

HERITAGE CHARTER ACADEMY, INC.

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

INDEPENDENT AUDITOR'S REPORT

for the fiscal year ended JUNE 30, 2020

King & Walker, CPAs, PL

Certified Public Accountants

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HERITAGE CHARTER ACADEMY, INC.

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Independent Auditor's Report

To the Board of Directors of the 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 accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Heritage Charter Academy, Inc. ("School"), and a component unit of the District School Board of Lee County, Florida, as of and for the year ended June 30, 2020, 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 *Governmental 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 School'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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School, as of June 30, 2020, and the respective changes in financial position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule, and Note to Required Supplementary Information, as shown in the table of contents, 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 historic 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 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 August 28, 2020 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Respectfully submitted,

Handwritten signature in black ink that reads "King & Walker, CPAs". The signature is written in a cursive, flowing style.

August 28, 2020
Tampa, Florida

HERITAGE CHARTER ACADEMY, INC.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS - (Unaudited)

The Management’s Discussion and Analysis (MD&A) section of the annual financial report of the Heritage Charter Academy, Inc. (“School”) provides an overview of the School’s activities for the fiscal year ended June 30, 2020.

Because the information contained in the MD&A is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the School’s financial statements and notes to financial statements, as listed in the table of contents.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended June 30, 2020, the School’s expenses exceeded revenues as shown on the School’s statement of activities by \$81,270.
- As shown on the balance sheet – governmental funds, the School reported a total deficit fund balance of \$243,173.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of three components:

- ✓ Government-wide financial statements
- ✓ Fund financial statements
- ✓ Notes to financial statements

Government-Wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the School’s overall financial condition in a manner similar to those of a private-sector business. The statements include a statement of net position and a statement of activities that are designed to provide consolidated financial information about the governmental activities of the School presented on the accrual basis of accounting. The statement of net position provides information about the government’s financial position, its assets and liabilities, using an economic resources measurement focus. The difference between the assets and liabilities, the net position, is a measure of the financial health of the School. The statement of activities presents information about the change in the School’s net position and the results of operations, during the fiscal year. An increase or decrease in net position is an indication of whether the School’s financial health is improving or deteriorating. To assess the overall financial position of the School, one needs to consider additional non-financial factors such as changes in the School student base funding level.

HERITAGE CHARTER ACADEMY, INC.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

Fund Financial Statements

Fund financial statements are one of the components of the basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide more detailed information about the School's financial activities, focusing on its most significant funds rather than fund types. This is in contrast to the entity-wide perspective contained in the government-wide statements.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds utilize a spendable financial resources measurement focus rather than the economic resources measurement focus found in the government-wide financial statements. The financial resources measurement focus allows the governmental fund statements to provide information on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year.

The governmental fund statements provide a detailed short-term view that may be used to evaluate the School's near-term financing requirements. This short-term view is useful when compared to the long-term view presented as governmental activities in the government-wide financial statements. To facilitate this comparison, both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation of governmental fund to governmental activities.

The governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide detailed information about the School's most significant funds. The School operates the following funds; a General Fund to account for its general operations and a Special Revenue Fund to account for Federal grant programs. For reporting purposes, the General Fund is considered to be a major fund.

The School adopts an annual budget for its governmental funds. A budgetary comparison schedule, as required, has been provided for the General Fund to demonstrate compliance with the budget.

Notes to Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

HERITAGE CHARTER ACADEMY, INC.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of the School's current year and prior year net position:

	Net Assets, End of Year		
	Governmental Activities		
	6-30-19	6-30-20	Increase (Decrease)
ASSETS			
Current and Other Assets	\$ 78,844	\$ 167,920	\$ 89,076
Capital Assets, Net	16,736	26,177	9,441
Total Assets	<u>95,580</u>	<u>194,097</u>	<u>98,517</u>
LIABILITIES			
Current Liabilities	176,850	295,938	119,088
Long Term Liabilities	-	111,332	111,332
Total Liabilities	<u>176,850</u>	<u>407,270</u>	<u>230,420</u>
NET POSITION			
Net Investment in Capital Assets	16,736	26,177	9,441
Unrestricted	<u>(98,006)</u>	<u>(269,350)</u>	<u>(171,344)</u>
Total Net Position	<u>\$ (81,270)</u>	<u>\$ (243,173)</u>	<u>\$ (161,903)</u>

The current assets of the School primarily consist of cash and cash equivalents (67%). Liabilities consist of salaries and benefits payable, accounts payable, a short-term loan payable, a due to other agencies and a long-term loan. The School's total net position amounted to a deficit of \$243,173 as of June 30, 2020 and an unrestricted deficit net position balance of \$269,350.

HERITAGE CHARTER ACADEMY, INC.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

The following is a summary of the School's change in net position for the current year and prior year:

	Governmental Activities		
	6-30-19	6-30-20	Increase (Decrease)
Revenues:			
Federal Through State and Local	\$ -	\$ 2,464	\$ 2,464
State Sources	1,030,984	747,653	(283,331)
Local and Other	20,946	285,362	264,416
Total Revenues	<u>1,051,930</u>	<u>1,035,479</u>	<u>(16,451)</u>
Expenses:			
Instruction	492,562	565,496	72,934
Instructional Support Services	184,660	37,241	(147,419)
Instruction & Curriculum Development	-	5,920	5,920
Instructional Staff Training	-	20	20
Instructional Related Technology	-	20,931	20,931
Board	6,352	134,557	128,205
General Administration	51,005	-	(51,005)
School Administration	95,593	98,306	2,713
Fiscal Services	-	4,303	4,303
Food Services	11,439	27,815	16,376
Student Transportation Services	28,944	32,322	3,378
Operation of Plant	34,897	242,214	207,317
Maintenance of Plant	-	22,698	22,698
Unallocated Depreciation	-	5,559	5,559
Total Expenses	<u>905,452</u>	<u>1,197,382</u>	<u>291,930</u>
Increase/(Decrease) in Net Position	<u>\$ 146,478</u>	<u>\$ (161,903)</u>	<u>\$ (308,381)</u>

The largest revenue source for the School is the State of Florida (72%). Revenues from State sources for current operations are primarily received through the Florida Education Finance Program (FEFP) funding formula. The FEFP formula utilizes student enrollment data to determine the funds available for the School. The largest concentrations of expenses were for Instruction related functions (53%).

HERITAGE CHARTER ACADEMY, INC.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - (Unaudited)

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Governmental Funds

As the School completed the year, its governmental funds reported a combined deficit fund balance of \$158,018.

BUDGETARY HIGHLIGHTS

The budgets for each fund for the fiscal year ended June 30, 2020, were developed based on the School's anticipated revenues and expenditures and the expected student population for the school year. Over the course of the year, the school revised each fund's budget. For the fiscal year ended June 30, 2020, the actual expenditures were equal to the final budget. Refer to the Budgetary Comparison Schedule for additional information regarding the School's budgets.

CAPITAL ASSETS

The School's capital assets for its governmental activities as of June 30, 2020, amounts to \$26,177 (net of accumulated depreciation). This investment in capital assets includes furniture, fixtures, and equipment and leasehold improvements. Additional information regarding the School's capital assets can be found in the notes to the financial statements.

DEBT

The Long-Term Note Payable amount on the financial statements consists of \$111,332 from the Payroll Protection Plan due May 2022. Additional information regarding the School's debt is located in the notes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Heritage Charter Academy, Inc., Inc.'s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to School Financial Services, Inc. Post Office Box 250 Bonifay, Florida 34425.

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, 2020

	<u>Governmental Activities</u>
ASSETS	
Cash & Cash Equivalents	\$ 129,337
Due From Other Agency	2,464
Prepaid Expenses & Deposits	36,119
Capital Assets:	
Furniture, Fixtures, and Equipment, Net	12,552
Leasehold Improvements, Net	13,625
Total Capital Assets, Net	<u>26,177</u>
TOTAL ASSETS	<u><u>194,097</u></u>
LIABILITIES	
Salaries & Benefits Payable	43,826
Accounts Payable	728
Loan Payable	
Due to Other Agency	281,384
Long-Term Liabilities:	
Note Payable, due after one year	111,332
TOTAL LIABILITIES	<u><u>437,270</u></u>
NET POSITION	
Net Investment in Capital Assets	26,177
Unrestricted	<u>(269,350)</u>
TOTAL NET POSITION	<u><u>\$ (243,173)</u></u>

The accompanying notes to the 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 Fiscal Year Ended June 30, 2020

	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 565,496	\$ -	\$ -	\$ -	\$ (565,496)
Instructional Support Services	37,241				(37,241)
Instruction & Curriculum Development	5,920				(5,920)
Instructional Staff Training	20				(20)
Instructional Related Technology	20,931		2,464		(18,467)
Board	134,557		56,417		(78,140)
School Administration	98,306				(98,306)
Fiscal Services	4,303				(4,303)
Food Services	27,815				(27,815)
Student Transportation Services	32,322				(32,322)
Operation of Plant	242,214				(242,214)
Maintenance of Plant	22,698				(22,698)
Unallocated Depreciation	5,559				(5,559)
Total Governmental Activities	\$ 1,197,382	\$ -	\$ 58,881	\$ -	(1,138,501)
General Revenues:					
State Sources					747,653
Local and Other					228,945
Total General Revenues					976,598
Change in Net Position					(161,903)
Net Position - July 1, 2019					(206,673)
Adjustment for Accounting Error					125,403
Restated Net Position - July 1, 2019					(81,270)
Net Position - June 30, 2020					\$ (243,173)

The accompanying notes to the 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, 2020

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash & Cash Equivalents	\$ 129,337	\$ -	\$ 129,337
Due From Other Agency		2,464	2,464
Due from Other Funds	2,464		2,464
Prepaid Expenses & Deposits	36,119		36,119
Total Assets	\$ 167,920	\$ 2,464	\$ 170,384
LIABILITIES			
Salaries & Benefits Payable	\$ 43,826	\$ -	\$ 43,826
Accounts Payable	728	-	728
Loan Payable			-
Due To Other Agency	281,384		281,384
Due To Other Funds		2,464	2,464
Total Liabilities	325,938	2,464	328,402
FUND BALANCES			
Nonspendable	36,119		36,119
Unassigned	(194,137)		(194,137)
Total Fund Balances	(158,018)	-	(158,018)
Total Liabilities and Fund Balance	\$ 167,920	\$ 2,464	\$ 170,384

The accompanying notes to the 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, 2020

Total Fund Balances - Governmental Funds	\$ (158,018)
Amounts reported for governmental activities in the statement of net position are different because:	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of a note payable and a capital lease payable.	(111,332)
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds.	<u>26,177</u>
Total Net Position - Governmental Activities	<u><u>\$ (243,173)</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 REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2020

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Intergovernmental:			
Federal Through State and Local	\$ -	\$ 2,464	\$ 2,464
State Sources	747,653	-	747,653
Local and Other	285,362		285,362
Total Revenues	<u>1,033,015</u>	<u>2,464</u>	<u>1,035,479</u>
Expenditures			
Current - Education:			
Instruction	565,496		565,496
Instructional Support Servies	37,241		37,241
Instruction & Curriculum Development	5,920		5,920
Instructional Staff Training	20		20
Instructional Related Technology	18,467	2,464	20,931
Board	134,557		134,557
School Administration	98,306		98,306
Fiscal Services	4,303		4,303
Food Services	27,815		27,815
Student Transportation Services	32,322		32,322
Operation of Plant	242,214		242,214
Maintenance of Plant	22,698		22,698
Fixed Capital Outlay:			
Other Capital Outlay	15,000		15,000
Total Expenditures	<u>1,204,359</u>	<u>2,464</u>	<u>1,206,823</u>
Excess of Revenues Over Expenditures	<u>(171,344)</u>	<u>-</u>	<u>(171,344)</u>
Other Financing Sources (Uses):			
Proceeds From Long-Term Debt	111,332		111,332
Total Other Financing Sources (Uses)	<u>111,332</u>	<u>-</u>	<u>111,332</u>
Net Change in Fund Balances	<u>(60,012)</u>	<u>-</u>	<u>(60,012)</u>
Fund Balances, July 1, 2019	(223,409)	-	(223,409)
Adjustment for Accounting Error	125,403		125,403
Restated Fund Balances, July 1, 2019	<u>(98,006)</u>	<u>-</u>	<u>(98,006)</u>
Fund Balances, June 30, 2020	<u>\$ (158,018)</u>	<u>\$ -</u>	<u>\$ (158,018)</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 STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2020

Net Change in Fund Balances - Governmental Funds \$ (60,012)

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

Capital outlays are reported in governmental funds as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount of capital outlays (\$15,000) in excess of depreciation expense (\$5,559) in the current period.

9,441

Long-term debt proceeds are reported as other financing sources in Governmental Funds and as long-term liabilities in the Statement of Net Position.

(111,332)

Change in Net Position - Governmental Activities

\$ (161,903)

The accompanying notes to the 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

June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

➤ **Reporting Entity**

Heritage Charter Academy, Inc. (“School”) is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-For-Profit Corporation Act. The governing body of the School is the not-for-profit corporation Board of Directors, which is comprised of five 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, (“District”). The current charter is effective until June 30, 2021 and is subject to annual review and may be renewed by mutual agreement between the School and the District. At the end of the term of the charter, the District may choose not to renew the charter under grounds specified in the charter. In this case, the District is required to notify the school in writing at least 90 days prior to the charter’s expiration. During the term of the charter, the District may also terminate the charter if good cause is shown. In the event of termination of the charter, the District shall assume operation of the School. The School is considered a component unit of the District; therefore, for financial reporting purposes, the School is required to follow generally accepted accounting principles applicable to state and local governmental units.

Criteria for determining if other entities are potential component units which should be reported within the School's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the School is financially accountable and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's basic financial statements to be misleading or incomplete. Based on these criteria, no component units are included within the reporting entity of the School.

➤ **Basis of Presentation**

Government-wide Financial Statements - Government-wide financial statements, including the statement of net position and the statement of activities, present information about the School as a whole.

Government-wide financial statements are prepared using the economic resources measurement focus. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School’s governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are thereby clearly identifiable to a particular function.

HERITAGE CHARTER ACADEMY, INC.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School.

Fund Financial Statements - Fund financial statements report detailed information about the School in the governmental funds. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is reported in a separate column. Because the focus of governmental fund financial statements differs from the focus of government-wide financial statements, a reconciliation is presented with each of the governmental fund financial statements.

The School's major governmental fund is as follows:

- General Fund – to account for all financial resources not required to be accounted for in another fund, and for certain revenues from the State that are legally restricted to be expended for specific current operating purposes.

All other governmental funds are non-major and are presented in the aggregate.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures, or expenses, 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 prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are prepared using the modified accrual basis of accounting. Revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The School considers revenues to be available if they are collected within 30 days of 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, revenue is recognized at the time the expenditure is made. Under the modified accrual basis of accounting, expenditures are generally recognized when the related fund liability

HERITAGE CHARTER ACADEMY, INC.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. Allocations of cost, such as depreciation, are not recognized in governmental funds.

➤ **Cash and Cash Equivalents**

Cash and cash equivalents consist of demand deposits with one financial institution. Deposits on hand at this financial institution are insured by the Federal Deposit Insurance Company up to \$250,000.

➤ **Capital Assets**

Expenditures for capital assets acquired or constructed for general School purposes are reported in the governmental fund that financed the acquisition or construction. The capital assets so acquired are reported at cost in the government-wide statement of net position but are not reported in the governmental fund financial statements. Capital assets are defined by the School as those costing more than \$750. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at fair value at the date of donation.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	5 years
Leasehold Improvements	10 years

➤ **Long-term Debt**

Long-term obligations that will be financed by resources to be received in the future by the general fund are reported in the government-wide financial statements, not in the general fund. Current-year information relative to changes in long-term debt is described in subsequent notes.

➤ **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until then. The School does not have any items that qualify for reporting in this category.

HERITAGE CHARTER ACADEMY, INC.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

➤ **Net Position and Fund Balance Classification**

Government-wide Financial Statements

Net Position are classified and reported in three components:

- Net Investment in Capital Assets – 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 Net Position – consists of net position with constraints placed on their use either by external groups such as creditors, contributors, or laws or regulations of other governments.
- Unrestricted Net Position – all other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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.

➤ **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

HERITAGE CHARTER ACADEMY, INC.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

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 non-general fund.

➤ Revenue Sources

Revenues for current operations are received primarily from the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 1002.33(17), Florida Statutes, the School reports the number of full-time equivalent students and related data to the District.

Under provisions of Section 1011.62, Florida Statutes, the District reports the number of full-time equivalent 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 (FTE) reported by the School during designated full-time equivalent student survey periods. The Department may also adjust subsequent fiscal period allocations based upon an audit of the School's compliance in determining and reporting FTE and related data. Normally, such adjustments are treated as reductions or additions of revenue in the year when the adjustments are made.

The basic amount of funding through the FEFP under Section 1011.62 is the product of the (1) unweighted FTE, multiplied by (2) the cost factor for each program, multiplied by (3) the base student allocation established by the 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. For the fiscal year ended June 30, 2020, the School reported 98.99 unweighted FTE and 106.0374 weighted FTE.

FEFP funding may also be adjusted as a result of subsequent FTE audits conducted by the Florida Auditor General pursuant to Section 1010.305, Florida Statutes, and Rule 6A-1.0453, Florida Administrative Code (FAC). Schools are required to maintain the following documentation for three years or until the completion of an FTE audit:

- Attendance and membership documentation (Rule 6A-1.044, FAC).
- Teacher certificates and other certification documentation (Rule 6A-1.0503, FAC).
- Documentation for instructors teaching out-of-field (Rule 6A-1.0503, FAC).

HERITAGE CHARTER ACADEMY, INC.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

- Procedural safeguards for weighted programs (Rule 6A-6.03411, FAC).
- Evaluation and planning documents for weighted programs (Section 1010.305, Florida Statutes, and Rule 6A-6.03411, FAC).

The School receives federal or state awards for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies. For federal or state awards in which a claim to these grant proceeds is based on incurring eligible expenditures, revenue is recognized to the extent that eligible expenditures have been incurred.

The School also receives funding through donations and fundraising efforts, school lunch sales, and local property tax collections.

The School follows the policy of applying restricted resources prior to applying unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

➤ **Income Taxes**

The School is exempt from Federal tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements. Additionally, no uncertain tax positions have been made requiring disclosure in the related notes to financial statements. The School's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

➤ **Use of Estimates**

In preparing the financial statements in conformity with generally accepted accounting principles 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 statement of net position and affect revenues and expenditures for the period presented. Actual results could differ from those estimates.

➤ **Subsequent Events**

Management has evaluated all events subsequent to the balance sheet date and through the report date, which is the date these financial statements were available to be issued. Management is currently evaluating the impact of the COVID-19 pandemic on the industry and has concluded that while it is reasonably possible that the virus could have a negative effect on the Organization's financial position, results of its operations and/or cash flows, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

HERITAGE CHARTER ACADEMY, INC.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

2. BEGINNING BALANCE ADJUSTMENT - ACCOUNTING ERROR

The School over reported accounts payable on its 2018-19 financial statements in the amount of \$125,403 in error. To correct the accounting error, the negative beginning net position balance of \$206,673, as previously reported, has been increased by \$125,403, to a negative beginning net position balance of \$81,270 on the statement of activities. Likewise, the negative beginning fund balance of \$223,409, as previously reported, has been increased by \$125,403, to a negative beginning fund balance of \$98,006 on the statement of revenues, expenditures, and changes in fund balance.

3. CASH DEPOSITS

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to the School. The School does not have a custodial credit risk policy. Deposits on hand at financial institutions are insured by the Federal Deposit Insurance Company (FDIC) up to \$250,000.

4. DUE FROM OTHER AGENCY

The amount due from other agency on the School's statement of net position and balance sheet – governmental funds consists of amounts for expenditures made for a Federal grant program awaiting reimbursement from the District. This receivable is considered fully collectible and therefore, no allowance for uncollectible accounts has been established.

5. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2020, the School's General Fund was due \$2,464 from the Special Revenue Fund for grant expenditures not yet reimbursed. The amounts of interfund receivables and payables are netted together and not reported in the statement of net position.

6. CHANGES IN CAPITAL ASSETS

Changes in capital assets are presented in the table below:

	Beginning Balance	Additions	Deletions	Ending Balance
<u>Governmental Activities:</u>				
Furniture, Fixtures and Equipment	\$ 20,920	\$ -	\$ -	\$ 20,920
Leasehold Improvements	-	15,000	-	15,000
Total Capital Assets Being Depreciated	<u>20,920</u>	<u>15,000</u>	<u>-</u>	<u>35,920</u>
Less Accumulated Depreciation for:				
Furniture, Fixtures and Equipment	(4,184)	(4,184)	-	(8,368)
Leasehold Improvements	-	(1,375)	-	(1,375)
Total Accumulated Depreciation	<u>(4,184)</u>	<u>(5,559)</u>	<u>-</u>	<u>(9,743)</u>
Governmental Activities Capital Assets, net	<u>\$ 16,736</u>	<u>\$ 9,441</u>	<u>\$ -</u>	<u>\$ 26,177</u>

All depreciation expense was shown as unallocated on the Statement of Activities.

HERITAGE CHARTER ACADEMY, INC.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

7. DUE TO OTHER AGENCY

The amount due to other agency in the amount of \$281,384 on the School's statement of net position and balance sheet – governmental funds consists of amounts due to the Department of Treasury Internal Revenue Service for payroll tax liabilities resulting from the 2016 and 2017 Employer's Quarterly Federal Tax Returns which reported unpaid taxes and related statutory assessments. The Internal Revenue Service collection case has been placed in a "Currently Not Collectible" status until January 2021. The School is currently in full compliance with current payroll tax deposits and filing requirements. Default of filing or deposit requirements for current or new periods would cause the case to be reopened immediately.

8. NOTE PAYABLE

The School was obtained a loan from Bank of America Bank, N.A. in May 2020 in the amount of \$111,332 pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

The Loan, which was in the form of a Note dated May 1, 2020, matures on May 1, 2022 and bears interest at a rate of 1% per annum, payable monthly commencing on December 1, 2020. The Note may be prepaid by the School at any time prior to maturity with no prepayment penalties. Under the terms of the PPP, certain amounts of the Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

Scheduled payments for the note payable are as follows:

Fiscal Year Ending June 30	Total	Principal	Interest
2021	\$ 67,024	\$ 66,082	\$ 942
2022	45,449	45,250	199
Total	<u>\$ 112,473</u>	<u>\$ 111,332</u>	<u>\$ 1,141</u>

9. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Additions	Deductions	Ending Balance	Due in One Year
GOVERNMENTAL ACTIVITIES:					
Note Payable	\$ -	\$ 111,332	\$ -	\$ 111,332	\$ 66,082
Total Governmental Activities	<u>\$ -</u>	<u>\$ 111,332</u>	<u>\$ -</u>	<u>\$ 111,332</u>	<u>\$ 66,082</u>

10. FACILITY LEASE

The School entered into a 25-month operating lease on May 31, 2019 for its educational facility through June 30, 2021. The lease requires monthly payments of \$10,000 per

HERITAGE CHARTER ACADEMY, INC.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

month, for the first seven (7) months; \$15,000 per month for the next six (6) months, and \$18,000 per month for the remaining twelve (12) months. Rental expenditures under this lease for the 2019-20 fiscal year amounted to \$140,000.

The following is a schedule, by years, of the School’s portion of future minimum rental payments required under operating leases in excess of one year:

Fiscal Year Ending June 30:	Minimum Lease Payments
2021	\$ 216,000
Total	<u>\$ 216,000</u>

11. SCHEDULE OF STATE REVENUE SOURCES

The following is a schedule of the School’s State revenue:

Source	Amount
Florida Education Finance Program	\$ 459,685
Class Size Reduction	120,880
Discretionary Millage	67,520
ESE Guaranteed Allocation	27,509
Supplementary Academic Instruction	23,641
Transportation	17,742
Best & Brightest Teacher Scholarships	8,383
Instructional Materials	7,595
Safe Schools	5,267
Reading Allocation	4,282
Mental Health Assistance Allocation	2,478
Florida Teachers Classroom Supply Program	2,243
Digital Classroom Allocation	328
Discretionary Lottery	100
Total State Revenue	<u>\$ 747,653</u>

As provided in the charter school contract, the District has charged the School an administrative fee totaling \$48,715.

HERITAGE CHARTER ACADEMY, INC.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

12. OPERATING AGREEMENTS

Services Agreement – The School entered into a management agreement commencing July 1, 2019 with CHOICE Charter School Services, LLC (the “Company”). The term of this agreement shall be for the duration of the School’s charter. Thereafter the agreement will renew with any renewals to the School’s charter. The contract calls for the Company to professionally operate the School. The Company is to provide services in the areas of Finance, Board of Directors, Grant Solicitation, Annual Reporting, School Board Representation and Facility Identification, Expansion, Design and Development. The agreement includes various other responsibilities of the Company involving school operations and reporting requirements. The contract provides for a base fee of 10 percent of the full time equivalent (FTE) per annum. Under this contract, the School incurred \$70,019 of expense for the 2019-20 fiscal year. The Company donated \$56,417 of these fees to the School and this amount is shown on the Statement of Activities as a Contribution to offset the Board expense and shown in Local and Other Revenue in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds. In addition, the Company donated \$203,298 to the School for operating expenses in 2019-20.

13. RISK MANAGEMENT PROGRAMS

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the School carries commercial insurance. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

14. DEFICIT FUND BALANCE AND DEFICIT NET POSITION BALANCE

The School reported a deficit total net position balance of \$243,173 on the statement of net position and a deficit total fund balance of \$158,018 at June 30, 2020. The School has made adjustments to its future budgets and expects to to alleviate these deficits by June 30, 2022.

15. COMMITMENTS AND CONTINGENT LIABILITIES

The School participates in state 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 receivables at June 30, 2020, may be impaired.

In the opinion of the School, there are no significant liabilities relating 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.

HERITAGE CHARTER ACADEMY, INC.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

16. FUNDING AND CREDIT RISK CONCENTRATIONS

The School receives substantially all of its support and revenue from federal, state and local funding sources, passed through the District, in the form of performance and budget based contracts. Continuing operation of the School is greatly dependent upon the continued support of these governmental agencies.

17. LEGAL MATTERS

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. The School has no legal actions or pending proceedings in progress.

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 (UNAUDITED)
For the Fiscal Year Ended June 30, 2020

	General Fund			Variance with Final Budget - Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Intergovernmental:				
State Sources	\$ 1,057,642	\$ 747,653	\$ 747,653	\$ -
Local and Other	67,493	285,362	285,362	-
Total Revenues	<u>1,125,135</u>	<u>1,033,015</u>	<u>1,033,015</u>	<u>-</u>
Expenditures:				
Current - Education:				
Instruction	469,607	565,496	565,496	-
Instructional Support Services	28,921	37,241	37,241	-
Instruction & Curriculum Development	3,900	5,920	5,920	-
Instructional Staff Training		20	20	-
Instructional Related Technology		18,467	18,467	-
Board	80,782	134,557	134,557	-
School Administration	90,044	98,306	98,306	-
Fiscal Services	29,346	4,303	4,303	-
Food Services	69,945	27,815	27,815	-
Student Transportation Services	51,802	32,322	32,322	-
Operation of Plant	282,932	242,214	242,214	-
Maintenance of Plant	6,000	22,698	22,698	-
Fixed Capital Outlay:				
Other Capital Outlay		15,000	15,000	-
Total Expenditures	<u>1,113,279</u>	<u>1,204,359</u>	<u>1,204,359</u>	<u>-</u>
Excess of Revenues Over Expenditures	<u>11,856</u>	<u>(171,344)</u>	<u>(171,344)</u>	<u>-</u>
Other Financing Sources (Uses):				
Proceeds From Long-Term Debt	-	111,332	111,332	-
Total Other Financing Sources (Uses)	-	111,332	111,332	-
Net Change in Fund Balance	11,856	(60,012)	(60,012)	-
Fund Balance, July 1, 2019	(98,006)	(98,006)	(98,006)	-
Fund Balance, June 30, 2020	<u>\$ (86,150)</u>	<u>\$ (158,018)</u>	<u>\$ (158,018)</u>	<u>\$ -</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 REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2020

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.

Members:
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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*

To the Board of Directors of the 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, and the aggregate remaining fund information of Heritage Charter Academy, Inc. ("School"), and a component unit of the District School Board of Lee County, Florida, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated August 28, 2020.

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 the 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of 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 the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink that reads "King & Walker, CPAs". The signature is written in a cursive, professional style.

August 28, 2020
Tampa, Florida



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

We have audited the financial statements of the Heritage Charter Academy, Inc. (“School”), a Charter School and Component Unit of the District School Board of Lee County, Florida, as of and for the fiscal year ended June 30, 2020, and have issued our report thereon dated August 28, 2020.

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 on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*. Disclosures in those reports and schedule, which are dated August 28, 2020, 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. Finding 2019-3, as shown in the previous audit report, has been corrected. Two findings noted in the current audit have not been corrected as shown below:

TABULATION OF UNCORRECTED AUDIT FINDINGS		
CURRENT YEAR FINDING NO.	2018-2019 FY FINDING NO.	2017-18 FY FINDING NO.
2020-1	2019-1	2018-1
2020-2	2019-2	2018-2

Official Title

Section 10.854(1)(e)5., Rules of the Auditor General, requires that the name or official title of the entity and the school code assigned by the Florida Department of Education be disclosed in this management letter. The official title and the school code assigned by the Florida Department of Education of the entity are Heritage Charter Academy, Inc. 364231.

Financial Condition and Management

Sections 10.854(1)(e)2. And 10.855(11), Rules of the Auditor General, requires us to apply appropriate procedures and communicate whether or not Heritage Charter Academy, Inc. has meet one or more conditions described in Section 218.503(1), Florida Statutes, and to identify the specific conditions met. In connection with our audit, we determined that the School did meet conditions described in Section 218.503(1), Florida Statutes as a result of a deteriorating financial condition.

Wages and salary taxes remain unpaid for the tax periods ending December 31, 2016 and September 30, 2017 when the School was operated by its previous management company. The Internal Revenue Service has placed the School on a Currently Not Collectible status awaiting evaluation as of January 2021. All payroll and taxes since September 30, 2017 have been paid timely. (*See Schedule of Findings and Recommendations – Finding 2020-1*)

These conditions were not a result of a deteriorating financial condition as defined in Section 10.854(1)(b), Rules of the Auditor General, for the fiscal years 2016-17 and 2017-18 when the taxes were not remitted due to lack of funds.

Pursuant to Sections 10.854(1)(e)6.a. and 10.855(12), Rules of the Auditor General, we applied financial condition assessment procedures for the School. It is management's responsibility to monitor the School's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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 maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

Additional Matters

Section 10.854(1)(e)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

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 have any such 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 District School Board of Lee County, Florida and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

King & Walker, CPAs

August 28, 2020
Tampa, Florida

HERITAGE CHARTER ACADEMY, INC.

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

SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS AND MANAGEMENT'S RESPONSES TO FINDINGS AND RECOMMENDATIONS June 30, 2020

Finding No.

2020-01 Payroll Taxes Withheld: 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. As noted in prior audits finding 2019-01 and 2018-10, and during the current audit period, in 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 in those reporting years. The amount due per a Department of Treasury Internal Revenue Service letter dated January 28, 2020, shows the current amount due of \$281,384. A determination was made that the School cannot afford to make payments at that time. The School's account has been placed in a "Currently Not Collectible" status by the Internal Revenue Service for a year's time. At that time, January 2021, the financial status of the School will be re-evaluated to determine if the School has the ability to make payments or extend the status of "Currently Not Collectible". The School made all required wages and tax payments in the 2019-20 fiscal year and is currently in full compliance with deposit and filing requirements.

We recommend the School continue to remain in full compliance with the deposit and filing requirements to ensure the case remains in the Currently Not Collectible status until such time as payments on the former amount owed can be made.

Management's Response: See page 33

2020-02 Net Position and Fund Balance Deficits: Pursuant to Sections 218.39(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 report 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 charter school as reported on the fund financial statements, are not available to cover the deficit. The School has such deficits. The total net position deficit was \$243,173 and the total fund balance deficit was \$158,018 at June 30, 2020. Absent the outstanding payroll liability resulting from the School's previous management company, the School would have reported a positive net position and fund balance at June 30, 2020.

Management's Response: See page 33



CHOICE Charter Schools Services L.L.C.

Empowering Charter Schools to Transform Education

Finding NO.

2020-01

The failure of Unity Charter School (Heritage Charter Academy) to submit federal payroll income taxes was due to the inactions of the previous accountant and previous management company (STEP). Heritage's Governing Board and CHOICE Management have been proactive in correcting this situation starting with hiring of McCrady and Associates to complete the 2018-19 audit and School Financial Services as full time accountants for the school year. The new board along with Choice caught up with all diligent 990's that were left unfiled by previous management. All payroll taxes are current for the 2019-20 school year. In order to ensure that payroll taxes are paid, Heritage's board members receive proof from the payroll company that all taxes for the pay periods have been paid. Choice and the governing board discuss all financial/tax issues every six weeks during board meetings and minutes are posted to the school website for public viewing. Choice is currently working with attorneys to resolve the IRS debt for the 2020-21 school year. The school's goal is to have the delinquent payroll taxes paid and the IRS debt settled by February of 2021.

Finding NO.

2020-02

Although the school has a negative fund balance for the fiscal year the school operates on a positive monthly fund balance. The negative fund balance is strictly because of the unresolved IRS debt. Choice has been able to get the school caught up on all prior and current debts without sacrificing academics. Choice, the board, and the attorneys will continue to work diligently to resolve the IRS debt and anticipate that this liability will be resolved by the end of fiscal year 2021.

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