

Heartwood Charter School

Agenda for the Special Meeting of the Heartwood Charter School

Call in location: 225 Tamalpais Rd, Fairfax, CA 94930

Call in location: 55 Fire Rd, Woodacre, CA 94973

The meeting may be joined by phone: (US)+1 [585-532-5437](tel:585-532-5437) PIN: 240 791 410#

Tuesday March 30, 2021

8:30AM Special Session

Call to Order

- I. Roll Call
- II. Agenda Approval
- III. Actions
 - A. Board will consider 2019-20 Audit Report and Management Letter and approve, defer, or agree to study further.
 - B. Board will consider application for Title 1 and ESSER funds and approve, defer or agree to study further.
 - C. Board will consider LCAP Federal Addendum and approve, defer or agree to study further.
- IV. Closed Session
 - A. Public Employee Performance Evaluation (Gov. Code section 54957(b)(1).)
- V. Open Session
- VI. Action Taken in Closed Session
- VII. Dates and Future Agenda Items

HEARTWOOD CHARTER SCHOOL

Charter No. 2071

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

**For the Fiscal Year Ended
June 30, 2020**

DRAFT

HEARTWOOD CHARTER SCHOOL
For the Fiscal Year Ended June 30, 2020
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Financial Section

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Heartwood Charter School
Petaluma, California

Report on the Financial Statements

We have audited the accompanying financial statements of Heartwood Charter School (a California nonprofit Organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, cash flows, and functional expenses for the fiscal 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. 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 Heartwood Charter School as of June 30, 2020, and the changes in its net assets and its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying supplementary information is the responsibility of management, and was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2021, on our consideration of the Heartwood Charter 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 the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Murrieta, California
_____, 2021

HEARTWOOD CHARTER SCHOOL
Statement of Financial Position
June 30, 2020

ASSETS

Cash and cash equivalents	\$	199,236
Accounts receivable		125,247
Prepaid expenses		<u>6,749</u>
Total Assets	\$	<u>331,232</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$	114,513
Factored receivables		180,000
PPP loan payable		<u>140,582</u>
Total liabilities		<u>435,095</u>

Net assets

Without donor restrictions		(109,551)
With donor restrictions		<u>5,688</u>
Total net assets		<u>(103,863)</u>

Total Liabilities and Net Assets	\$	<u>331,232</u>
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HEARTWOOD CHARTER SCHOOL
Statement of Activities
For the Fiscal Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
LCFF sources	\$ 1,018,169	\$ -	\$ 1,018,169
Lottery	18,510	5,688	24,198
Other local sources	33,707	-	33,707
Total Revenues, Gains, and Other Support	<u>1,070,386</u>	<u>5,688</u>	<u>1,076,074</u>
EXPENSES			
Program Services:			
Education	1,025,113	-	1,025,113
Management and General:			
General administration	154,824	-	154,824
Total Expenses	<u>1,179,937</u>	<u>-</u>	<u>1,179,937</u>
Change in Net Assets	(109,551)	5,688	(103,863)
Net Assets, July 1, 2019	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets, June 30, 2020	<u>\$ (109,551)</u>	<u>\$ 5,688</u>	<u>\$ (103,863)</u>

HEARTWOOD CHARTER SCHOOL
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	(103,863)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
(Increase) decrease in operating assets:		
Accounts receivable		(125,247)
Prepaid expenses		(6,749)
Increase (decrease) in operating liabilities:		
Accounts payable		114,513
Factored receivables		180,000
Net cash provided (used) by operating activities		58,654

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from PPP loan		140,582
Net increase (decrease) in cash		199,236
Beginning cash, July 1, 2019		-
Ending cash, June 30, 2020	\$	199,236

SUPPLEMENTAL DISCLOSURE

Cash paid for interest expense	\$	18,070
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HEARTWOOD CHARTER SCHOOL
Statement of Functional Expenses
For the Fiscal Year Ended June 30, 2020

	Program Services		Total Expenses
	Education	Management & General	
Salaries and benefits:			
Certificated salaries	\$ 541,889	\$ 22,400	\$ 564,289
Classified salaries	7,959	-	7,959
Employee benefits	95,245	3,041	98,286
Total salaries and benefits	645,093	25,441	670,534
Supplies and operating expenses:			
Books and Supplies	154,153	-	154,153
Dues and Memberships	1,281	-	1,281
Operation and Housekeeping Services	-	1,695	1,695
Rental, Leases, and Repairs	80,630	-	80,630
Communications	1,295	324	1,619
Professional/Consulting Services and Operating Expenses	142,661	97,279	239,940
Direct Support/Indirect Cost Charges	-	30,085	30,085
Total supplies and operating expenses	380,020	129,383	509,403
Total Expenses	\$ 1,025,113	\$ 154,824	\$ 1,179,937

HEARTWOOD CHARTER SCHOOL

Notes to Financial Statements

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

Heartwood Charter School (the “School”) is a non-profit public benefit corporation that was incorporated July 5, 2019. The School became a charter school that was petitioned through Liberty Elementary School District (“Sponsor”) and approved by the State of California Department of Education in 2019. The School's most recent charter was approved through the County for a five-year period ending in July 2024. The School is an independent study public school that serves the communities of Marin, Sonoma and other surrounding counties. The School's mission is to inspire an enthusiasm for learning by supporting school readiness and literacy in the community.

B. Basis of Presentation and Accounting

The School accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*.

The financial statements of the School have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) “Audit and Accounting Guide for Not-for-Profit Organizations” (the “Guide”). ASC 958-205 was effective January 1, 2018 and addresses general-purpose external financial statements appropriate for not-for-profit organizations.

Under the provisions of the ASC 958-205, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the School and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the School. The School's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met either by the actions of the not-for-profit organization to satisfy a particular purpose restriction, or by the passage of time. Some donor restrictions are perpetual (or permanent) in nature, whereby the donor has stipulated the funds be maintained in perpetuity, whereby the corpus of the donation must remain unspent.

C. Revenue and Revenue Recognition

Revenue is recognized when earned. Operating funds for the School are derived principally from state sources. The School receives state funding based on each of the enrolled student's average daily attendance (ADA) in its school. Unrestricted support given by the state is recognized as revenue when received. Any such funds received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively.

D. Donated Materials and Supplies

Donated materials and supplies are recorded as contributions at their estimated fair market value at the date of donation if a value can be reasonably determined. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose.

HEARTWOOD CHARTER SCHOOL

Notes to Financial Statements

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Contributed Services

During the year ended June 30, 2020, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the School, but these services do not meet the criteria for recognition as contributed services.

F. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Significant estimates include the lives used for depreciation of property and equipment and allocation of costs between the various programs and expense categories. Actual results could differ from those estimates.

G. Income Taxes

The School is a non-profit entity and is currently applying for exemption from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The School files information returns in the U.S. federal jurisdiction, and the state of California. The statute of limitations for federal and California state tax purposes is generally three and four years, respectively.

H. Cash and Cash Equivalents

The School defines its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

I. Accounts Receivable

Accounts receivable consists mainly of grants and contract payments from other public agencies. No allowance for uncollectable amounts has been estimated as creditworthiness of payors and industry experience provide evidence to support amounts as fully collectible.

J. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

K. Property and Equipment

It is the School's policy to capitalize property and equipment over \$5,000. Purchased property and equipment are reported at historical cost or estimated historical cost. Contributed assets are recorded as contributions at their estimated fair value as of the date received. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose or time of use. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. As of June 30, 2020, the School does not have any capital assets.

HEARTWOOD CHARTER SCHOOL

Notes to Financial Statements

June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Fair Value Measurements

In accordance with fair value measurements, the School categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities recorded on the balance sheet are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate and government bonds. The School has the ability to access the holding and quoted prices as of the measurement date.

Level 2 – Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 – Inputs that are unobservable. Unobservable inputs reflect the School's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

M. Functional Allocation of Expenses

Costs of providing the School's programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

NOTE 2 – LIQUIDITY

The School's financial assets available within one year of the Statement of Financial Position date for general expenditure are as follows:

Cash and cash equivalents	\$	199,236
Accounts receivable		125,247
Prepaid expenses		6,749
Less: donor restrictions		(5,688)
Total current assets	\$	<u>325,544</u>

The School's policy for liquidity management requires that it structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

HEARTWOOD CHARTER SCHOOL

Notes to Financial Statements

June 30, 2020

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash at June 30, 2020, is reported at fair value and consisted of the following:

Cash in banks	\$	189,236
Cash in county treasury		<u>10,000</u>
Total Cash and Cash Equivalents	\$	<u>199,236</u>

Pooled Funds

The School maintains a portion of its cash in the County Treasury. The County pools and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited annually to participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the School's deposits are maintained in a recognized pooled investment fund under the care of a third party and the School's share of the pool does not consist of specific, identifiable investment securities owned by the School, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required. In accordance with applicable state laws, the County Treasurer may invest in derivative securities with the State of California. However, at June 30, 2020, the County Treasurer has represented that the Pooled Investment Fund contained no derivatives or other investments with similar risk profiles.

Cash in County Treasury

Heartwood Charter School is a voluntary participant in an external investment pool. The fair value of the School's investment in the pool is reported in the financial statements at amounts based upon the School's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio in relation to the amortized cost of that portfolio. The balance available for withdrawal is recorded on the amortized cost basis and is based on the accounting records maintained by the County Treasurer.

Except for investment by trustees of debt proceeds, the authority to invest School funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School does not have a policy for custodial credit risk for deposits. Cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions.

As of June 30, 2020, none of the School's bank balance was exposed to custodial credit risk because it was insured by the FDIC.

HEARTWOOD CHARTER SCHOOL

Notes to Financial Statements

June 30, 2020

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable outstanding at June 30, 2020, consisted of the following:

State Government:		
LCFF sources	\$	101,049
Lottery		<u>24,198</u>
Total Accounts Receivable	\$	<u>125,247</u>

NOTE 5 – DEBT

A. Factored Receivables

The School has entered into an agreement to factor receivables. The amount of factored receivables due at June 30, 2020 was \$180,000.

B. Paycheck Protection Program (PPP) Loan

On _____, 2020, the Organization received a PPP loan in the amount of \$140,582 from the Small Business Administration (SBA). The SBA will forgive the loan if all employee retention criteria are met and the funds are used for eligible expenses. The Organization expects to meet the criteria, at which time it will apply for forgiveness of the loan.

NOTE 6 – NET ASSETS

Donor-restricted net assets at June 30, 2020 were comprised of the following amounts and restrictions:

Net assets with donor restrictions:

Lottery: Instructional Materials	\$	<u>5,688</u>
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This amount is presented within net assets with donor restrictions on the Statement of Financial Position.

HEARTWOOD CHARTER SCHOOL

Notes to Financial Statements

June 30, 2020

NOTE 7 – COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

The School has received federal and state funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

Facilities Use Agreements

On August 26, 2019, the School entered into a MOU with Girl Scouts of Northern California (GSNorCal) for the property located at 3125 Sir Francis Drake Boulevard, Fairfax, CA 94930. The agreement is for the period of September 10, 2019 to June 2, 2020.

Impact of COVID-19

On March 13, 2020, a presidential emergency was declared due to the ongoing Coronavirus Disease 2019 (COVID-19) pandemic. The declaration made federal disaster assistance available through the Coronavirus Aid, Relief, and Economic Security (CARES) Act to the State of California to supplement the local recovery efforts by the K-12 education community. On that same date, Governor Newsom issued Executive Order N-26-20, guaranteeing continued State funding, holding LEAs harmless from several regulations, and providing guidelines for LEAs to operate under a “distance learning” environment.

In response, the School announced the closing of school in mid-March. With nearly all schools in California shut down to stem the spread of COVID-19, officials statewide hastily put in place plans to deliver “grab and go” meals with minimal contact between cafeteria staff, volunteers and families in need. In addition, the School worked to implement distance learning for all students for the remainder of the 2019-20 school year.

A companion bill to Executive Order N-26-20, Senate Bill 117 changed the method used by the School to calculate average daily attendance (ADA) for both the P-2 and Annual period apportionment to include all full school months from July 1, 2019 to February 29, 2020. As events unfold and changes are made on a daily basis, the future impacts of COVID-19 on the School’s operations are not fully known at this time.

NOTE 8 – SUBSEQUENT EVENTS

Events subsequent to June 30, 2020, have been evaluated through _____, 2021, the date at which the School's audited financial statements were available to be issued. No events requiring disclosures have occurred through this date.

Economic Conditions

At the end of the first quarter of calendar year 2020, the United States and global economy suffered a major decline due to the impact of the COVID-19 virus. This economic decline may affect the School’s operations and investment earnings for the remainder of calendar year 2020 and beyond. However, the potential impact to the School is unknown at this time.

Supplementary Information

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HEARTWOOD CHARTER SCHOOL

Local Education Agency Organizational Structure

June 30, 2020

Heartwood Charter School (the “School”) was incorporated on July 5, 2019, and was granted its charter through Liberty Elementary School District (“Sponsor”) and its charter school status from the California Department of Education in 2019. The School is a teacher led, community created independent study public school with its campus located in Petaluma, Sonoma County.

BOARD OF DIRECTORS

Name	Office	Term and Term Expiration
Mark Puccinelli	Governing Board President	June 2022
Tracy Lapera	Governing Board Member	June 2021
Greg Browman	Governing Board Member	June 2021

CHARTER ADMINISTRATOR

Stephanie Felton-Priestner,
Executive Director

HEARTWOOD CHARTER SCHOOL
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2020

	Originally Reported		As Audited	
	Second Period Report	Annual Report	Second Period Report	Annual Report
	Certificate No. CABE15C3	Certificate No. C14EB4F5	Audited	Audited
Regular ADA:				
Grades TK/K-3	73.59	73.59	73.57	73.57
Grades 4-6	31.64	31.64	31.57	31.57
Grades 7-8	6.49	6.49	6.49	6.49
Grades 9-12	5.77	5.77	5.63	5.63
Total Regular ADA	117.49	117.49	117.26	117.26

All average daily attendance is generated through non-classroom-based instruction.

HEARTWOOD CHARTER SCHOOL

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2020*

	<u>Statement of Financial Position</u>
June 30, 2020, Annual Financial and Budget Report net assets	\$ 96,895
Adjustments and reclassifications:	
Increase (decrease) in total fund balances:	
Prepaid expenses underreported	6,749
Accounts payable underreported	(60,630)
Factored receivables underreported	(180,000)
Revenue underreported	33,123
	<hr/>
Net adjustments and reclassifications	(200,758)
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June 30, 2020, audited financial statement net assets	<u>\$ (103,863)</u>

HEARTWOOD CHARTER SCHOOL

Note to the Supplementary Information

June 30, 2020

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the School. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts and charter schools. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets reported on the Unaudited Actual financial report to the audited financial statements.

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Other Independent Auditors' Reports

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**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
Heartwood Charter School
Petaluma, California

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 Heartwood Charter School (a California nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, cash flows, and functional expenses for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated _____, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Heartwood Charter School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Heartwood Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Heartwood Charter 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 School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as Findings 2020-001 and 2020-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Heartwood Charter 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 financial statements. 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*.

Heartwood Charter School's Responses to Findings

Heartwood Charter School's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. Heartwood Charter School's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Murrieta, California
_____, 2021

DRAFT

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Directors
Heartwood Charter School
Petaluma, California

Report on State Compliance

We have audited Heartwood Charter School's compliance with the types of compliance requirements described in the *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the Heartwood Charter School's state government programs as noted on the following page for the fiscal year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with state laws, regulations, and the terms and conditions of its State programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Heartwood Charter School's state programs based on our audit of the types of compliance requirements referred to on the following page. 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 *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to on the following page that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about Heartwood Charter 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 for each state program. However, our audit does not provide a legal determination of Heartwood Charter School's compliance.

In connection with the audit referred to above, we selected and tested transactions and records to determine the School's compliance with the State laws and regulations applicable to the following items:

Description	Procedures Performed
School Districts, County Offices of Education, and Charter Schools:	
California Clean Energy Jobs Act	Not Applicable
After/Before School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable

Description	Procedures Performed
Charter Schools:	
Attendance	Yes
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Yes
Determination of Funding for Nonclassroom-Based Instruction	Yes
Annual Instructional Minutes – Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

Unmodified Opinion on Compliance with State Programs

In our opinion, Heartwood Charter School complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2020.

Other Matter

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to previously, which is required to be reported in accordance with the *2019-20 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, and which is described in the accompanying schedule of findings and recommendations as Finding 2020-003. Our opinion on each state program is not modified with respect to this matter.

School's Response to Finding

Heartwood Charter School's response to the compliance finding identified in our audit is described in the accompanying schedule of findings and recommendations. Heartwood Charter School's response was not subjected to the auditing procedures in the audit of compliance and, accordingly, we express no opinion on the response.

Murrieta, California
 _____, 2021

Findings and Recommendations

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HEARTWOOD CHARTER SCHOOL
Schedule of Audit Findings and Recommendations
For the Fiscal Year Ended June 30, 2020

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

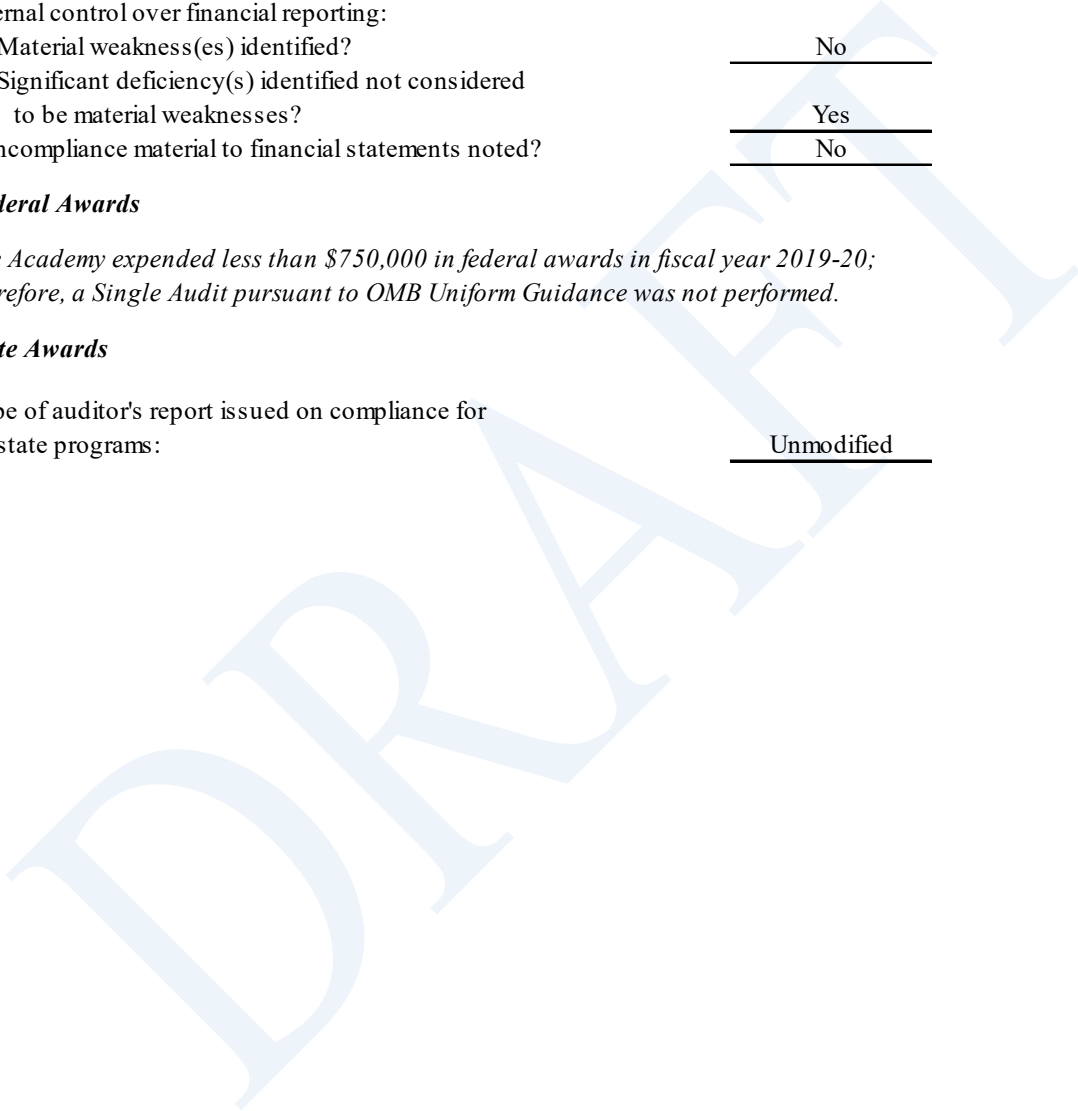
Type of auditor's report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

The Academy expended less than \$750,000 in federal awards in fiscal year 2019-20; therefore, a Single Audit pursuant to OMB Uniform Guidance was not performed.

State Awards

Type of auditor's report issued on compliance for state programs:	<u>Unmodified</u>
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HEARTWOOD CHARTER SCHOOL
Schedule of Audit Findings and Recommendations
For the Fiscal Year Ended June 30, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

Five Digit Code	AB 3627 Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Programs
43000	Apprenticeship: Related and Supplemental Instruction
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding 2020-001: Negative Fund Balance (30000, 60000)

Criteria: Sound financial management, including understanding, establishing, implementing and monitoring proper internal controls and accounting policies and procedures, is essential to a charter school’s ability to achieve its mission. Although charter schools are not required to file interim reports as positive, qualified, or negative as school districts are, understanding and using the certification definitions on interim reports to show whether the charter school is able to meet its financial obligations is a suggested best practice.

Condition: The School began operations during the 2019-20 fiscal year, but ended the fiscal year with a negative amount of net assets. The School faces fiscal challenges that must be closely monitored in order to prevent it from becoming insolvent in the near future. These challenges include:

- The net assets reported by the School at June 30, 2020 in this audit report are (\$103,863). The Alternative Form used to report the financial statements to the California Department of Education reported a positive balance of net assets at June 30, 2020 in the amount of \$96,895; however, audit adjustments were made to properly accrue accounts payable and the amount of factored receivables payable.
-
- In order to ensure adequate working capital, the School has entered into short-term debt through factoring accounts receivable. While this has allowed the School to continue to meet its financial obligations, borrowing costs and interest expense could represent a substantial annual expenditure that reduces the amount available for programs.

Cause: The School began operations in the 2019-20 fiscal year, but incurred expenses in excess of its revenue and required borrowing to meet its financial obligations.

Effect: If revenues do not materialize as planned, or the PPP loan is not forgiven, the Organization could face fiscal insolvency if not closely monitored and resolved.

HEARTWOOD CHARTER SCHOOL
Schedule of Audit Findings and Recommendations
For the Fiscal Year Ended June 30, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS (continued)

Finding 2020-001: Negative Fund Balance (30000, 60000) (continued)

Recommendation: The School should closely monitor its budget and enrollment, as well as the forgiveness of the PPP loan to ensure that the negative fund balance is recovered as planned. If assumptions change, the School needs to be able to implement budget cuts to maintain its fiscal health.

School Response:

Finding 2020-002: Cash Disbursement Controls (30000)

Criteria: The School should obtain approval through a purchase order prior to making any purchases. The School should ensure that expenditures are paid only with supporting documentation.

Condition: During our review of the School's cash disbursements, 18 of 24 expenditures sampled did not receive approval prior to purchase.

Cause: The School had controls in place, but lacked documentation to support the controls.

Effect: Cash disbursements are at risk of being made for inappropriate purposes.

Recommendation: We recommend the School document all preapprovals for an appropriate audit trail of the cash disbursement process.

School Response:

HEARTWOOD CHARTER SCHOOL

Schedule of Audit Findings and Recommendations

For the Fiscal Year Ended June 30, 2020

SECTION III - FEDERAL AWARD FINDINGS AND RECOMMENDATIONS

This section identifies the audit findings required to be reported by the Uniform Guidance, Section 200.516 (e.g., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

The School expended less than \$750,000 on federal awards in 2019-20, therefore, a Single Audit pursuant to OMB Uniform Guidance was not performed.

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HEARTWOOD CHARTER SCHOOL

Schedule of Audit Findings and Recommendations For the Fiscal Year Ended June 30, 2020

SECTION IV - STATE AWARD FINDINGS AND RECOMMENDATIONS

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

Finding 2020-003: Independent Study Agreements (10000, 40000)

Criteria: California Education Code (EC) Section 51747 requires that local educational agencies that claim apportionment for independent study must first adopt and implement written specified policies relating to independent study. The required written policies must be developed as specified in the California Code of Regulations, Title 5, Section 11701.

No ADA may be claimed from independent study until the written agreement is completed (*EC* sections 46300.7, 51747[c][8]).

Condition: During our testing of independent study agreements, we found three (3) instances where students were credited with attendance prior to the signing of the agreement by all required parties. The errors were noted in 3 of 35 agreements tested at the School.

Cause: The School lacks an internal control to ensure that all agreements are complete and signed prior to claiming any attendance credit.

Effect: The errors result in a disallowance of 0.23 ADA, and a loss of apportionment of \$2,047.

Recommendation: We recommend that the School develop internal control procedures to ensure that the independent study agreements are completed and signed by all required parties prior to the commencement of any work done under the agreement.

School Response:

HEARTWOOD CHARTER SCHOOL
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2020

The School was not in operation in 2018-19.

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Heartwood Charter School

Response to Annual Audit

March 29, 2021

Finding 001

The 2019-20 school year ended in an environment of nationwide economic disruption, resulting in the State withholding a portion of the School's funding. The PPP loan was received in May 2020 to compensate for this funding shortfall. The School carefully planned for a financially difficult 2020-21, testing multiple enrollment, spending and financing scenarios in order to create a financial plan with a high probability of success. Finances have been closely monitored, and as of the date of this report, 2020-21 enrollment and finances are stable, and expenditures are arriving at expected values. We believe that the PPP loan forgiveness criteria has been met and the forgiveness application has been submitted.

Finding 002

The School began operations in September 2019, and purchase transactions in the first months generally followed a process with authorization preceding purchase. At that time the individual invoices were not recorded as approved. The School developed standardized procedures for approval and documentation as the year progressed. The School currently has procedures in place which require a purchase authorization prior to purchase, as well as separated authority to approve invoices.

Finding 003

The School experienced late receipt of the state charter number on September 19, 2019. The School began recording attendance of students from daily and periodic attendance records in order to keep a record of confirmed attendance. It is possible that some late receipt of final paperwork may have occurred at that time. The School currently has procedures in place that, in addition to crosschecking registration documentation, audits completion of enrollment and master plan documentation.