useful life are not capitalized. Depreciation is computed using the straight-line method. Estimated useful lives of the assets are as follows:

	<u>Years</u>
Buildings and improvements	5 – 40
Furniture, fixtures and equipment	3 – 15

Information related to the change in capital assets is described in Note 4.

Net Position and Fund Balance Classifications

Government-wide financial statements

Net position is classified and reported in three components:

- Investment in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings that are attributed to the acquisition or improvement of those assets.
- Restricted – consists of amounts with constraints placed on their use either by external groups such as creditors, grantors, contributors or laws or regulations of other governments.
- Unrestricted – all other amounts that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

**Notes to Financial Statements
(continued)**

Fund financial statements

GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*, defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be reported within one of the following fund balance categories:

- Nonspendable – fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned). All nonspendable fund balances at year end relate to assets that are in nonspendable form.
- Restricted – fund balance that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.
- Committed – fund balance that can be used only for the specific purposes determined by a formal action of the School’s Board of Governance.
- Assigned – fund balance that is intended to be used by the School’s management for specific purposes but does not meet the criteria to be classified as restricted or committed.
- Unassigned – fund balance that is the residual amount for the School’s general fund and includes all spendable amounts not contained in the other classifications.

This statement also clarifies the definition of the special revenue fund to denote it may be used to account for the proceeds of specific revenue sources (other than trusts for individual, private organizations or other governmental agencies or for major capital projects) legally restricted to expenditures for specified purposes.

Order of Fund Balance Spending Policy

The School’s policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. First, nonspendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including nonspendable amounts). Any remaining fund balance amounts for the non-general funds are to be classified as restricted fund balance. It is possible for the non-general funds to be classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balance when nonspendable amounts plus the amount of restricted fund balances for specific purposes exceed the positive fund balance for the non-general fund.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

**Notes to Financial Statements
(continued)**

Revenue Sources

Revenues for operations are received primarily from the District School Board of Lee County, Florida pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33, Florida Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the School District. The School Board receives a 5% administrative fee from the School, which is withheld from the respective FEFP payments. The administrative expense is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances of governmental funds. The administrative fee is calculated on the FEFP revenue up to 250 students.

Under provisions of Section 1011.62, Florida Statutes, the School Board reports the number of students and related data to the Florida Department of Education (FDOE) for funding through the Florida Education Finance Program (FEFP). Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey period. The FDOE may also adjust subsequent fiscal period allocations based on an audit of the School's compliance in determining and reporting FTE and related data. Generally, such adjustments are treated as reductions or additions of revenues in the year when the adjustments are made.

The basic amount of funding through the FEFP under Section 1011.62 is calculated based on (1) unweighted FTE, multiplied by (2) the cost factor for each program multiplied by (3) the base student allocation established by the Florida legislature. Additional funds for exceptional students who do not have a matrix of services are provided through the guaranteed allocation designated in Section 1011.62(1)(e)2., Florida Statutes.

The School may receive additional funding under other federal and state grants. This assistance is generally received based on applications submitted to various granting agencies. For federal and state grants in which funding is awarded based on incurring eligible expenditures, revenue is recognized as the amount of eligible expenditures have been incurred.

Use of Estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses/expenditures for the period presented. Actual results could differ significantly from those estimates.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

**Notes to Financial Statements
(continued)**

2 FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States (GAAP) define fair value for an investment generally as the price an organization would receive upon selling the investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The information available to measure fair value varies depending on the nature of each investment and its market or markets. Accordingly, GAAP recognizes a hierarchy of "inputs" an organization may use in determining or estimating fair value. The inputs are categorized into "levels" that relate to the extent to which an input is objectively observable and the extent to which markets exist for identical or comparable investments. In determining or estimating fair value, an organization is required to maximize the use of observable market data (to the extent available) and minimize the use of unobservable inputs. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical items (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The fair value hierarchy distinguishes between independent observable inputs and unobservable inputs used to measure fair value as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs other than quoted market prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for an asset or liability. Level 3 inputs should be used to measure fair value to the extent that observable level 1 or 2 inputs are not available.

This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The School's significant financial instruments are cash, accounts receivable, accounts payable, short term borrowings, and other short term assets and liabilities. For these financial instruments (level 1), carrying values approximate fair value because of the short maturity of these instruments.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

**Notes to Financial Statements
(continued)**

3 CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital assets:				
Furniture, fixtures & equipment	\$ 20,920	\$ -	\$ -	20,920
Total capital assets	<u>20,920</u>	<u>-</u>	<u>-</u>	<u>20,920</u>
Accumulated depreciation:				
Furniture, fixtures & equipment	(4,184)	-	-	(4,184)
Total accumulated depreciation	<u>(4,184)</u>	<u>-</u>	<u>-</u>	<u>(4,184)</u>
Capital assets, net	<u>\$ 16,736</u>	<u>\$ -</u>	<u>\$ -</u>	<u>16,736</u>

4 TRANSACTIONS WITH MANAGEMENT COMPANY

All policy decisions, including the annual budget, are formulated by the Board of Directors. The Board of Directors have the powers reasonably necessary to manage, operate, maintain and discharge the duties of the School to include adopting budgets; enter into contracts; adopt, publish, promulgate and enforce rules and regulations; employ on behalf of the School; managers, independent contractors, and any other employees deemed necessary; and acquire, sell, operate, lease, manage, and otherwise trade and deal with property, real and personal.

5 COMMITMENTS AND CONTINGENCIES

The School leased property during the year for its administrative, cafeteria, gymnasium, playground and classroom space from CDW 10995 Metro Parkway LLC under a non-cancellable operating lease that expires June 30, 2023. The School leases an additional building for classroom space under an amendment to the lease which expires July 2023. The lease contains variable renewal options.

Under the terms of the lease agreement the minimum monthly lease payment are \$27,548 to 31,750 per month, plus certain insurance and other costs. However, during previous year, the rent was reduced to amounts between \$11,242 and \$18,758. The school has negotiated a reduced rent of \$10,000. per month until January 2020. The rent will increase to \$15,000 per month from January 2020 to July 2020. The rent will be \$18,000. per month for the next school year.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

**Notes to Financial Statements
(continued)**

6 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES

The administrative fee paid to the School Board during the year ended June 30, 2019 totaled approximately \$51,000, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances of governmental funds.

7 RISK MANAGEMENT PROGRAM

Workers' compensation coverage, health and hospitalization, 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 not historically exceeded commercial coverage.

9 COMMITMENTS AND CONTINGENT LIABILITIES

Grants

The School participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at year end may be impaired.

In the opinion of the School, there are no significant contingent liabilities related to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Legal Matters

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. In the opinion of management, the ultimate resolution of such legal matters will not have a significant adverse effect on the accompanying financial statements.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

**Notes to Financial Statements
(continued)**

9 INCOME TAXES

The School qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3), and is therefore, exempt from income taxes. Accordingly, no tax provision has been made in the accompanying financial statements for income taxes. Additionally, no uncertain tax positions have been made requiring disclosure in the related notes to the financial statements. The School's income tax returns for the tax years 2017, 2016 and 2015 are subject to examination by tax authorities, and may change upon examination. However, during the fiscal year 2017 and 2018. The proper amount of payroll taxes were not remitted to the Internal Revenue Service (IRS). Therefore, the IRS has assessed approximately \$180,000 of payroll taxes to the School which is recorded in accrued expenses and subsequently being paid.

10 SUBSEQUENT EVENTS

In accordance with GASB Codification Section 2250.106, the School has evaluated subsequent events and transactions for potential recognition or disclosure through October 26, 2019, which is the date the financial statements were available to be issued.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

Required Supplementary Information

Budgetary Comparison Schedule - General Fund

For the Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance
	Original	Final		
REVENUES				
State and local sources	\$ -	\$ -	\$ 1,030,984	\$ 1,030,984
Contributions and other revenue	-	-	20,946	20,946
Total revenues	-	-	1,051,930	1,051,930
EXPENDITURES				
Current:				
Instruction	-	-	492,562	492,562
Pupil personnel services	-	-	184,660	184,660
Board	-	-	6,352	6,352
General administration	-	-	51,005	51,005
School administration	-	-	220,996	220,996
Food services	-	-	11,439	11,439
Transportation services	-	-	28,944	28,944
Operation of plant	-	-	34,897	34,897
Total expenditures	-	-	1,030,855	1,030,855
Net changes in fund balances	-	-	21,075	21,075
Fund balances at beginning of year	(244,484)	(244,484)	(244,484)	-
Fund balances at end of year	<u>\$ (244,484)</u>	<u>\$ (244,484)</u>	<u>\$ (223,409)</u>	<u>\$ 21,075</u>

See independent auditor's report.

HERITAGE CHARTER ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Lee County, Florida**

Notes to Budgetary Schedules

For the Year Ended June 30, 2019

1 BUDGETARY BASIS OF ACCOUNTING

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries and benefits, purchased services, materials and supplies and capital outlay) within each activity (e.g., instruction, pupil personnel services and school administration). Budgets may be amended by resolution at any Board meeting prior to the date for the annual report.



**Report of Independent Auditors 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***

To the Board of Directors of Heritage Charter Academy, Inc.,
a Charter School and Component Unit of the District
School Board of Lee County, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund of Heritage Charter Academy, Inc. (the "School"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of School'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 identify deficiencies in internal control that we consider to be material weaknesses. See Findings attached.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 several instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. (See Findings)

Purpose of this Report

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

McCrary & Associates, PLLC

Altamonte Springs, Florida
October 26, 2019

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**Additional Information Required by
Rules of the Auditor General,
Chapter 10.850, *Audits of Charter Schools
and Similar Entities***



**Management Letter as Required by Rules of the Florida Auditor General,
Chapter 10.850, Florida Statutes, *Charter School Audits***

To the Board of Directors of Heritage Charter Academy, Inc.,
a Charter School and Component Unit of the District
School Board of Lee County, Florida.

Report on the Financial Statements

We have audited the financial statements of Heritage Charter Academy, Inc. (the "School"), a non-major component unit of the District School Board of Lee County, Florida, as of and for the fiscal year ended June 30, 2019, and have issued our report thereon dated October 26, 2019.

Auditor's Responsibility

We conducted our audit 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 Chapter 10.850, Rules of the Auditor General.

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards. Disclosures in that report, if applicable, which is dated, October 26, 2019, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. Corrective actions were not taken to address findings and recommendations made in the preceding annual financial audit report.

Official Title

Section 10.854(1)(e)5. Rules of the Auditor General, requires the name or official title of the entity be disclosed in this management letter. The official title of the entity is Heritage Charter Academy, Inc. The School code is 0061.

Financial Condition and Management

Sections 10.854(1)(e)2., and 10.855(11). Rules of the Auditor General, require us to apply appropriate procedures and communicate whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the School did meet one of the conditions described in Section 218.503(1), Florida Statutes. Therefore, we have determined the School is in a "state of financial emergency". See "Findings" attached.

Transparency

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether the School maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School did not maintain on its Web site with the information specified in Section 1002.33(9)(p), Florida Statutes. Numerous items were missing from the website, such as the audit, budgets and grade.

Additional Matters,

Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings. See Findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Directors, applicable management, and Lee County School Board and is not intended to be and should not be used by anyone other than these specified parties.

McCrary & Associates, PLLC

Altamonte Springs, Florida
October 26, 2019

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Findings

2019-1: Payroll Taxes Withheld

Criteria

Pursuant to Sections 218.503(1), Florida Statutes, the auditor must notify each member of the governing body for which one of the conditions. Described in this section exists. The conditions described in Section 218.503 (1)(c), Florida Statutes is "Failure to transfer at the appropriate time, due to lack of funds: Taxes withheld on the income of employees; or Employers and employees contributions for Federal Social Security.

Condition

In the 2017 and 2018 the School failed to transfer at the appropriate time, due to the lack of funds, the taxes withheld on the income of employees and the employer and employee contributions for Federal Social Security and Medicare taxes. Internal Revenue Service assessed the amount of approximately \$180,000 for the taxes, interest and penalties.

Cause

Due to the lack of funds the School did not transfer the taxes withheld on the income of employees and the employer and employee contributions all the amounts owed during 2019 for Federal Social Security and Medicare taxes.

Management's Response

The School appropriately transferred all funds withheld on the income of employees as well as the employer and employee contributions for Federal Social Security and Medicare taxes on a timely basis in the current year. In addition, the School paid approximately \$21,000 to reduce the liability. The School has contacted the IRS in order to develop a payment plan to pay the remaining balance.

2019-2: Total fund balance deficit

Criteria

Pursuant to Sections 218.29(5), Florida Statutes, the auditor must notify each member of the governing body for which a fund balance deficit in total or for that portion of a fund balance not classified as restricted, committed, or nonspendable, or a total or unrestricted net assets deficit, as reported on the fund financial statements of entities required to report under governmental financial reporting standards or on the basic financial statements of entities required to report under not-for-profit financial reporting standards, for which sufficient resources of the local governmental entity, charter school, charter technical career center, or district school board, as reported on the fund financial statements, are not available to cover the deficit. In addition, the School violated laws, rules and regulations by not creating, maintaining and monitoring a budget.

Condition

The School has a total fund balance deficit of approximately \$223,000 as of June 30, 2019.

Cause

The 2018-19 school year was the School's 5th year of operation. Based on School's representation of numbers the School's overall position increased from prior year, The School remained with a deficit in fund balance of approximately \$223,000 as of June 30, 2019.

Recommendation

The School needs to continue to properly budget its expected expenditures and revenues for the following school year so that it can continue to improve its financial position.

Management's Response

The Board of Directors was not aware of the School's fund balance deficit and failure to improve the School's financial position due to the inactions of the School's prior accountant, who was responsible for administering the School's budget. Once the School gained knowledge of the extent of the negligence in administering the School's finances, the School began the transition of the management of finances to a separate company. With the assistance of the new provider, the Board of Directors along with the School's ESP, have reviewed all expenses and worked with our vendors and suppliers to reduce costs/fees. The School is also continuing to work on increasing enrollment through various community events.

2019-:3 Supporting Documentation and Accounts

Criteria

Supporting documentation for transactions was missing. Additionally, complete and accurate accounting records were not available or provided and bank statements were missing.

Condition

There were various missing supporting documents that we noted during our work. Additionally, monthly filed reports to the county were not available as well as routine account records.

Cause

School personnel did not maintain proper supporting documents for certain transactions.

Effect

Documentation is not available to support certain recorded transactions. The effect of not having account records deems the School not able to be audited.

Recommendation

The School should adhere to its policies and keep record of all supporting documentation for all transactions. The School needs to engage an experienced CPA on accounts knowledgeable to charter schools to assist on recording daily transactions.

Management's Response

The School agrees with comments and recommendations, subsequent to the year ended June 30, 2019, The School transitioned the management of their finances and accounting services to a different company and has addressed the maintenance of supporting documentation. In addition, the School will accept credit cards as a form of payment instead of only accepting cash. This will minimize the cash management in the School and create an additional, and more accurate, record of each transaction. The school has an assigned individual who handles money and this person has been trained how to properly document all money that enters and exits the school.