

Pacific Heritage Academy dba Pacific Heritage School

Financial Statements

For the Year Ended June 30, 2014

Pacific Heritage Academy dba Pacific Heritage School

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June 30, 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pacific Heritage Academy

We have audited the accompanying financial statements of the Pacific Heritage Academy (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014, and the related statements of activities, cash flows, for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pacific Heritage Academy as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014 on our consideration of the Pacific Heritage Academy's internal control over financial reporting and 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 your testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Larson + Company, PC

Larson & Company, PC
Spanish Fork, Utah

November 21, 2014

Pacific Heritage Academy dba Pacific Heritage School
Statement of Financial Position
June 30, 2014

Assets

Current Assets	
Cash	\$ 169,160
Accounts receivable	<u>29,622</u>
Total current assets	198,782
Property and Equipment, Net	<u>5,030,736</u>
Total assets	<u><u>\$5,229,518</u></u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 2,975
Accrued liabilities	56,122
Accrued interest	43,042
Capital lease, current portion	3,995
Notes payable, current portion	<u>41,968</u>
Total current liabilities	148,102
Capital lease, less current portion	5,420,799
Notes payable, less current portion	<u>49,912</u>
Total liabilities	5,618,813
Net Assets	
Unrestricted (deficit)	(482,470)
Temporarily restricted	<u>93,175</u>
Total net assets (deficit)	<u>(389,295)</u>
Total liabilities and net assets	<u><u>\$5,229,518</u></u>

See Notes to Financial Statements

Pacific Heritage Academy dba Pacific Heritage School
Statement of Activities
For the Year Ended June 30, 2014

Change in unrestricted net assets:

Revenue and other support:

Unrestricted revenue:

Local	\$ 70,621
State	2,161,027
Federal	141,362
Total unrestricted revenue and other support	2,373,010

Expenses:

Program services:

Instruction	1,024,194
Student support	497,207
Staff support	2,435
Administration support	251,351
Central services	165,237
Facility operation and maintenance	121,298
Interest expense	562,025
Depreciation and amortization	312,139

Total program services	2,935,886
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Administrative and general

Total expenses	2,940,561
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Decrease in unrestricted net assets	(567,551)
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Restricted revenue:

State	93,175
Increase in temporarily restricted net assets	93,175

Decrease in net assets	(474,376)
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Net assets at beginning of year	85,081
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Net assets (deficit) at end of year	\$ (389,295)
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See Notes to Financial Statements

Pacific Heritage Academy dba Pacific Heritage School
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash Flows from Operating Activities:	
Change in net assets	\$ <u>(474,376)</u>
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation of property and equipment	312,139
Changes in operating assets and liabilities:	
Accounts receivable	(16,079)
Accounts payable	(25,775)
Accrued liabilities	(80,787)
Accrued interest	42,848
Total adjustments	<u>232,346</u>
Net cash provided by operating activities	<u>(242,030)</u>
Cash Flows from Investing Activities:	
Cash Flows from Financing Activities:	
Principal payments on capital leases	(3,633)
Principal payments on notes payable	<u>(40,774)</u>
Net cash provided by financing activities	<u>(44,407)</u>
Net change in Cash	(286,437)
Cash at beginning of year	<u>455,597</u>
Cash at end of year	<u>\$ 169,160</u>
Supplemental Disclosure of Cash Flow Information:	
Cash paid for interest	\$ 519,177

See Notes to Financial Statements

Pacific Heritage Academy dba Pacific Heritage School
Notes to Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies

1-A. Organization and Principal Activity

Pacific Heritage Academy dba Pacific Heritage School (the School) is a nonprofit corporation organized under the laws of the State of Utah. The School operates one charter school in Salt Lake City, Utah, for students from kindergarten to eighth grade and began operations in the 2012-2013 school year. The School uses the power of education, the endurance of language and culture, and the virtue of relationships and community to help young people on voyages of discovery. Through thoughtful inquiry, challenging curricula, rigorous requirements, and compassionate service students learn who they are and what they can become. The School creates learning experiences and students find their Roots... and their Wings.

The School provides the following program services: Education, encompassing instruction, student and staff support activities, and facilities maintenance and operation. Supporting services include general and administrative services which are overall entity related administrative activities.

1-B. Basis of Accounting

The accompanying financial statements have been prepared on the full accrual basis of accounting in accordance with generally accepted accounting principles. Revenues are recognized as discussed below. Expenses generally are recognized when a liability is incurred.

1-C. Net Assets

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

Unrestricted Net Assets - Net assets available for use in general operations.

Temporarily Restricted Net Assets - Net assets subject to donor restrictions that may or will be met by expenditures or actions of the School and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the School's Board of Directors.

The School reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period as received are reported as unrestricted support.

Permanently Restricted Net Assets - Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the School. The restrictions stipulate that resources be maintained permanently but permit the School to expend the income generated in accordance with the provisions of the agreements.

The School has no permanently restricted net assets. Temporarily restricted net assets consisting of unexpended State Special Education monies were received in the amount of \$93,175.

Pacific Heritage Academy dba Pacific Heritage School
Notes to Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies (continued)

1-D. Revenue and Revenue Recognition

State Funding - The School receives funding from the State of Utah as administered by the Utah State Office of Education based on the number of students enrolled in its school. The State provides unrestricted funding for normal school operations and restricted funds for specific school-related activities or functions. Unrestricted funding is recognized as revenue when received. Funding for which qualifying expenses have not been incurred is recorded as temporarily restricted net assets in the School's Statement of Financial Position.

Federal Grants - The School has received federal charter school grants, which are paid through the Utah State Office of Education. Funds are generally received on a reimbursement basis and, accordingly, revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met.

Contributions and Donated Services - Unrestricted contributions are recognized as revenue when received. Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the School would otherwise purchase the services. No amounts have been reflected in the accompanying financial statements for contributed goods or services during the year being reported because items did not meet the definition above. Restricted contributions received are recorded as increases in temporarily restricted or permanently restricted net assets depending on the nature of the restriction. Temporarily restricted net assets are recognized as unrestricted revenue when the terms of the restrictions are met. Permanently restricted net assets represent the cumulative amount of endowment contributions received. Endowment contributions are principal amounts donated with the agreement that only future earnings on the principal be available for the operations of the School. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

1-E. Income Taxes

The School is organized as a Utah nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), qualify for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and (viii), and has been determined not to be private foundations under Sections 509(a)(1) and (3), respectively. The School is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the School is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The School has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The School believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The School would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Pacific Heritage Academy dba Pacific Heritage School
Notes to Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies (continued)

1-F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates and differences could be material.

1-G. Financial Instruments and Credit Risk

The School manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the School has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of the School's mission.

1-H. Cash

The School considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash. Cash and highly liquid financial instruments restricted to capital expenditures, or other long-term purposes of the School are excluded from this definition. Restricted cash is cash set aside for notes payable reserve requirements.

1-I. Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. No allowance for doubtful accounts has been established, as the School deems all amounts to be fully collectible.

1-J. Property and Equipment

Property and equipment additions over \$5,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently. The School reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2014.

Pacific Heritage Academy dba Pacific Heritage School
Notes to Financial Statements
 June 30, 2014

Note 2. Employee Retirement Plans

The School has adopted a 403b employee retirement plan which is administered through a third party. During the year ended June 30, 2014, the School contributed \$17,165 to this plan on behalf of the participants.

Note 3. Concentrations

The majority of the Academy's revenue comes from the State of Utah and the U.S. Department of Education (passed through the Utah State Office of Education). State and Federal revenues were 97% of total revenue and support for the year ended June 30, 2014.

Note 4. Property and Equipment

Property and equipment consists of the following at June 30, 2014:

Capital lease - building and facilities	\$ 5,390,388
Equipment	<u>212,077</u>
	5,602,465
Less accumulated depreciation	<u>(571,729)</u>
	<u><u>\$ 5,030,736</u></u>

Note 5. Notes Payable

Notes payable consist of the following:

1.75% USOE note payable, due in monthly installments of \$3,605, including interest to August, 2016, unsecured	<u>\$91,880</u>
	<u><u>\$91,880</u></u>

Future maturities of notes payable are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 41,968
2016	42,718
2017	<u>7,194</u>
	<u><u>\$ 91,880</u></u>

Pacific Heritage Academy dba Pacific Heritage School
Notes to Financial Statements
June 30, 2014

Note 6. Capital Lease

The School leased their school building facility, commencing August 29, 2012. Initial annual rental payments equal 9.5% of the original building cost (including land) and are paid monthly. In the fiscal year ended June 30, 2016 and annually thereafter, the monthly payment is increased by 3%. Management has determined this lease is a capital lease. The capital lease obligation has been calculated based on the future lease payments discounted using an imputed interest rate of 9.46% for the 20 year term of the lease.

Property under capital leases at June 30, 2014 includes land and buliding with a capitalized cost of \$5,390,388 and accumulated depreciation at that date of \$494,118, thus having a net book amount of \$4,896,270.

Future minimum lease payments under this capital lease obligation are as follows:

<u>Year ending June 30,</u>	
2015	\$ 520,325
2016	532,033
2017	547,994
2018	564,433
2019	581,366
Thereafter	<u>9,653,775</u>
Total minimum lease payments	12,399,926
Less amount representing interest	<u>(6,975,132)</u>
Capital lease obligation	<u>\$ 5,424,794</u>

Note 7. Advertising

The School expenses advertising costs as such costs are incurred. The amount of advertising cost for the year ending June 30, 2014 was \$5,649.

Note 8. Subsequent Events

The School has evaluated subsequent events through November 21, 2014, the date the financial statements were available to be issued.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Pacific Heritage Academy

We have audited, in accordance with the auditing standards generally accepted in the United State 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 Pacific Heritage Academy (the School) as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 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 over financial reporting 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 weakness 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 a reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing*.

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.

Larson & Company, PC

Larson & Company, PC
Spanish Fork, Utah

November 21, 2014



INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH THE
STATE COMPLIANCE AUDIT GUIDE ON COMPLIANCE WITH
GENERAL STATE COMPLIANCE REQUIREMENTS, COMPLIANCE
FOR EACH MAJOR STATE PROGRAM, AND INTERNAL CONTROL OVER
COMPLIANCE.

Board of Directors
Pacific Heritage Academy

Report on Compliance with General State Compliance Requirements and for Each Major State Program

We have audited Pacific Heritage Academy's (the School's) compliance with the applicable general state and major state program compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, that could have a direct and material effect on the School or each of its major state programs for the year ended June 30, 2014.

General state compliance requirements were tested for the year ended June 30, 2014 in the following areas:

Budgetary Compliance	Open and Public Meetings Act
Fund Balance	Cash Management
Utah Retirement Systems	School Fees
GRAMA	Budget Notice and Format
Conflicts of Interest	School Building Program & Charter Revolving Accts.
Nepotism	LEA Uniform Chart of Accounts
Utah Public Finance Website	

The School received state funding from the following programs classified as major programs for the year ended June 30, 2014:

Minimum School Program (passed through the Office of Education)

Management's Responsibility

Management is responsible for compliance with the general state requirements referred to above and the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on the School's compliance based on our audit of the compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governments Auditing Standards* issued by the Comptroller General of the United States; and the *State Compliance Audit Guide*. Those standards and the *State Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the School or its major state programs occurred. An audit includes examining on a test basis, evidence about the School's compliance with those requirements and performing such on other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance with general state compliance requirements and for each major state program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on General State compliance Requirements and Each Major State Program

In our opinion, Pacific Heritage Academy, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the School or on each of its major state programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *State Compliance Audit Guide* and which are described in a separate letter to management dated November 21, 2014 as item SC-2014.1. Our opinion on compliance is not modified with respect to these matters.

The School's response to the noncompliance findings identified in our audit is described in our letter to management. The School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the compliance requirements that could have a direct and material effect on the School or on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with general state compliance requirements and for each major state program and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

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

Purpose of Report

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


Larson & Company, PC
Spanish Fork, Utah

November 21, 2014



To the Board of Directors
Pacific Heritage Academy

We have audited the financial statements of Pacific Heritage Academy for the year ended June 30, 2014, and have issued our report thereon dated November 21, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 25, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

See attached schedule of findings.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Pacific Heritage Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2014. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 21, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

This information is intended solely for the use of the Board of Directors and Management of Pacific Heritage Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Larson & Company, PC".

Larson & Company, PC
Spanish Fork, Utah

November 21, 2014

SCHEDULE OF FINDINGS – CURRENT YEAR

SC-2014.1 Deficit net position

Finding:

At the end of the period the school did not maintain positive net asset balances. This is due in part to the lease of the school and the required interest payments. *Utah State Code* requires that the school maintain positive net assets.

Recommendation:

It is recommended that the school examine the revenue (enrollments) and expenditures going forward in order to bring the school into compliance with *Utah State Code*.

Client Response:

Management is aware that there was a deficit net position at year end. Enrollments were significantly down last school year and management removed a number of the students from the school. Enrollments have already increased significantly this school year and are projected to increase annually. The school anticipates bringing the school to a positive net position by the end of next fiscal period.

STATUS OF FINDINGS – PRIOR YEAR

2013-1 Preparation of Financial Statements and Material Audit Adjustments

Finding:

PHA does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft PHA's financial statements and accompanying notes to the financial statements. During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of PHA's existing internal controls, and therefore could have resulted in a material misstatement of PHA's financial statements.

Recommendation:

This circumstance is not unusual to an organization of PHA's size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. A thorough review and reconciliation of accounts should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Status:

No issues noted of this nature noted in current period.