

LEGACY HIGH SCHOOL, INC.

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

**Financial Statements
with Independent Auditor's Reports Thereon**

June 30, 2017



M^CCRADY | HESS
CERTIFIED PUBLIC ACCOUNTANTS

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LEGACY HIGH SCHOOL, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Legacy High School, Inc. (the "School") offers the following narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2017. Readers are encouraged to use this information in conjunction with information furnished in the School's financial statements. This summary should not be taken as a replacement for the audit, which consists of the basic financial statements and other supplemental information.

FINANCIAL HIGHLIGHTS

- ❖ The School ended fiscal year 2017 with a net position of \$34,248, which is a slight decrease from prior year.
- ❖ For the fiscal year ended June 30, 2017, the School's expenses exceeded revenues by approximately \$5,600.
- ❖ The School was a co-borrower on a \$5,700,000 bond payable signed by a related party.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to School's basic financial statements. The School's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the School through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the understanding of the financial condition of School. This document also includes the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance with *Government Auditing Standards*, as well as the management letter required by the Rules of the Auditor General, Chapter 10.850, *Audits of Charter Schools and Similar Entities*.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide a broad overview of the School's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the School's financial status as a whole.

The two government-wide statements report the School's net position and the current year changes. The net position is the difference between the School's total assets and total liabilities. Measuring the net position is one way to evaluate the School's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include the School's basic services. The business-type activities are those services that the School charges for not directly related to the School's mission. For the year ended June 30, 2017, the School had no business-type activities or component units.

Fund Financial Statements

The fund financial statements provide a more detailed look at the School's most significant activities. A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. All of the operations of the School are presented in a governmental fund only.

Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. The School's basic services are accounted for in governmental funds. These funds focus on how assets that can readily be converted into cash flow in and out, and what monies left at year-end are available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*. This method also has a current financial resources focus. As a result, the governmental fund financial statements provide a detailed short-term view of the financial resources available to finance the School's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental fund is described in a reconciliation that is a part of the fund financial statements.

The School adopts an annual budget for its general fund, as required by the Florida Statutes. The budget is legally adopted by management of the School and its Board. A budgetary comparison schedule has been included as part of the required supplementary information. The budgetary comparison schedule shows four columns: 1) the original budget as adopted by the Board, 2) the final budget as amended by the Board, 3) the actual resources, charges and ending balances in the general fund, and 4) the variance between the final budget and the actual resources and charges.

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to the full understanding of the information reported in the government-wide and fund financial statements. The notes to the financial statements start on page 15 of this report.

GOVERNMENT-WIDE ANALYSIS OF THE SCHOOL

Net Position

The School's combined net position as of June 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Assets:			
Current assets	\$ 165,746	\$ 74,436	\$ 91,310
Capital assets, net	25,717	26,371	(654)
Noncurrent assets	<u>5,700,000</u>	<u>-</u>	<u>5,700,000</u>
Total assets	<u>5,891,463</u>	<u>100,807</u>	<u>5,790,656</u>
Liabilities:			
Current liabilities	157,215	60,955	96,260
Long-term liabilities	<u>5,700,000</u>	<u>-</u>	<u>5,700,000</u>
Total liabilities	<u>5,857,215</u>	<u>60,955</u>	<u>5,796,260</u>
Net Position:			
Investment in capital assets	25,717	26,371	(654)
Unrestricted	<u>8,531</u>	<u>13,481</u>	<u>(4,950)</u>
Total net position	<u>\$ 34,248</u>	<u>\$ 39,852</u>	<u>\$ (5,604)</u>

The change in current assets is due to an increase in operating cash and receivables due from other agencies. The increase in noncurrent assets corresponds to the increase in long-term liabilities, of which both Hope Charter School and Legacy Charter School are jointly the borrowers for the loan on the land and facilities. The increase in current liabilities is due to the timing of payments on the payable to Hope Charter School. The decrease in net position is due to the results of current year operations.

Change in Net Position

The School's total expenses exceeded revenues by approximately \$5,600 in fiscal 2017—see table below.

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenues:			
State and local sources	\$ 1,276,850	\$ 1,150,884	\$ 125,966
Contributions and other revenues	171,696	128,370	43,326
Total revenues	<u>1,448,546</u>	<u>1,279,254</u>	<u>169,292</u>
Expenses:			
Instruction	869,860	838,171	31,689
Instructional staff training	4,255	2,155	2,100
Board	2,629	4,280	(1,651)
General administration	24,050	21,558	2,492
School administration	306,751	270,974	35,777
Facilities acquisition and construction	3,036	-	3,036
Fiscal services	20,014	19,175	839
Food service	534	-	534
Operation of plant	177,571	176,795	776
Interest	45,450	-	45,450
Total expenses	<u>1,454,150</u>	<u>1,333,108</u>	<u>121,042</u>
Change in net position	<u>\$ (5,604)</u>	<u>\$ (53,854)</u>	<u>\$ 48,250</u>

The change in revenues from state and local sources is due to increases in student population and per student funding allocations. The increase in contributions and other revenues is due to a gift from a related party. The increase in instruction and school administration was due to an increase in personnel and annual merit increases to current employees.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As the School completed the year, its governmental fund reported a combined fund balance of \$8,531.

General Fund Budgetary Highlights

During the fiscal year, the School amended its budget twice. Generally, budget amendments fall into one of the three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget once exact information is available, 2) amendments made to recognize changes in funding amounts, and 3) changes in appropriations that become necessary to maintain services.

In the general fund, actual revenues were under budget by approximately \$142,000. Actual expenditures were under budget by approximately \$80,000.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2017, the School invested approximately \$26,000 in capital assets, net of accumulated depreciation of approximately \$182,000.

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Capital assets			
Leasehold improvements	\$ 35,986	\$ 35,986	\$ -
Furniture, fixtures and equipment	171,932	166,071	5,861
Total	207,918	202,057	5,861
Less – accumulated depreciation	<u>(182,201)</u>	<u>(175,686)</u>	<u>6,515</u>
Total capital assets	<u>\$ 25,717</u>	<u>\$ 26,371</u>	<u>\$ (654)</u>

More detailed information about the School's capital assets is presented in Note 4 to the financial statements.

Long-Term Liabilities

Long-term liabilities increased by \$5,700,000 due to bond issuance. Interest expense during fiscal year June 30, 2017 was approximately \$78,000. More detailed information on the School's long-term liabilities is presented in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Budget Highlights for the Fiscal Year Ended June 30, 2018

Amounts available for appropriation in the general fund are approximately \$1,612,000, an increase of approximately \$332,000 or 26% over the actual 2017 amount.

Budgeted expenditures are expected to be approximately \$1,403,000, an increase of approximately \$84,000 or 6% from the 2017 actual amounts. The increase is primarily related to an increase in salaries and related expenses. The School added no new programs to the fiscal 2018 budget.

If these estimates are realized, the School's general fund balance is expected to increase by approximately \$209,000.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide interested parties with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. Should additional information be required, please contact the School's administrative offices at 1550 E. Crown Point Road, Ocoee, Florida 34761.



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Independent Auditor's Report on Basic Financial Statements and Supplementary Information

To the Board of Directors of Legacy High School, Inc.,
a Charter School and Component Unit of the District
School Board of Orange County, Florida

We have audited the accompanying financial statements of the governmental activities and the major fund and aggregate remaining fund information of Legacy High School, Inc. (the School), a charter school and component unit of the District School Board of Orange County, Florida, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the School, as of June 30, 2017, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1-6 and 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2017, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

McCready Hess

Orlando, Florida
August 31, 2017

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Members of American Institute of Certified Public Accountants and Florida Institute of Certified Public Accountants

LEGACY HIGH SCHOOL, INC.

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

Statement of Net Position

June 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 111,246
Due from other agencies	48,803
Other assets	5,697
Capital assets:	
Leasehold improvements	35,986
Furniture, fixtures and equipment	171,932
Less accumulated depreciation	<u>(182,201)</u>
Total capital assets, net	<u>25,717</u>
Due from Hope Charter School, Inc.	<u>5,700,000</u>
Total assets	<u><u>\$ 5,891,463</u></u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 39,158
Due to Hope Charter School, Inc.	118,057
Long-term liabilities:	
Portion due or payable within one year:	
Bond payable	203,557
Portion due or payable after one year:	
Bond payable	<u>5,496,443</u>
Total liabilities	<u>5,857,215</u>
NET POSITION	
Invested in capital assets, net of related debt	25,717
Unrestricted	<u>8,531</u>
Total net position	<u><u>\$ 34,248</u></u>

The accompanying notes to financial statements are an integral part of this statement.

LEGACY HIGH SCHOOL, INC.

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

Statement of Activities

For the Year Ended June 30, 2017

	<u>Expenses</u>	<u>Program Specific Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>
Governmental Activities:						
Instruction	\$ 869,860	\$ -	\$ -	\$ -	\$ (869,860)	\$ (869,860)
Instructional staff training	4,255	-	-	-	(4,255)	(4,255)
Board	2,629	-	-	-	(2,629)	(2,629)
General administration	24,050	-	-	-	(24,050)	(24,050)
School administration	306,751	-	-	-	(306,751)	(306,751)
Facilities acquisition and construction	3,036	-	-	-	(3,036)	(3,036)
Fiscal services	20,014	-	-	-	(20,014)	(20,014)
Food service	534	-	-	-	(534)	(534)
Operation of plant	177,571	-	-	51,265	(126,306)	(126,306)
Interest	45,450	-	-	-	(45,450)	(45,450)
	<u>\$ 1,454,150</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,265</u>	<u>\$ (1,402,885)</u>	<u>\$ (1,402,885)</u>
Total primary government						
General revenues:						
State and local sources					1,225,585	1,225,585
Contributions and other revenues					171,696	171,696
Total general revenues					<u>1,397,281</u>	<u>1,397,281</u>
Changes in net position					(5,604)	(5,604)
Net position at beginning of year					39,852	39,852
Net position at end of year					<u>\$ 34,248</u>	<u>\$ 34,248</u>

The accompanying notes to financial statements are an integral part of this statement.

LEGACY HIGH SCHOOL, INC.

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

Balance Sheet - Governmental Funds

June 30, 2017

	General Fund	Capital Projects Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents	\$ 111,246	\$ -	\$ 111,246
Due from other agencies	-	48,803	48,803
Other assets	5,697	-	5,697
Due from capital projects fund	48,803	-	48,803
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 165,746</u>	<u>\$ 48,803</u>	<u>\$ 214,549</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 39,158	\$ -	\$ 39,158
Due to Hope Charter School, Inc.	118,057	-	118,057
Due to general fund	-	48,803	48,803
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>157,215</u>	<u>48,803</u>	<u>206,018</u>
FUND BALANCE			
Nonspendable:			
Other assets	5,697	-	5,697
Spendable:			
Unassigned	2,834	-	2,834
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>8,531</u>	<u>-</u>	<u>8,531</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 165,746</u>	<u>\$ 48,803</u>	<u>\$ 214,549</u>

The accompanying notes to financial statements are an integral part of this statement.

LEGACY HIGH SCHOOL, INC.

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

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position**

For the Year Ended June 30, 2017

Total fund balances - governmental funds \$ 8,531

Amounts reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The cost of the assets is \$207,918 and the accumulated depreciation is \$182,201. 25,717

Long-term assets, including those due from related parties, are not a receivable in the current period, and therefore, are not reported as an asset in the governmental funds. Long-term assets at year-end consist of:

Due from Hope Charter School, Inc. 5,700,000

Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Bond payable (5,700,000)

Total net position - governmental activities \$ 34,248

The accompanying notes to financial statements are an integral part of this statement.

LEGACY HIGH SCHOOL, INC.

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

**Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds**

For the Year Ended June 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
State and local sources	\$ 1,225,585	\$ 51,265	\$ 1,276,850
Contributions and other revenues	171,696	-	171,696
	1,397,281	51,265	1,448,546
EXPENDITURES			
Current:			
Instruction	867,233	-	867,233
Instructional staff training	4,255	-	4,255
Board	2,629	-	2,629
General administration	24,050	-	24,050
School administration	306,073	-	306,073
Facilities acquisition and construction	3,036	-	3,036
Fiscal services	20,014	-	20,014
Food service	534	-	534
Operation of plant	123,096	51,265	174,361
Debt service:			
Interest	-	45,450	45,450
Capital outlay	5,861	-	5,861
	1,356,781	96,715	1,453,496
Excess (deficiency) of revenue over expenditures	40,500	(45,450)	(4,950)
Other Financing Sources (Uses)			
Operating transfer in	-	45,450	45,450
Operating transfer out	(45,450)	-	(45,450)
Total other financing sources	(45,450)	45,450	-
Net change in fund balance	(4,950)	-	(4,950)
Fund balance at beginning of year	13,481	-	13,481
Fund balance at end of year	\$ 8,531	\$ -	\$ 8,531

The accompanying notes to financial statements are an integral part of this statement.

LEGACY HIGH SCHOOL, INC.

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

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds
to the Statement of Activities**

For the Year Ended June 30, 2017

Net changes in fund balance - governmental funds \$ (4,950)

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

Governmental funds report capital outlays as expenditures. However, in the statement of net position, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Amount of depreciation expense (\$6,515) is greater than the capital outlay of (\$5,861) in the current period.

(654)

Change in net position of governmental activities \$ (5,604)

The accompanying notes to financial statements are an integral part of this statement.

LEGACY HIGH SCHOOL, INC.

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

Notes to Financial Statements

For the Year Ended June 30, 2017

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Legacy High School, Inc. (the "School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes and the Florida Not-For-Profit Corporation Act. The governing body of the School is the not-for-profit corporation Board of Directors.

The general operating authority of the School is contained in Section 1002.33, Florida Statutes. The School operates under a charter of the sponsoring school district, the District School Board of Orange County Florida, ("School Board"). The School is considered a component unit of the School Board and meets the definition of a governmental entity under the Governmental Accounting Standards Board ("GASB").

Charter Contract

The current charter expires June 30, 2020 and may be renewed for a maximum of an additional fifteen years by mutual written agreement between the School and the School Board. At the end of the term, the School Board may terminate the current charter at any time if good cause is shown. In the event of termination of the charter, any property purchased by the School with public funds and any unencumbered public funds revert back to the School Board.

Basis of Presentation

Based on the guidance provided in the American Institute of Certified Public Accountants Audit and Accounting Guide – *Audits for States and Local Governments* and provisions in the Florida Statutes, the School is considered as a governmental organization for financial statement reporting purposes. The School is required by its agreement with the School Board to use the governmental reporting model and follow the fund and accounting structure provided in the "Financial and Program Cost Accounting and Reporting for Florida Schools – The Red Book" issued by the FDOE.

Government-wide Financial Statements

The government-wide financial statements provide both short-term and long-term information about the School in a manner similar to that of a private-sector business. The statement of net position and statement of activities are designed to provide financial information about the School as a whole, on an accrual basis of accounting. The statement of net position provides information about the School's financial position, its assets and its liabilities, using an economic resources measurement focus.

LEGACY HIGH SCHOOL, INC.

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

Notes to Financial Statements (continued)

The statement of activities presents a comparison between direct expenses and program revenue for each function or program of the School's governmental activities. Direct expenses are those that are specifically associated with a program or function, therefore, are clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of goods and services offered by the program and grants and contributions that are restricted for meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Fund Financial Statements

The governmental fund financial statements report detailed information about the School's most significant funds, not the School as a whole. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance related requirements. Certain funds are established by law while others are created by grant agreements. The following is the major individual governmental fund that are reported in the fund financial statements:

- General Fund – the School's primary operating fund that accounts for all financial resources of the school, except those that are required to be accounted for in another fund.
- Capital Projects Fund – to account for all resources for the acquisition of capital items by the School purchased with capital outlay funds.
- Debt Service Fund – to account for the accumulation of resources for, and payment of general long-term debt principal, interest and related costs.

For the purpose of these statements, the general fund is considered the major fund. The capital projects fund and debt service funds are non-major funds and reported as other governmental funds.

Basis of Accounting

Basis of accounting refers to when revenues and expenses/expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recognized when earned and expenses/expenditures are recognized when a liability is incurred, regardless of the timing the related cash flows take place.

LEGACY HIGH SCHOOL, INC.

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

**Notes to Financial Statements
(continued)**

Governmental fund financial statements are reported using the modified accrual basis of accounting. Under this method, revenues, except for certain grant revenues, are recognized when they become measurable and available. Revenues are considered to be available when they are collectable within a current period. The School considers revenues to be available if they are collected within 60 days after the end of the current fiscal year. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for Federal, State, and other grant resources, revenues is recognized at the time the expenditure is made. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisition of capital leases are reported as other financing sources.

Budgetary Basis Accounting

Budgets are prepared using the modified accrual basis of accounting. The governing board must approve all budgets and amendments. During the fiscal year, expenditures were controlled at the object level. Budgets may be amended by resolution of the Board prior to the date of the annual report.

Cash and Cash Equivalents

The School's cash and cash equivalents consist primarily of demand deposits with financial institutions.

The School maintains its cash accounts with a financial institution. The School's cash accounts at this institution, at times, may exceed the federally insured limit. The School has not experienced any losses in such accounts and does not believe it is exposed to any significant risk.

Interfund receivables and payables

Activities between the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred as due to/from other funds. The general fund has recorded total receivables of approximately \$49,000 which are amounts paid by the general fund on behalf of the capital projects fund.

Capital Assets and Depreciation

The School's capital assets with useful lives of more than one year are stated at historical cost and are reported in the statement of net position in the government-wide financial statements. Donated capital assets are recorded at their estimated fair value on the date of donation. The School capitalizes assets with a cost of \$750 or more. Expenditures of normal maintenance and repair that do not add to the assets value or extend the useful lives are not capitalized.

LEGACY HIGH SCHOOL, INC.

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

**Notes to Financial Statements
(continued)**

Depreciation is computed using the straight-line method. Estimated useful lives of the assets are as follows:

	<u>Years</u>
Leasehold improvements	10 – 20
Furniture, fixtures and equipment	3 – 15

Information related to the change in capital assets is described in Note 4.

Long-Term Liabilities

Long-term liabilities financed by resources to be received in the future by the general fund are reported in the government-wide financial statements, not in the general fund. Changes in long-term liabilities for the current year are reported in Note 5.

Net Position and Fund Balance Classifications

Government-wide financial statements

The net position is classified and reported in three components:

- Investment in capital assets, net of related debt – consists of capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any borrowings that are attributed to the acquisition or improvement of those assets.
- Restricted – consists of amounts with constraints placed on their use either by external groups such as creditors, grantors, contributors or laws or regulations of other governments.
- Unrestricted – all other amounts that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Net Position and Fund Balance Classifications

Fund financial statements

GASB Codification Section 1800.142, *Fund Balance Reporting and Governmental Fund Type Definitions*, defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB requires the fund balance amounts to be reported within one of the following fund balance categories:

- Nonspendable – fund balance associated with inventories, prepaid expenses, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned). All nonspendable fund balances at year end relate to assets that are in nonspendable form.
- Restricted – fund balance that can be spent only for the specific purposes stipulated by the constitution, external resource providers, or through enabling legislation.

LEGACY HIGH SCHOOL, INC.

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

Notes to Financial Statements (continued)

- Committed – fund balance that can be used only for the specific purposes determined by a formal action of the School’s Board of Governance.
- Assigned – fund balance that is intended to be used by the School’s management for specific purposes but does not meet the criteria to be classified as restricted or committed.
- Unassigned – fund balance that is the residual amount for the School’s general fund and includes all spendable amounts not contained in the other classifications.

This statement also clarifies the definition of the special revenue fund to denote it may be used to account for the proceeds of specific revenue sources (other than trusts for individual, private organizations or other governmental agencies or for major capital projects) that are legally restricted to expenditures for specified purposes.

Order of Fund Balance Spending Policy

The School’s policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. First, nonspendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including nonspendable amounts). Any remaining fund balance amounts for the non-general funds are to be classified as restricted fund balance. It is possible for the non-general funds to be classified as restricted fund balance. It is possible for the non-general funds to have negative unassigned fund balance when nonspendable amounts plus the restricted fund balances for specific purposes amounts exceed the positive fund balance for the non-general fund.

Revenue Sources

Revenues for operations are received primarily from the District School Board of Orange County, Florida pursuant to the funding provisions included in the School’s charter. In accordance with the funding provisions of the charter and Section 1002.33, Florida Statutes, the School reports the number of full-time equivalent (“FTE”) students and related data to the School Board. The School Board receives a 2% administrative fee from the School, which is withheld from the respective FEFP payments. The administrative expense is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances of governmental fund. The administrative fee is calculated on the FEFP revenue up to 250 students.

Under provisions of Section 1011.62, Florida Statutes, the District reports the number of FTE students and related data to the Florida Department of Education (“FDOE”) for funding through the Florida Education Finance Program (“FEFP”). Funding for the School is adjusted during the year to reflect the revised calculations by the FDOE under the FEFP and the actual weighted full-time equivalent students reported by the School during the designated full-time equivalent student survey period. The FDOE may also adjust subsequent fiscal period allocations based on an audit of the School’s compliance in determining and reporting FTE and related data. Generally, such adjustments are treated as reductions or additions of revenues in the year when the adjustments are made.

LEGACY HIGH SCHOOL, INC.

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

**Notes to Financial Statements
(continued)**

The basic amount of funding through the FEFP under Section 1011.62 is calculated based on (1) unweighted FTE, multiplied by (2) the cost factor for each program multiplied by (3) the base student allocation established by the Florida legislature. Additional funds for exceptional students who do not have a matrix of services are provided through the guaranteed allocation designated in Section 1011.62(1)(e)2., Florida Statutes. For the year ended June 30, 2017, the School reported 180.79 unweighted FTE.

The School received additional funding under other federal and state grants. This assistance is generally received based on applications submitted to various granting agencies. For federal and state grants in which funding is awarded based on incurring eligible expenditures, revenue is recognized as the amount of eligible expenditures have been incurred.

The School is also eligible for charter school capital outlay funding. The amounts received under this program are based on the School's actual and projected student enrollment during the fiscal year. Funds received under this program may only be used for lawful capital outlay expenditures.

Use of Estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses/expenditures for the period presented. Actual results could differ significantly from those estimates.

2 FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States (GAAP) define fair value for an investment generally as the price an organization would receive upon selling the investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. The information available to measure fair value varies depending on the nature of each investment and its market or markets. Accordingly, GAAP recognizes a hierarchy of "inputs" an organization may use in determining or estimating fair value. The inputs are categorized into "levels" that relate to the extent to which an input is objectively observable and the extent to which markets exist for identical or comparable investments. In determining or estimating fair value, an organization is required to maximize the use of observable market data (to the extent available) and minimize the use of unobservable inputs. The hierarchy assigns the highest priority to unadjusted quoted prices in active markets for identical items (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The fair value hierarchy distinguishes between independent observable inputs and unobservable inputs used to measure fair value as follows:

LEGACY HIGH SCHOOL, INC.

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

Notes to Financial Statements
(continued)

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs other than quoted market prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for an asset or liability. Level 3 inputs should be used to measure fair value to the extent that observable level 1 or 2 inputs are not available.

This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The School's significant financial instruments are cash, accounts receivable, accounts payable, and other short term assets and liabilities. For these financial instruments (Level 1), carrying values approximate fair value because of the short maturity of these instruments.

3 DUE FROM OTHER AGENCIES

Due from other agencies included in the accompanying financial statements includes approximately \$49,000 in capital outlay due from the School Board. Based on the sources of funds, management has evaluated the collectability and an allowance for doubtful accounts is not considered necessary.

4 CAPITAL ASSETS

Capital asset activity during the year ended June 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets:				
Leasehold improvements	\$ 35,986	\$ -	\$ -	\$ 35,986
Furniture, fixtures and equipment	166,071	5,861	-	171,932
Total capital assets	<u>202,057</u>	<u>5,861</u>	<u>-</u>	<u>207,918</u>
Accumulated depreciation:				
Leasehold improvements	(16,744)	3,036	-	19,780
Furniture, fixtures and equipment	(158,942)	3,479	-	162,421
Total accumulated depreciation	<u>(175,686)</u>	<u>6,515</u>	<u>-</u>	<u>182,201</u>
Capital assets, net	<u>\$ 26,371</u>	<u>\$ (654)</u>	<u>\$ -</u>	<u>\$ 25,717</u>

LEGACY HIGH SCHOOL, INC.

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

**Notes to Financial Statements
(continued)**

Depreciation expense:	
Instruction	\$ 2,627
Facilities acquisition and construction	3,036
School administration	678
Operation of plant	174
Total governmental activities depreciation expense	\$ 6,515

5 BOND PAYABLE

During fiscal year 2017, Hope Charter School, Inc. (a related party, as described in Note 7) refinanced its liability and completed construction on a new facility in the amount of \$5,700,000. In connection with this transaction, Hope Charter obtained bonds from a financial institution and Legacy High School is listed as a borrower on this bond. Interest accrues at 2.59676% with interest only payments until June 30, 2017. During the fiscal year, Legacy incurred interest expense of \$45,450 related to this bond. This amount was paid by Hope Charter School, as co-borrower and was a gift to Legacy High School.

Beginning July 1st, 2017, the interest rate is fixed at 2.7476% and the loan requires regular monthly principal and interest payments in the amount of approximately \$29,100. As of June 30, 2017, there is an outstanding balance of \$5.7 million on the mortgage note. The Schools, on a consolidated basis, are in compliance with the debt covenant.

Balance outstanding at the beginning of year	\$ -
Additions	5,700,000
Reductions	-
Balance outstanding at the end of year	\$ 5,700,000

Future minimum payments are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 203,557	\$ 145,595	\$ 349,152
2019	208,906	140,246	349,152
2020	214,396	134,756	349,152
2021	220,030	129,122	349,152
2022	225,810	123,342	349,152
2023-2027	1,221,251	524,509	1,745,760
2028-2032	1,390,370	355,390	1,745,760
2033-2037	2,015,680	170,434	2,186,114
	\$ 5,700,000	\$ 1,723,394	\$ 7,423,394

LEGACY HIGH SCHOOL, INC.

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

**Notes to Financial Statements
(continued)**

6 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES

The following is a schedule of state and local revenue sources:

District School Board of Orange County, Florida:

Florida Education Finance Program	\$ 754,445
Class size reduction	163,829
Special millage	106,436
Discretionary millage funds	71,956
Capital outlay funding	51,265
Supplemental academic instruction	38,351
ESE guaranteed allocation	32,330
Best and Brightest	20,450
Instructional materials	14,172
Reading allocation	7,332
Safe schools	4,465
Discretionary lottery funds	2,840
Compression adjustment	3,506
Digital classroom allocation	3,291
Teacher lead	2,610
Proration to funds available	<u>(428)</u>
Total	<u>\$ 1,276,850</u>

The administrative fee paid to the School Board during the year ended June 30, 2017 totaled approximately \$24,050, which is reflected as a general administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances of general fund.

7 RELATED PARTY TRANSACTIONS

Legacy High School is related to Hope Charter School through a common executive director but the Schools have a separate board of governance.

Lease

The School has entered into an agreement to lease instructional facilities from Hope Charter School, Inc. ("Hope Charter"), an Orange County charter school. The lease on June 30, 2016 and was extended until June 30, 2017. The lease has two additional 5-year renewal options. Terms of the lease require monthly rental payments of \$14,000 and require the School to pay for certain operating expenses.

For the year ended June 30, 2017, rental expense totaled approximately \$168,000, which is reflected as an operation of plant expense in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balance of the governmental funds.

LEGACY HIGH SCHOOL, INC.

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

**Notes to Financial Statements
(continued)**

Due to Hope Charter School

As of June 30, 2017 the School owed approximately \$118,000 to Hope Charter School in connection with the allocation of instructional costs allocated to the School during 2017.

Bond payable

As of November 30, 2016, Hope Charter School and Legacy High School jointly borrowed \$5,700,000. There is joint and several liability for both entities. See Note 5 for terms relating to this bond payable. The bond payable is collateralized by the land and building, which is owned by Hope Charter School. Therefore, Legacy High School has a receivable of \$5,700,000 due from Hope Charter School.

8 RISK MANAGEMENT PROGRAM

Workers' compensation coverage, health and hospitalization, general liability, professional liability, and property coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have not historically exceeded commercial coverage.

9 COMMITMENTS AND CONTINGENT LIABILITIES

Grants

The School participates in state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable as year-end may be impaired.

Management believes there are no significant contingent liabilities related to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

LEGACY HIGH SCHOOL, INC.

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

**Notes to Financial Statements
(continued)**

Legal Matters

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. Management believes the ultimate resolution of such legal matters will not have a significant adverse effect on the accompanying financial statements.

10 INCOME TAXES

The School qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(3), and is therefore, exempt from income taxes. Accordingly, no tax provision has been made in the accompanying financial statements. Additionally, no uncertain tax positions have been made requiring disclosure in the related notes to the financial statements. The School's income tax returns for the tax years 2015, 2014 and 2013 are subject to examination by tax authorities, and may change upon examination.

11 SUBSEQUENT EVENTS

In accordance with GASB Codification Section 2250.106, the School has evaluated subsequent events and transactions for potential recognition or disclosure through August 31, 2017, which is the date the financial statements were available to be issued.

LEGACY HIGH SCHOOL, INC.

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

Required Supplementary Information

Budgetary Comparison Schedule - General Fund

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance
	Original	Final		
REVENUES				
State and local sources	\$ 1,358,701	\$ 1,358,043	\$ 1,225,585	\$ (132,458)
Contributions and other revenues	149,000	135,600	171,696	36,096
Total revenues	<u>1,507,701</u>	<u>1,493,643</u>	<u>1,397,281</u>	<u>(96,362)</u>
EXPENDITURES				
Current:				
Instruction	867,250	929,425	867,233	(62,192)
Instructional staff training	8,000	8,000	4,255	(3,745)
Board	6,950	2,850	2,629	(221)
General administration	38,000	35,000	24,050	(10,950)
School administration	248,670	324,610	306,073	(18,537)
Facilities acquisition and construction	-	-	3,036	3,036
Fiscal services	19,500	20,955	20,014	(941)
Food services	-	600	534	(66)
Operation of plant	109,800	115,375	123,096	7,721
Capital outlay	-	-	5,861	5,861
Total expenditures	<u>1,298,170</u>	<u>1,436,815</u>	<u>1,356,781</u>	<u>(80,034)</u>
Net changes in fund balance	209,531	56,828	40,500	(16,328)
Fund balance at beginning of year	13,481	13,481	13,481	-
Fund balance at end of year	<u>\$ 223,012</u>	<u>\$ 70,309</u>	<u>\$ 53,981</u>	<u>\$ (16,328)</u>

See independent auditor's report.



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CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors of Legacy High School, Inc.,
a Charter School and Component Unit of the District
School Board of Orange County, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and aggregate remaining funds for Legacy High School, Inc., a Charter School and Component Unit of the District School Board of Orange County, Florida, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated August 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of 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.

This report is intended solely for the information and use of management of the School, the District School Board of Orange County, Florida, the Florida Department of Education and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

McCrary Hess

Orlando, Florida
August 31, 2017

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**Additional Information Required by
Rules of the Auditor General,
Chapter 10.850, *Audits of Charter Schools
and Similar Entities***



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CERTIFIED PUBLIC ACCOUNTANTS

**Management Letter as Required by Rules of the Florida Auditor General,
Chapter 10.850, Florida Statutes, *Charter School Audits***

To the Board of Directors of Legacy High School, Inc.,
a Charter School and Component Unit of the District
School Board of Orange County, Florida

Report on the Financial Statements

We have audited the financial statements of Legacy High School, Inc. (the “School”) as of and for the fiscal year ended June 30, 2017, and have issued our report thereon dated August 31, 2017.

Auditor’s Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.850, Rules of the Auditor General.

Other Reports and Schedules

We have issued our Independent Auditor’s Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

Prior Audit Findings

Section 10.854(1)(e)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations made in the preceding annual financial audit report.

Official Title

Section 10.854(1)(e)5. Rules of the Auditor General, requires the name or official title of the entity. The official title of the entity is Legacy High School, Inc.

Financial Condition

Sections 10.854(1)(e)2. Rules of the Auditor General, requires that we report the results of our determination as to whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the School did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

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

Transparency

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require that we report the results of our determination as to whether the School maintains on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes. In connection with our audit, we determined that the School maintained on its Web site the information specified in Section 1002.33(9)(p), Florida Statutes.

Other Matters

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

Section 10.854(1)(e)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Directors, applicable management, and Orange County School Board and is not intended to be and should not be used by anyone other than these specified parties.

McCRA DY HESS

Orlando, Florida
August 31, 2017

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