

Pacific Heritage Academy dba Pacific Heritage School

Financial Statements

For the Year Ended June 30, 2016

Pacific Heritage Academy dba Pacific Heritage School

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June 30, 2016

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Independent Auditor's Report

The Board of Directors
Pacific Heritage School
Salt Lake City, Utah

Report on the Financial Statements

We have audited the accompanying financial statements of Pacific Heritage School which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Heritage School as of June 30, 2016, 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 a report dated November 15, 2016 on our consideration of Pacific Heritage School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering Pacific Heritage School's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Ogden, Utah
November 15, 2016

Pacific Heritage Academy dba Pacific Heritage School
Statement of Financial Position
June 30, 2016

Assets

Current Assets

Cash	\$ 383,067
Accounts receivable	<u>13,157</u>

Total current assets 396,224

Property and equipment, net 4,454,275

Total assets \$ 4,850,499

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 30,309
Accrued liabilities	81,968
Accrued interest	42,879
Capital lease, current portion	34,790
Note payable, current portion	<u>7,194</u>

Total current liabilities 197,140

Capital lease, less current portion 5,369,530

Total liabilities 5,566,670

Net Assets

Deficit	(895,067)
Temporarily restricted	<u>178,896</u>

Total deficit (716,171)

Total liabilities and net assets \$ 4,850,499

See notes to Financial Statements

Pacific Heritage Academy dba Pacific Heritage School
Statement of Activities
For the Year Ended June 30, 2016

Change in unrestricted net assets:

Revenue and other support:

Unrestricted revenue:

Local	\$ 138,455
State	1,979,848
Federal	<u>159,176</u>
Total unrestricted revenue	2,277,479
Net assets released from restriction (Note 2)	<u>164,253</u>
Total unrestricted revenue and other support	<u>2,441,732</u>

Expenses:

Program expenses:

Instruction	1,116,938
Student support	84,216
Staff support	8,656
Administration support	231,685
Central services	122,067
Facilities operation and maintenance	142,704
Transportation services	4,686
Interest expense	515,964
Depreciation	<u>323,579</u>
Total program expenses	2,550,495
Administrative and general	<u>10,450</u>
Total expenses	<u>2,560,945</u>

Change in unrestricted net assets (119,213)

Change in temporarily restricted net assets (Note 2)

Restricted revenue

Local	17,558
State	<u>161,338</u>
Total restricted revenue	178,896

Less net assets released from restriction (164,253)

Change in temporarily restricted net assets 14,643

Change in net assets (104,570)

Net assets at beginning of year (611,601)

Net assets at end of year \$ (716,171)

See notes to Financial Statements

Pacific Heritage Academy dba Pacific Heritage School
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash Flows from Operating Activities:

Change in net assets	\$ (104,570)
Adjustments to reconcile change in net assets:	
Depreciation of property and equipment	323,579
Changes in operating assets and liabilities:	
Accounts receivable	26,617
Accounts payable	18,504
Accrued liabilities	5,860
Accrued interest	(131)
Total adjustments	<u>374,429</u>
Net cash provided by operating activities	<u>269,859</u>

Cash Flows from Financing Activities:

Principal payments on capital leases	(16,479)
Principal payments on bonds payable	<u>(42,718)</u>
Net cash used in financing activities	<u>(59,197)</u>

Net change in cash	210,662
Cash at beginning of year	<u>172,405</u>
Cash at end of year	<u>\$ 383,067</u>

Supplemental Disclosure of Cash Flow Information:

Cash paid for interest	\$ 516,095
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See notes to Financial Statements

Pacific Heritage Academy dba Pacific Heritage School
Notes to Financial Statements
June 30, 2016

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. Additional information pertaining to temporarily restricted net assets is contained in Note 2.

Pacific Heritage Academy dba Pacific Heritage School
Notes to Financial Statements
June 30, 2016

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 an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and (viii), and has been determined not to be a private foundation 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 its 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, 2016

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, 2016.

Pacific Heritage Academy dba Pacific Heritage School
Notes to Financial Statements
 June 30, 2016

Note 2. Temporarily Restricted Net Assets

Temporarily restricted net assets were received in the amount of \$178,896. Net assets were released from temporarily restricted status and reclassified as unrestricted net assets in the amount of \$164,253. A listing of the related programs and amounts follows:

	Temporarily Restricted Net Assets	Released From Restriction
State Special Education	\$ 161,338	\$ 142,253
After School	17,558	22,000
Total	\$ 178,896	\$ 164,253

Note 3. 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, 2016, the School contributed \$20,191 to this plan on behalf of the participants.

Note 4. 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 94% of total revenue and support for the year ended June 30, 2016.

Note 5. Property and Equipment

Property and equipment consists of the following at June 30, 2016:

Capital lease - building and facilities	\$ 5,390,388
Equipment	271,832
	5,662,220
Less accumulated depreciation	(1,207,945)
	\$ 4,454,275

Note 6. 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	\$7,194
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Future maturities of notes payable are as follows:

Year Ending June 30,	
2017	\$ 7,194
	\$ 7,194

Pacific Heritage Academy dba Pacific Heritage School
Notes to Financial Statements
June 30, 2016

Note 7. 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, 2016 includes land and building with a capitalized cost of \$5,390,388 and accumulated depreciation at that date of \$1,033,157, thus having a net book amount of \$4,357,231.

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

<u>Year ending June 30,</u>	
2017	\$ 547,994
2018	564,433
2019	581,366
2020	598,807
2021	616,772
Thereafter	<u>8,438,195</u>
Total minimum lease payments	11,347,567
Less amount representing interest	<u>(5,943,247)</u>
Capital lease obligation	<u><u>\$ 5,404,320</u></u>

Note 8. Advertising

The School expenses advertising costs as such costs are incurred. The amount of advertising cost for the year ending June 30, 2016 was \$4,770.

Note 9. Subsequent Events

The School has evaluated subsequent events through November 15, 2016, the date the financial statements were available to be issued.



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*

The Board of Directors
Pacific Heritage School
Salt Lake City, Utah

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Pacific Heritage School which comprise the statement of financial position as of June 30, 2016 and the related statements activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pacific Heritage 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 Pacific Heritage School's internal control. Accordingly, we do not express an opinion on the effectiveness of Pacific Heritage 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 over financial reporting 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 yet been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pacific Heritage School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Ogden, Utah
November 15, 2016



**Independent Auditor's Report in Accordance with the *State Compliance Audit Guide*
on Compliance with General State Compliance Requirements
and Internal Control over Compliance**

To the Board of Directors
Pacific Heritage School

Report On Compliance With General State Compliance Requirements and for Each Major State Program

We have audited Pacific Heritage School's (the School) compliance with the applicable general state 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 for the year ended June 30, 2016.

General state compliance requirements were tested for the year ended June 30, 2016 in the following areas:

- Budgetary Compliance
- Open and Public Meetings Act
- Treasurer's Bond
- Cash Management
- School Fees
- Minimum School Program

Management's Responsibility

Management is responsible for compliance with the general state requirements referred to above.

Auditor's 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 *Government 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 occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such 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. However, our audit does not provide a legal determination of the School's compliance.

Opinion on General State Compliance Requirements

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the School for the year ended June 30, 2016.

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 to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance with general state compliance requirements 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 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 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Ogden, Utah
November 15, 2016