



CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

June 30, 2019 and 2018

HERITAGE CHRISTIAN SCHOOLS, INC.

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Independent Auditors' Report

Board of Directors
Heritage Christian Schools, Inc.

We have audited the accompanying consolidated financial statements of Heritage Christian Schools, Inc. (a not-for-profit organization) and Affiliate, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heritage Christian Schools, Inc. and Affiliate as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in fiscal year 2019, Heritage Christian Schools, Inc. and Affiliate adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Katy, Sapper & Miller, LLP

Indianapolis, Indiana
October 28, 2019

HERITAGE CHRISTIAN SCHOOLS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	Adjusted 2018
ASSETS		
Cash	\$ 1,775,958	\$ 2,663,836
Accounts receivable	26,684	29,848
Tuition receivable, net	329,648	363,943
Promises to give, net	95,980	425,540
Inventory	2,499	6,637
Prepaid expenses and other assets	131,831	53,205
Land held for investment	270,000	270,000
Property and equipment, net	15,482,949	15,377,048
Collections	<u>72,219</u>	<u>72,219</u>
TOTAL ASSETS	<u>\$ 18,187,768</u>	<u>\$ 19,262,276</u>
LIABILITIES		
Accounts payable	\$ 350,303	\$ 280,060
Accrued expenses	598,714	645,742
Deferred tuition revenue	1,112,645	1,197,081
Derivative contract	4,554	6,678
Debt, net	<u>812,977</u>	<u>2,066,859</u>
Total Liabilities	<u>2,879,193</u>	<u>4,196,420</u>
NET ASSETS		
Net assets without donor restrictions:		
Board designated - annual fund	588,238	627,849
Undesignated funds	<u>14,149,241</u>	<u>13,131,228</u>
Total Net Assets Without Donor Restrictions	<u>14,737,479</u>	<u>13,759,077</u>
Net assets with donor restrictions:		
Purpose restricted	567,526	1,303,209
Perpetual in nature	<u>3,570</u>	<u>3,570</u>
Total Net Assets With Donor Restrictions	<u>571,096</u>	<u>1,306,779</u>
Total Net Assets	<u>15,308,575</u>	<u>15,065,856</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,187,768</u>	<u>\$ 19,262,276</u>

See accompanying notes.

HERITAGE CHRISTIAN SCHOOLS, INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2019 and 2018

	2019		Total
	Without Donor Restriction	With Donor Restriction	
REVENUE AND SUPPORT			
Tuition and fees, net of tuition assistance	\$ 13,349,210		\$ 13,349,210
Auxiliary services	1,169,123		1,169,123
Contributions	121,303	\$ 394,668	515,971
Bad debt losses		(34,880)	(34,880)
Activities and special events	396,986		396,986
Interest and dividends	10,636		10,636
Change in fair value of derivative contract	2,124		2,124
Other income	78,514		78,514
	<u>15,127,896</u>	<u>359,788</u>	<u>15,487,684</u>
Net assets released from restrictions	1,095,471	(1,095,471)	
Total Revenue and Support	<u>16,223,367</u>	<u>(735,683)</u>	<u>15,487,684</u>
EXPENSES			
Program Services	12,799,604		12,799,604
Management and general	1,740,284		1,740,284
Fundraising	705,077		705,077
Total Expenses	<u>15,244,965</u>		<u>15,244,965</u>
INCREASE (DECREASE) IN NET ASSETS	978,402	(735,683)	242,719
NET ASSETS			
Beginning of Year	<u>13,759,077</u>	<u>1,306,779</u>	<u>15,065,856</u>
End of Year	<u>\$ 14,737,479</u>	<u>\$ 571,096</u>	<u>\$ 15,308,575</u>

See accompanying notes.

Adjusted 2018		
Without Donor Restriction	With Donor Restriction	Total
\$ 11,781,543		\$ 11,781,543
1,106,865		1,106,865
79,864	\$ 926,963	1,006,827
	(3,383)	(3,383)
345,463		345,463
150		150
39,693		39,693
53,984		53,984
<u>13,407,562</u>	<u>923,580</u>	<u>14,331,142</u>
552,810	(552,810)	
<u>13,960,372</u>	<u>370,770</u>	<u>14,331,142</u>
11,741,243		11,741,243
1,614,701		1,614,701
670,254		670,254
<u>14,026,198</u>		<u>14,026,198</u>
(65,826)	370,770	304,944
<u>13,824,903</u>	<u>936,009</u>	<u>14,760,912</u>
<u>\$ 13,759,077</u>	<u>\$ 1,306,779</u>	<u>\$ 15,065,856</u>

HERITAGE CHRISTIAN SCHOOLS, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019

	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 8,728,564	\$1,124,745	\$ 354,483	\$10,207,792
Curriculum and supplies	473,408	82,428	173,489	729,325
Repairs and maintenance	570,220	185,366	67,031	822,617
Utilities	500,741	9,084	3,893	513,718
Cleaning service	445,278			445,278
Insurance	132,389	10,281	1,287	143,957
Food and supplies	350,925			350,925
Activities and special events	357,418	17,760	6,518	381,696
Travel and meals	44,965	10,114	925	56,004
Workshops and continuing education	26,955	18,438		45,393
Depreciation	832,399	133,414	5,986	971,799
Interest	65,418			65,418
Other	270,924	148,654	91,465	511,043
TOTAL EXPENSES BY FUNCTION	<u><u>\$12,799,604</u></u>	<u><u>\$1,740,284</u></u>	<u><u>\$ 705,077</u></u>	<u><u>\$15,244,965</u></u>

See accompanying notes.

HERITAGE CHRISTIAN SCHOOLS, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018

	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 7,993,336	\$1,093,827	\$ 355,033	\$ 9,442,196
Curriculum and supplies	421,269	35,354	129,288	585,911
Repairs and maintenance	419,216	147,032	33,512	599,760
Utilities	483,019	8,727	3,738	495,484
Cleaning service	429,568			429,568
Insurance	130,593	10,766	1,300	142,659
Food and supplies	336,429			336,429
Special events	309,437	6,159	3,737	319,333
Travel and meals	48,248	10,508	1,239	59,995
Workshops and continuing education	22,198	6,601	50	28,849
Depreciation	812,905	118,058	6,134	937,097
Interest	114,369			114,369
Other	220,656	177,669	136,223	534,548
TOTAL EXPENSES BY FUNCTION	<u>\$11,741,243</u>	<u>\$1,614,701</u>	<u>\$ 670,254</u>	<u>\$14,026,198</u>

See accompanying notes.

HERITAGE CHRISTIAN SCHOOLS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Increase in net assets	\$ 242,719	\$ 304,944
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	971,799	937,097
Amortization of deferred financing costs in interest expense	14,806	14,805
Bad debt expense	74,440	91,292
Loss on sales and disposition of property and equipment	31,518	7,325
Decrease in derivative contract liability	(2,124)	(39,693)
(Increase) decrease in certain assets:		
Accounts receivable	3,164	(29,848)
Tuition receivable	(5,265)	(175,379)
Promises to give	294,680	116,875
Receivable from charitable remainder trusts		425,574
Inventory	4,138	1,114
Prepaid expenses and other assets	(78,626)	15,296
Increase (decrease) in certain liabilities:		
Accounts payable	70,243	(9,183)
Accrued expenses	(47,028)	(110,820)
Deferred tuition revenue	(84,436)	(22,277)
Net Cash Provided by Operating Activities	<u>1,490,028</u>	<u>1,527,122</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(1,109,218)</u>	<u>(530,045)</u>
Net Cash Used by Investing Activities	<u>(1,109,218)</u>	<u>(530,045)</u>
FINANCING ACTIVITIES		
Payments on bonds	(1,200,000)	(200,000)
Payments on capital lease obligations	<u>(68,688)</u>	<u>(65,855)</u>
Net Cash Used by Financing Activities	<u>(1,268,688)</u>	<u>(265,855)</u>
NET INCREASE (DECREASE) IN CASH	(887,878)	731,222
CASH		
Beginning of Year	<u>2,663,836</u>	<u>1,932,614</u>
End of Year	<u>\$ 1,775,958</u>	<u>\$ 2,663,836</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	\$ 65,418	\$ 114,369
Noncash investing and financing activities:		
Obligations assumed for acquisition of equipment		138,034

See accompanying notes.

HERITAGE CHRISTIAN SCHOOLS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2019 and 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated Financial Statements: The accompanying consolidated financial statements include the accounts of Heritage Christian Schools, Inc. (Heritage) and its affiliate, HCS Real Estate, LLC (HCS Real Estate) (together, the Organization). Heritage is the sole member of HCS Real Estate. HCS Real Estate was organized on April 21, 2016 to hold donated land that is held for investment. All significant intra-entity accounts and transactions have been eliminated in consolidation.

Heritage is a nonprofit religious/educational organization incorporated under the laws of the state of Indiana. Heritage's objective is to provide, based upon the Word of God, a Christian education to preschool through twelfth grade students in the Indianapolis area. Revenues are derived primarily from students' tuition and related service fees. Heritage also receives contributions from friends and the general public.

Heritage is a member of Indiana Non-Public Education Association, Association of Christian Schools International (ACSI), and Indianapolis Christian School Association. Heritage is accredited by ACSI. The high school is also accredited by AdvancED.

New Accounting Pronouncement: During fiscal year 2019, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU enhances the understandability of net asset classification, requires information about liquidity and availability of resources, and increases the consistency in the type of information provided about expenses and investment return. ASU 2016-14 has been applied retrospectively to all years presented. The consolidated financial statements have been presented as adjusted to reflect these changes in presentation.

Basis of Presentation: The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

- **Net Assets Without Donor Restrictions** are not subject to donor-imposed restrictions and may be used at the discretion of the Organization's management and Board of Directors to support the purposes and operations of the Organization. This net asset category includes Board-designated net assets.
- **Net Assets With Donor Restrictions** are subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of activities. Restrictions expire when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Gifts associated with the acquisition of long-lived assets are released from restriction when the assets are placed in service.

Estimates: The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash consists of checking, savings, and money market accounts at banks. Heritage maintains its cash in bank deposit accounts which, at times, may exceed the federally insured limits. Heritage has not experienced any losses from its bank accounts.

Tuition Receivable is reviewed regularly for collectability and an allowance for doubtful accounts receivable is recorded, if necessary, based on management's judgement and analysis of the creditworthiness of the creditors, historical experience, economic conditions, and other relevant factors. Tuition receivable is written off against the allowance when deemed uncollectible. At June 30, 2019 and 2018, the allowance was \$90,000 and \$195,000, respectively.

Promises to Give: Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Amounts expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted rates applicable in the years in which those promises are received. Amortization of the discounts is included in contributions and grants in the consolidated statements of activities. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Inventory consists of bookstore supplies and various resale items on hand. Inventory is reported at the lower of cost or net realizable value, with cost determined using the first-in, first-out method.

Land Held for Investment consists of land that was donated and reflected as contributions at the appraised value.

Property and Equipment are stated at cost for purchased assets, or at fair value at the date of donation for donated assets, less accumulated depreciation. Depreciation of property and equipment is provided on a straight-line basis over the estimated useful lives of the related assets, ranging from 3 to 40 years.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amount of an asset to the future net undiscounted cash flows expected to be generated by the asset. If the asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair market value of the asset. No adjustments to the carrying amount of such long-lived assets were required in fiscal years 2019 and 2018.

Collections consist of sculptures donated to Heritage. Donated items are reported at their appraised or fair market value on the date of the gift.

Tuition and Auxiliary Services Revenue is recorded during the year the related academic services are rendered and displayed net of scholarships and discounts on the consolidated statements of activities. Tuition revenue received in advance of services being rendered is recorded as deferred revenue.

Contributions are recognized as support when they are received or unconditionally promised. Conditional contributions are not recorded as support and revenues until the conditions are met.

Special Event Revenue, including related sponsorship revenue, is recognized upon occurrence of the event. Revenue and support received for events occurring subsequent to the consolidated statement of financial position date is reflected as deferred revenue.

Functional Allocation of Expenses: The costs of providing program and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Directly identifiable expenses are charged to the specific program or supporting service benefited. Expenses related to more than one function are allocated among program and support services based on occupied space (including, repairs and maintenance, utilities, depreciation and interest) or time spent by Organization staff (including, personnel expenses). Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs are expensed as incurred and totaled \$46,588 and \$60,215 for the years ended June 30, 2019 and 2018, respectively.

Self-Insurance Plan: Heritage has elected to act as a self-insurer for certain costs related to employee health and accident benefits. Such costs are charged to operations when incurred. Heritage's stop-loss health insurance policy states that any claims paid in excess of a specified dollar amount will be reimbursed. At June 30, 2019 and 2018, Heritage estimated the self-insurance liability, net of insurance recoveries, to be approximately \$108,000 and \$175,000, respectively.

Tax Status: Heritage is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and a corresponding state tax law. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements. In addition, Heritage has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for fiscal years 2019 and 2018.

Heritage files U.S. federal and state of Indiana information tax returns. Heritage is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before fiscal year 2016.

HCS Real Estate is single member LLC and is a disregarded entity for income tax purposes. All income, gains, losses and deductions of HCS Real Estate are included in Heritage's tax filings.

Reclassifications: Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the presentation of the 2019 consolidated financial statements.

Subsequent Events: Management has evaluated the consolidated financial statements for subsequent events occurring through October 28, 2019, the date the consolidated financial statements were available to be issued.

NOTE 2 - AVAILABLE RESOURCES AND LIQUIDITY

The following reflects the Organization's financial assets available to meet general expenditure that is, without donor or other restrictions limiting their use, within one year of the consolidated statements of financial position date:

	2019	2018
Cash	\$ 1,775,958	\$ 2,663,836
Accounts receivable	26,684	29,848
Tuition receivable, net	329,648	363,943
Promises to give, net	95,980	425,540
Total Financial Assets	<u>2,228,270</u>	<u>3,483,167</u>
Board designated net assets – annual fund	(588,238)	(627,849)
Donor-imposed Restrictions:		
Funds subject to purpose restrictions	(567,526)	(1,303,209)
Perpetual in nature	<u>(3,570)</u>	<u>(3,570)</u>
Total Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 1,068,936</u>	<u>\$ 1,542,189</u>

The Organization's Board of Directors has designated a portion of its unrestricted resources for specific purposes. Those amounts are identified as board-designated in the above table. These funds are set aside for these purposes but remain available and may be spent at the discretion of the Board of Directors.

NOTE 2 - AVAILABLE RESOURCES AND LIQUIDITY (CONTINUED)

The Organization operates with a balanced budget and anticipates collecting sufficient revenue and support to cover general expenditures not covered by donor-restricted resources. Refer to the consolidated statements of cash flows, which identify the sources and uses of the Organization’s cash and shows positive cash generated by operations for fiscal years 2019 and 2018.

As part of the Organization’s liquidity management plan, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in money market funds.

NOTE 3 - FAIR VALUE MEASUREMENTS

The Organization has categorized its assets and liabilities that are measured at fair value into a three-level fair value hierarchy. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 – Inputs to the valuation methodology may include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and/or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. In situations where there is little or no market activity for the asset or liability, the Organization makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

Following is a description of the valuation methodology used by Heritage for a derivative liability that is measured at fair value on a recurring basis. There have been no changes in the methodology used at June 30, 2019 and 2018.

Interest Rate Swap: The Organization estimates the fair value using the valuation provided by the counterparty, without adjustment, which utilizes a discounted cash flow model primarily based on the applicable interest yield curve at the reporting date to estimate the amount the Organization would pay upon termination of the agreement.

Following is a summary of Heritage’s derivative contract liability, by level of the fair value hierarchy, that is measured at fair value on a recurring basis as of June 30, 2019 and 2018:

2019	Level 3	Total
Derivative contract liability	<u>\$4,554</u>	<u>\$4,554</u>
2018		
Derivative contract liability	<u>\$6,678</u>	<u>\$6,678</u>

NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)

Changes in the fair value of the Level 3 derivative contract liability were net unrealized gains of \$2,124 and \$39,693 for the years ended June 30, 2019 and 2018, respectively.

At June 30, 2019 and 2018, the Organization had no assets and no other liabilities that are measured at fair value on a recurring basis.

NOTE 4 - PROMISES TO GIVE

Heritage conducts fund-raising campaigns to help pay down debt and support other initiatives detailed in the campaigns. Heritage determined that a discount of the promises to give was immaterial to the consolidated financial statements. Promises to give as of June 30, 2019 and 2018, are all with donor restriction and are summarized as follows:

	2019	2018
Due within one year	\$105,980	\$473,190
Due in one to five years		<u>6,350</u>
	<u>105,980</u>	479,540
Allowance for uncollectible amounts	<u>(10,000)</u>	<u>(54,000)</u>
	<u>\$ 95,980</u>	<u>\$425,540</u>

Heritage had promises to give from three contributors totaling 70% of the total promises to give balance at June 30, 2019. Heritage had promises to give from two contributors totaling 58% of the total promises to give balance at June 30, 2018.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2019 and 2018:

	2019	2018
Buildings and improvements	\$ 28,880,356	\$ 28,162,334
Furnishings and equipment	4,435,278	4,098,746
Transportation equipment	<u>367,768</u>	<u>367,768</u>
	33,638,402	32,628,848
Less: Accumulated depreciation	<u>(19,033,485)</u>	<u>(18,084,832)</u>
	14,649,917	14,544,016
Land	<u>833,032</u>	<u>833,032</u>
Total Property and Equipment, net	<u>\$ 15,482,949</u>	<u>\$ 15,377,048</u>

NOTE 6 - DEBT

Debt outstanding at June 30, 2019 and 2018, was as follows:

	2019	2018
Economic Development Revenue Bonds payable in semi-annual principal installments from June 2006 through maturity in 2020. Interest computed at a variable rate is payable monthly (effective interest rate of 4.78% at June 30, 2019). A derivative contract has been entered to protect Heritage from interest rate fluctuations through December 1, 2020. The bonds are secured by a first mortgage on specific Heritage property. The bonds require compliance with certain restrictive covenants and performance requirements.	\$670,000	\$1,870,000

NOTE 6 - DEBT (CONTINUED)

	2019	2018
Capital lease obligation due in monthly installments of \$1,579, with a purchase option at the conclusion of the lease in fiscal year 2020. Imputed interest on the lease is immaterial. Secured by equipment recorded at a cost of \$94,762 and accumulated depreciation of \$75,810 at June 30, 2019.	\$ 18,953	\$ 37,905
Capital lease obligation due in monthly installments of \$829, with a purchase option at the conclusion of the lease in fiscal year 2022. Imputed interest on the lease is immaterial. Secured by equipment recorded at a cost of \$49,515 and accumulated depreciation of \$23,932 at June 30, 2019.	24,870	34,818
Capital lease obligation due in monthly installments of \$483, with a purchase option at the conclusion of the lease in fiscal year 2022. Imputed interest on the lease is immaterial. Secured by equipment recorded at a cost of \$28,913 and accumulated depreciation of \$13,975 at June 30, 2019.	14,500	20,301
Capital lease obligation due in monthly installments of \$1,044, with a purchase option at the conclusion of the lease in fiscal year 2021. Imputed interest on the lease is immaterial. Secured by equipment recorded at a cost of \$96,495 and accumulated depreciation of \$67,384 at June 30, 2019.	25,062	37,594
Capital lease obligation due in monthly installments of \$2,188, with a purchase option at the conclusion of the lease in fiscal year 2022. Interest is imputed on the lease at 5.714%. Secured by equipment recorded at a cost of \$131,265 and accumulated depreciation of \$50,318 at June 30, 2019.	<u>74,409</u>	<u>95,864</u>
	827,794	2,096,482
Less: Debt issuance costs, net	<u>(14,817)</u>	<u>(29,623)</u>
Total Debt, net	<u>\$812,977</u>	<u>\$2,066,859</u>

Debt issuance costs are being amortized on the effective interest rate method. Amortization of the debt issuance costs is reported as interest expense in the consolidated statements of activities. At June 30, 2019 and 2018, debt issuance costs totaled \$207,294 and accumulated amortization totaled \$192,477 and \$177,671, respectively. Related amortization reported as interest expense was \$14,806 and \$14,805 in the years ended June 30, 2019 and 2018, respectively.

At June 30, 2019, the required capital lease payments and the scheduled bond principal payments on the Economic Development Revenue Bonds were as follows:

Payable In Fiscal Year	Capital Lease Payments	Bond Principal Payments
2020	\$ 73,485	\$400,000
2021	54,533	270,000
2022	<u>36,315</u>	
Total Capital Lease Payments	164,333	
Less: Amount representing interest	<u>(6,539)</u>	
Net Capital Lease Obligation	<u>\$157,794</u>	

NOTE 6 - DEBT (CONTINUED)

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, Heritage entered into a ten-year interest rate swap agreement for its variable rate bond debt. Heritage does not engage in speculative derivative transactions for trading purposes. The agreement provides for Heritage to pay a fixed interest rate and receive a variable interest rate through December 2020. The fixed interest rate provided by the swap is 2.12%.

Under the interest rate swap agreement, Heritage has agreed to exchange, at specified intervals, the difference between the fixed and variable interest amounts calculated by reference to the agreed-upon notional amount. The notional amount outstanding at June 30, 2019 was \$670,000 and will decline throughout the term of the bonds based on amortization of principal amounts.

Under the agreement, Heritage pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The derivative contract liability arising from the interest rate swap is stated at the settlement amount that Heritage would have to pay if the swap agreement was terminated at June 30, 2019 and 2018. Heritage has no intention of terminating the swap agreement.

NOTE 7 - NET ASSETS WITH DONOR RESTRICTION

Net assets with donor restrictions at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Subject to Expenditures for Specified Purpose:		
Development	\$ 46,801	\$ 449
Thrive	95,980	483,918
School activities	77,527	181,123
Athletics	300,664	64,878
Turf Field		458,500
Facilities	1,750	19,851
Wish List	10,944	43,350
Extracurricular	21,937	17,637
Athena grant	5,425	5,425
Benevolent fund	1,042	26,977
Other	5,456	1,101
Perpetual in nature:		
Scooby Gerbig Scholarship Fund	<u>3,570</u>	<u>3,570</u>
Total Net Assets With Donor Restrictions	<u>\$571,096</u>	<u>\$1,306,779</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donors for fiscal years 2019 and 2018, were comprised of:

	2019	2018
Satisfaction of purpose restrictions:		
Development	\$ 52,708	\$ 21,275
Thrive	365,540	224,091
Heritage Fund	160,282	
School activities	85,570	99,205
Athletics	247,722	37,173
Wish List	32,431	10,061
Worthy Servants	80,208	139,532
Other	<u>71,010</u>	<u>21,473</u>
Total Net Assets Released from Restrictions	<u>\$1,095,471</u>	<u>\$552,810</u>

NOTE 8 - RETIREMENT PLAN

Heritage has adopted a 401(k) retirement plan. Heritage's faculty and certain administrative employees can participate in the Plan, provided they have attained the age of 21, and have completed one year of service. Heritage may make a discretionary matching contribution, as well as a discretionary profit sharing contribution to the Plan. Heritage made contributions of \$32,501 to the Plan in fiscal year 2019. Heritage made no contributions to the Plan in fiscal year 2018.

NOTE 9 - CONTRIBUTIONS

Contributions for fiscal years 2019 and 2018 included the following:

	2019	2018
Contributions Without Donor Restriction:		
Jog-a-thon	\$115,266	\$ 69,779
Other	6,037	10,085
Total Contributions Without Donor Restriction	<u>121,303</u>	<u>79,864</u>
Contributions With Donor Restriction	<u>394,668</u>	<u>926,963</u>
 Total Contributions	 <u>\$515,971</u>	 <u>\$1,006,827</u>

NOTE 10 - TUITION AND FEES - NET OF TUITION ASSISTANCE

Revenue from tuition and fees for fiscal years 2019 and 2018 included the following:

	2019	2018
Tuition:		
Preschool thru middle school	\$ 8,026,760	\$ 7,282,147
High school	5,667,242	4,843,939
Hidden treasures	111,826	115,998
Explorers	154,570	132,369
Directed study hall	70,620	37,395
Educational support services		11,953
Distance learning	33,193	9,380
Resource	69,664	85,852
	<u>14,133,875</u>	<u>12,519,033</u>
Fees:		
Enrollment fees	219,110	208,354
After-school care	201,261	170,629
Late payment and NSF charges	3,284	7,315
Application fees	8,770	7,470
Other	22,425	15,422
Testing fees	27,626	9,054
	<u>482,476</u>	<u>418,244</u>
Total Revenue from Tuition and Fees	14,616,351	12,937,277
Less: Prepaid tuition discount	(10,715)	(11,441)
Less: Tuition assistance	<u>(1,256,426)</u>	<u>(1,144,293)</u>
 Net Revenue from Tuition and Fees	 <u>\$13,349,210</u>	 <u>\$11,781,543</u>

NOTE 11 - AUXILIARY SERVICES

Auxiliary services revenue for fiscal years 2019 and 2018 included the following:

	2019	2018
Athletics	\$ 231,075	\$ 226,845
Bookstore	8,553	5,564
Booster club/extracurricular	104,293	94,053
Cafeteria	631,462	626,903
Transportation	153,153	132,690
Other	<u>40,587</u>	<u>20,810</u>
	<u>\$1,169,123</u>	<u>\$1,106,865</u>

Auxiliary services expenses for fiscal years 2019 and 2018 included the following:

	2019	2018
Athletics	\$ 830,365	\$ 757,137
Bookstore	4,205	1,113
Booster club/extracurricular	230,928	219,465
Cafeteria	515,104	533,044
Transportation	<u>244,343</u>	<u>239,000</u>
	<u>\$1,824,945</u>	<u>\$1,749,719</u>