

VICTORY RIDGE ACADEMY, INC.

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

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

June 30, 2019



McCRADY & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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VICTORY RIDGE ACADEMY, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Victory Ridge Academy, Inc. (the "School") offers the following narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2019. 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

- ❖ For the fiscal year ended June 30, 2019, the School's net change in fund balance was a positive approximately \$7,000.
- ❖ The School maintained a positive general fund balance of approximately \$642,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the 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 Report of Independent Auditor 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 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. Net position is the difference between the School's total assets and total liabilities. Measuring 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 that are not directly related to the School's mission. For the year ended June 30, 2019, 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 governmental funds 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 are left at year-end will be 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 governmental funds is described in a reconciliation that is a part of the fund financial statements.

The School adopts an annual budget for its general and special revenue fund, as required by the Florida Statutes. The budgets are legally adopted by management of the School and its Board. Budgetary comparison schedules have 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.

Other Reports

This report 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 Performed 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*.

GOVERNMENTAL FUNDS ANALYSIS OF THE SCHOOL

Fund Balance

The School's combined fund balance as of June 30, 2019 and 2018 is summarized as follows:

	Governmental Activities		Increase (Decrease)
	2019	2018	
Cash and cash equivalents	\$ 871,970	897,835	(25,865)
Accounts receivable	67,140	167,188	(100,048)
Other current assets	53,343	46,884	6,459
Total assets	992,453	1,111,907	(119,454)
Accounts payable and accrued expenses	350,048	431,617	(81,569)
Due to other agencies	-	45,000	(45,000)
	350,048	476,617	(126,569)
Fund Balances:			
Nonspendable	53,343	46,884	6,459
Spendable	589,062	588,406	656
Total fund balances	\$ 642,405	635,290	7,115

Cash and cash equivalents increased due to current year operations. Accounts receivable decreased due to timing of billings. The change in net position is due to the current year operations.

Change in Fund Balance

The School's total revenues exceeded total expenditures by approximately \$135,000 in fiscal 2019—see table below.

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>
Revenues:			
Federal sources passed through local school district	\$ 381,071	\$ 369,281	\$ 11,790
State and local sources	5,141,356	4,257,203	884,153
Contributions and other revenues	817,601	860,044	(42,443)
Total revenues	<u>6,340,028</u>	<u>5,486,528</u>	<u>853,500</u>
Expenditures:			
Instruction	2,398,290	2,075,490	322,800
Pupil personnel services	2,020,106	1,821,283	198,823
Instructional staff training	3,155	2,885	270
Board	22,795	23,597	(802)
General administration	79,353	69,452	9,901
School administration	727,786	594,313	134,384
Facilities acquisition and construction	44,721	9,956	57,630
Fiscal services	37,601	33,352	4,249
Food services	16,283	28,910	4,856
Pupil transportation	134,413	111,166	25,247
Operation of plant	713,774	332,188	223,485
Principal	-	100,969	(100,969)
Interest	-	11,199	(11,199)
Capital outlay	7,000	97,225	(90,225)
Total expenditures	<u>6,205,277</u>	<u>5,311,985</u>	<u>993,292</u>
Change in total governmental funds	<u>\$ 134,751</u>	<u>\$ 174,543</u>	<u>\$ (39,792)</u>

Medicaid reimbursement decreased due to school policies and rules surrounding Medicaid. The change in state and local sources is due to an increase in per pupil allocation and an increase in the number of students. The increase in instruction and pupil personnel is due to an increase in salaries and related benefits from the increase in the number of students. The increase in operation of plant is due to the move to a new facility and the related costs of housing the additional students in portables.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The focus of School's governmental funds is to provide information on near term inflows, outflows, and balances of usable resources. Such information is useful in assessing School's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the School completed the year, the general fund reported a fund balance of \$628,361 which is an increase from the prior year as a result of current year operations.

General and Special Revenue Fund Budgetary Highlights

During the fiscal year, the School amended its budget. 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.

For the year ended June 30, 2019, actual revenues were less than budgeted amounts by approximately \$126,000. Actual expenditures were approximately \$63,000 more than budgeted expenses.

In the special revenue fund, actual net revenues and expenses were more than budgeted amounts by approximately \$13,000.

CAPITAL ASSET AND LONG-TERM DEBT

Capital Assets

At the end of fiscal 2019, the School had invested approximately \$273,000 in capital assets, net of accumulated depreciation of approximately \$586,000.

	Governmental Activities		Increase (Decrease)
	2019	2018	
Buildings and improvements	\$ 514,719	\$ 514,719	\$ -
Furniture, fixtures, and equipment	257,722	257,722	-
Vehicles	86,979	79,979	7,000
Total	859,420	852,420	7,000
Less – accumulated depreciation	(586,128)	(532,620)	(53,508)
Total capital assets	\$ 273,292	\$ 319,800	\$ (46,508)

This year's major capital asset additions included the following:

- Vehicles - \$7,000

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

Long-Term Liabilities

During fiscal year end June 30, 2019, the School obtained a mortgage. Interest paid during the fiscal year ended June 30, 2019 was approximately \$159,000. For more detailed information about the School's long-term debt, see Note 6 to the financial statements.

Additionally, the School has approximately \$2.4 million in pension liability. For more detailed information, see Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Budget Highlights for the Fiscal Year Ended June 30, 2020

Amounts available for appropriation in the general fund are approximately \$6.7 million which is an increase of approximately \$700,000 from 2019.

Budgeted expenditures are expected to increase by approximately \$683,000 to approximately \$6.55 million. The overall change is attributed to the increase in salaries and related benefits.

If these estimates are realized, the School's general fund balance is expected to slightly increase at the close of fiscal 2020.

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 427 Burns Avenue, Lake Wales, FL 33853.



McCrary & Associates
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditor on Basic Financial Statements and Supplementary Information

To the Board of Directors of Victory Ridge Academy, Inc.
a Charter School and Component Unit of the District
School Board of Polk County, Florida

We have audited the accompanying financial statements of the governmental activities and each major fund of Victory Ridge Academy, Inc. a Charter School and Component Unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, each major fund, and the aggregate remaining fund information of the School, as of June 30, 2019, 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, budgetary comparison information and pension liability on pages 1-6 and 33-37 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 September 28, 2019, 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.

McCrary & Associates, PLLC

Altamonte Springs, Florida
September 28, 2019

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VICTORY RIDGE ACADEMY, INC.

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

Statement of Net Position

June 30, 2019

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 871,970
Accounts receivable	67,140
Due from Victory Ridge Charitable Fund	3,774,584
Other current assets	53,343
Capital assets:	
Buildings and improvements	514,719
Furniture, fixtures, and equipment	257,722
Vehicles	86,979
Less accumulated depreciation	(586,128)
Total capital assets, net	<u>273,292</u>
Total assets	<u><u>\$ 5,040,329</u></u>
DEFERRED OUTFLOW OF RESOURCES	
Amount deferred on pension liability	<u>1,366,502</u>
LIABILITIES	
Accounts payable and accrued expenses	\$ 350,048
Compensated absences payable	37,901
Long-term liabilities:	
Portion due or payable after one year:	
Note payable	3,646,948
Pension liability	<u>2,433,525</u>
Total liabilities	<u>6,468,422</u>
DEFERRED INFLOW OF RESOURCES	
Amount deferred on pension liability	<u>297,935</u>
NET POSITION	
Invested in capital assets, net of related debt	273,292
Unrestricted	<u>(632,818)</u>
Total net position	<u><u>\$ (359,526)</u></u>

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

VICTORY RIDGE ACADEMY, INC.

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

Statement of Activities

For the Year Ended June 30, 2019

	<u>Program Specific Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>		
	<u>Expenses</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	\$ 2,794,414	\$ -	\$ 379,686	\$ -	\$ (2,414,728)	\$ (2,414,728)
Pupil personnel services	2,023,365	-	1,385	-	(2,021,980)	(2,021,980)
Instructional staff training	3,155	-	-	-	(3,155)	(3,155)
Board	22,795	-	-	-	(22,795)	(22,795)
General administration	79,353	-	-	-	(79,353)	(79,353)
School administration	728,697	-	-	-	(728,697)	(728,697)
Facilities acquisition and construction	67,586	-	-	-	(67,586)	(67,586)
Fiscal services	37,601	-	-	-	(37,601)	(37,601)
Food services	33,766	-	-	-	(33,766)	(33,766)
Pupil transportation	136,413	-	-	-	(136,413)	(136,413)
Operation of plant	714,707	-	-	-	(714,707)	(714,707)
Interest	-	-	-	186,149	186,149	186,149
Total primary government	\$ 6,641,852	\$ -	\$ 381,071	\$ 186,149	(6,074,632)	(6,074,632)
General revenues:						
State and local sources					5,620,905	5,620,905
Contributions and other revenues					151,903	151,903
Total general revenues					<u>5,772,808</u>	<u>5,772,808</u>
Changes in net position					(301,824)	(301,824)
Net position at beginning of year					<u>(57,702)</u>	<u>(57,702)</u>
Net position at end of year					<u>\$ (359,526)</u>	<u>\$ (359,526)</u>

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

VICTORY RIDGE ACADEMY, INC.

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

Balance Sheet - Governmental Funds

June 30, 2019

	General Fund	Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 871,970	\$ -	\$ 871,970
Accounts receivable	37,655	29,485	67,140
Other current assets	53,343	-	53,343
Due from special revenue fund	29,485	-	29,485
	<u>\$ 992,453</u>	<u>\$ 29,485</u>	<u>\$ 1,021,938</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 350,048	\$ -	\$ 350,048
Due to general fund	-	29,485	29,485
	<u>350,048</u>	<u>29,485</u>	<u>379,533</u>
FUND BALANCES			
Nonspendable:			
Deposits	53,343	-	53,343
Spendable:			
Unassigned	589,062	-	589,062
	<u>642,405</u>	<u>-</u>	<u>642,405</u>
Total fund balances	<u>642,405</u>	<u>-</u>	<u>642,405</u>
Total liabilities and fund balances	<u>\$ 992,453</u>	<u>\$ 29,485</u>	<u>\$ 1,021,938</u>

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

VICTORY RIDGE ACADEMY, INC.

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

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

June 30, 2019

Total fund balance - governmental funds \$ 642,405

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental fund. The cost of the capital assets are (\$859,420) and the accumulated depreciation is (\$586,128). 273,292

Long-term receivables applicable to governmental activities are not due and collectible in the current period and therefore, are not reported as assets in the governmental funds. 3,774,584

Long-term liabilities are not due and payable in the current year. Therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consisted of:

Note payable	(3,646,948)
Pension liability	(2,433,525)

Amounts accrued for compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (37,901)

Deferred amounts are reported in the statement of net position as deferred outflows or deferred inflows of resources but are not reported in the funds. 1,068,567

Total net position - governmental activities \$ (359,526)

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

VICTORY RIDGE ACADEMY, INC.

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

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

For the Year Ended June 30, 2019

	General Fund	Special Revenue Funds	Capital Projects Fund	Total Governmental Funds
REVENUES				
Federal sources pass through local school district	\$ -	\$ 381,071	\$ -	\$ 381,071
State and local sources	5,620,905	-	186,149	5,807,054
Contributions and other revenue	151,903	-	-	151,903
Total revenues	5,772,808	381,071	186,149	6,340,028
EXPENDITURES				
Current:				
Instruction	2,018,604	379,686	-	2,398,290
Pupil personnel services	2,018,721	1,385	-	2,020,106
Instructional staff training	3,155	-	-	3,155
Board	22,795	-	-	22,795
General administration	79,353	-	-	79,353
School administration	727,786	-	-	727,786
Facilities acquisition and construction	44,721	-	-	44,721
Fiscal services	37,601	-	-	37,601
Food services	16,283	-	-	16,283
Pupil transportation	134,413	-	-	134,413
Operation of plant	713,774	-	-	713,774
Capital outlay	7,000	-	-	7,000
Total expenditures	5,824,206	381,071	-	6,205,277
Excess (deficiency) of revenues over expenditures	(51,398)	-	186,149	134,751
OTHER FINANCIAL SOURCES (USES)				
Proceeds from note payable	3,658,531	-	-	3,658,531
Transfer to Victory Ridge Charitable Foundation	(3,786,167)	-	-	(3,786,167)
Operating transfers in	186,149	-	-	186,149
Operating transfers out	-	-	(186,149)	(186,149)
Total other financial sources (uses)	58,513	-	(186,149)	(127,636)
Net changes in fund balances	7,115	-	-	7,115
Fund balances at beginning of year	635,290	-	-	635,290
Fund balances at end of year	\$ 642,405	\$ -	\$ -	\$ 642,405

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

VICTORY RIDGE ACADEMY, INC.

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

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

For the Year Ended June 30, 2019

Net changes in fund balances - total governmental funds	\$ 7,115
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 activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$3,781,584) exceeds depreciation expense (\$53,508) in the current period.	(46,508)
Proceeds from issuance of long-term debt are reported as an other financial source in the governmental funds. However, in the statement of net position, the amount of funds borrowed is reported as an increase in long-term liabilities.	(3,658,531)
Transfers to related party is reported as an other financial sources in the governmental fund. However, in the statement of net position, the amount is reported as an increase in Due from Victory Ridge Charitable Fund.	3,786,167
In the statement of activities, some revenues and expenses are recognized that do not provide current financial resources and are not recognized in the governmental funds, such as deferred inflows and outflows of resources.	<u>(390,067)</u>
Change in net position of governmental activities	<u><u>\$ (301,824)</u></u>

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

VICTORY RIDGE ACADEMY, INC.

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

Notes to Financial Statements

For the Year Ended June 30, 2019

1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Victory Ridge Academy, Inc. (the "School") is a not-for-profit corporation organized pursuant to Chapter 617, Florida Statutes, the Florida Not-for-Profit Corporation Act. The governing body of the School is the not-for-profit corporation Board of Directors, ("The Board") which is composed of no less than ten and no more than twenty-seven members. The organization was previously named Our Children's Academy, Inc., effective July 1, 2017 the name was changed to Victory Ridge Academy, Inc.

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 Polk County Florida, (the "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 20, 2026 and may be renewed for a maximum of an additional fifteen years by mutual written agreement between the School and the School Board. Upon the expiration of the charter, the School Board may elect not to renew the charter under grounds specified in the charter. However, the School Board may terminate the current charter at any time if good cause is shown.

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 Florida Department of Education ("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 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.

VICTORY RIDGE ACADEMY, INC.

**A Charter School and Component Unit of the
District School Board of Polk 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 are governmental funds 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.
- Special Revenue Fund – to account for the proceeds of specific revenue sources that restricted or committed to expenditures for a specific purpose including all federal grant revenues passed through the School District.

For the purpose of these statements the general and special revenue funds are considered major 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.

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**A Charter School and Component Unit of the
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The governmental funds basic financial statements are reported using the modified accrual basis of accounting. Under this method, 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, revenue 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 from the acquisition of long-term debt are reported as other financing sources.

Budgetary Basis Accounting

Budgets are prepared using the modified accrual basis of accounting and 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.

Use of Estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States, 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.

Cash and Cash Equivalents

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

As State of Florida Statutes and the School's policy require, all deposits must be made into and held by financial institutions designated by the treasurer of the State of Florida as qualified public depositories as defined by Chapter 280 of the Florida Statutes. This statute requires that every qualified public depository institution maintain eligible collateral to secure the public entity's funds. The minimum collateral to be pledged by the institution, the collateral eligible for pledge, and reporting requirements of the qualified public depositor to the treasurer is defined by the ability to assess members of the pool should the need arise. The School's deposits are held in a qualified public depository. They are covered by the collateral pool as the School has identified itself as a public entity at June 30, 2019.

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**Notes to Financial Statements
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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 to as due to/from other funds. The general fund has recorded total receivables of approximately \$29,000 which are related to amounts paid by the general fund on behalf of the special revenue fund.

Capital Assets and Depreciation

The School's capital assets with useful lives of more than one year are stated at historical cost and 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 donated. The School capitalizes assets with a cost of \$1,000 or more. Expenditures of normal maintenance and repair that do not add to the assets value or extend the useful life are not capitalized. Depreciation is computed using the straight-line method. Estimated useful life of the assets are as follows:

	<u>Years</u>
Buildings and improvements	15 - 25
Furniture, fixtures, and equipment	5 - 7
Vehicles	5

Compensated Absences

Compensated absences (i.e. paid absences for employee vacation leave and sick leave) are recorded as an expenditure in the governmental funds when leave is used or when accrued as payable to employees entitled to cash payment in lieu of taking leave. In the government-wide financial statements, compensated absences are recorded as an expense when earned by the employee.

Pensions

In the government-wide statement of net position, liabilities are recognized for the School's proportionate share of each pension plan's net pension liability. The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and additions to/deductions from the FRS's and the HIS's fiduciary net position have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The School's retirement plans and related amounts are described in a Note 7.

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**Notes to Financial Statements
(continued)**

Net Position and Fund Balance Classifications

Government-wide financial statements

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.”

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.
- 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.

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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. Initially, nonspendable fund balances are determined. Restricted fund balances for specific purposes are determined (not including nonspendable amounts). Next 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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The school has one item that qualifies for reporting in this category which is the deferred amount of pension reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School has one item that qualifies for reporting in this category which is the deferred amount of pension reported in the government-wide statement of net position. A deferred amount of pension results from the difference in the expected and actual amounts of experience, earnings and contributions. This amount is deferred and amortized over the service life of all employees that are provided with pensions through the pension plan. However, earnings are amortized over 5 years.

Revenue Sources

Revenues for operations are received primarily from the District School Board of Polk 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 5% administrative fee from the School, which is withheld from the respective Florida Education Finance Program (FEFP) payments. The administrative fee is calculated on gross FEFP revenue, up to 250 students, except when 75% or more of the students enrolled are exceptional students as defined in Section 1003.01(3). The 5% is then calculated based on unweighted full-time equivalent students. The administrative expense is reflected as a school administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

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Notes to Financial Statements (continued)

Under provisions of Section 1011.62, Florida Statutes, the District reports the number of students and related data to the Florida Department of Education (FDOE) for funding through the 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.

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, 2019, the School reported 255 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.

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).

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(continued)

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

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.

The estimated fair value of the School's pension liability and related deferred outflows and inflows determined using Level 3 inputs is based on information provided by the Auditor General. The estimated fair value of the School's pensions and related deferred outflows and inflows using Level 3 inputs is determined by calculating the present value of the future distributions expected to be paid, using published life expectancy tables and discount rates ranging from approximately 2% to 4.3%. There were no changes in valuation techniques during the year.

The carrying values of cash and cash equivalents, accounts receivable and payable, and the note payable do not differ materially from reasonable estimates of fair value, as the terms of such instruments do not vary significantly from the assumptions that would be made in estimating fair value.

Estimated fair value of certain assets and (liabilities) measured on a recurring basis at June 30, 2019, are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Deferred outflows related to pension liability	\$ -	\$ -	\$ 1,366,502	\$ 1,366,502
Pension liability	-	-	(2,433,525)	(2,433,525)
Deferred inflows related to pension liability	<u>-</u>	<u>-</u>	<u>(297,935)</u>	<u>(297,935)</u>
Total	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(1,364,958)</u>	\$ <u>(1,364,958)</u>

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**Notes to Financial Statements
(continued)**

3 ACCOUNTS RECEIVABLE

Accounts receivable in the accompanying statement of net position and balance sheet – governmental fund includes approximately \$22,000 due from Title I funds, 15,000 due from capital outlay and \$24,000 in from miscellaneous revenue. Based on the collectability of funds from these sources, an allowance for doubtful accounts is not considered necessary.

4 CAPITAL ASSETS

Capital assets activity during the year ended June 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets:				
Building and improvements	\$ 514,719	\$ -	\$ -	\$ 514,719
Furniture, fixtures and equipment	257,722	-	-	257,722
Vehicles	79,979	7,000	-	86,979
Total capital assets	<u>852,420</u>	<u>7,000</u>	<u>-</u>	<u>859,420</u>
Accumulated depreciation:				
Building and improvements	(139,241)	(22,866)	-	(162,107)
Furniture, fixtures and equipment	(380,093)	(27,709)	-	(407,802)
Vehicles	(13,286)	(2,933)	-	(16,219)
Total accumulated depreciation	<u>(532,620)</u>	<u>(53,508)</u>	<u>-</u>	<u>(586,128)</u>
Capital assets, net	<u>\$ 319,800</u>	<u>\$ (46,508)</u>	<u>\$ -</u>	<u>\$ 273,292</u>
Depreciation expense:				
Instruction		\$ 6,059		
Pupil personnel services		3,259		
School administration		911		
Facilities and acquisition		22,865		
Operation of Plant		933		
Transportation		2,000		
Food services		17,481		
Total governmental activities depreciation expense		<u>\$ 53,508</u>		

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(continued)**

5 LONG-TERM LIABILITY

Note Payable

In July 2018, the School entered into a purchase money and construction note payable with a financial institution with a maximum principal balance of \$4,000,000 related to the purchase and renovation of real property. The note payable is secured by a first mortgage lien on the land, improvement and personal property. The interest rate for years 1 – 5 is fixed at 4.50% per annum through August 1, 2023 (change date). The interest rate adjusts to equal the 5 year U.S. Treasury Rate, plus 2.75% and remain fixed at the adjusted rate for the term of the loan. The loan has a provision for the interest rate will not be adjusted to less than 4.75% or greater than the highest rate allowed by law applicable to the loan.

The loan requires interest only payments, which commenced on September 1, 2018 and are due and payable monthly on the first day of each successive calendar month through August 1, 2019. Effective September 1, 2019, monthly principal and interest are due for 48 months based on unpaid principal balance and effective interest rate, calculated using a 25 year amortization. Effective on the change date, the monthly principal and interest payments will be re-amortized with the change in interest rate. The note payable matures on August 1, 2028 and a balloon payment equal to any unpaid principal and interest.

Victory Ridge Charitable Fund, a related party is a co-borrower and guarantor on the note payable.

6 RELATED PARTY

The School is affiliated with Victory Ridge Charitable Fund (“VRCF”), a 503(c)(3) not-for-profit organization through common Board members.

7 RETIREMENT PLANS

The Florida Department of Management Services, Division of Retirement (“Division”), is part of the primary government of the state of Florida and is responsible for administering the Florida Retirement System Pension Plan and Other State-Administered Systems (“System”). The School participates in two defined benefit plans administered by the Division. The Division issued a publicly available, audited comprehensive annual financial report (CAFR) on behalf of the system that includes financial statements, notes and required supplementary information for each of the pension plans. Detailed information about the plans is provided in the CAFR, which is available online, or by contacting the Division.

Cost-Sharing Defined Benefit Plans

As required by Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), this report includes the allocation of the collective net pension liability and associated pension expense, deferred outflows of resources and deferred

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**Notes to Financial Statements
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inflows of resources for each of the participating employers in the system's cost-sharing, multiple employer defined benefit plans:

- The Florida Retirement System ("FRS") Pension Plan is a cost-sharing, multiple-employer qualified defined benefit pension plan with a Deferred Retirement Option Program ("DROP") available for eligible employees. The FRS was established and is administered in accordance with Chapter 121, Florida Statutes. The Florida Legislature establishes and amends the contribution requirements and benefit terms of the FRS Pension Plan. Retirees receive a lifetime pension benefit with joint and survivor payment options. FRS membership is compulsory for employees filling regularly established positions in a state agency, county agency, state university, state community college, or district school board, unless restricted from FRS membership under sections 121.053 and 121.122, Florida Statutes, or allowed to participate in a nonintegrated defined contribution plan in lieu of FRS membership. Participation by cities, municipalities, special districts, charter schools and metropolitan planning organizations is optional.
- The Retiree Health Insurance Subsidy ("HIS") Program is a cost-sharing, multiple-employer defined benefit pension plan established and administered in accordance with section 112.363, Florida Statutes. The Florida Legislature establishes and amends the contribution requirements and benefit terms of the HIS Program. The benefit is a monthly payment to assist retirees of the state-administered retirement systems in paying their health insurance costs. For the fiscal year ended, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of service credited at retirement multiplied by \$5. The minimum payment is \$30 and the maximum payment is \$150 per month, pursuant to section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under one of the state-administered retirement systems must provide proof of eligible health insurance coverage, which may include Medicare.

Employer Contributions

Employee contributions required pursuant to section 121.71(3), Florida Statutes, are accounted for by the FRS as employer-paid employee contributions and are treated as employer contributions under 26 U.S.C. s. 414(h)(2) allowing these contributions to be deducted on a pre-tax basis. Pension expense reported in the pension allocation schedules is reduced by these amounts.

Total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes. Employer contributions reflected in the financial statements and in the pension allocation schedules for the cost-sharing defined benefit plans represent contributions specific to each defined benefit plan and do not equal total blended contributions remitted by the employer.

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**Notes to Financial Statements
(continued)**

Contribution rates were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer
Regular class	3%	8.26%
Senior management	3%	24.06%
Drop	N/A	14.03%

Actuarial Methods and Assumptions

The Florida Retirement System (FRS) Actuarial Assumption Conference is responsible for setting the assumptions used in the funding valuations of the defined benefit pension plan pursuant to section 216.136(10), Florida Statutes. The Division determines the assumptions in the valuations for GASB 67 reporting purposes. The FRS Pension Plan's GASB 67 valuation is performed annually. The HIS Program has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS Pension Plan was completed in 2014 for the period July 1, 2008, through June 30, 2013. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for that program. The actuarial assumptions that determined the total pension liability for the HIS Program were based on certain results of the most recent experience study for the FRS Pension Plan.

The total pension liability for each cost-sharing defined benefit plan was determined using the individual entry age actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth, including inflation, for both plans is assumed at 3.25%. Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments is 7.00%. The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Because the HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 3.87% was used to determine the total pension liability for the program (Bond Buyer General Obligation 20-Bond Municipal Bond Index). Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables (refer to the valuation reports for more information – see Note 5).

The following changes in actuarial assumptions occurred in 2018:

- FRS: The long-term expected rate of return was decreased from 7.10% to 7.00%, and the active member mortality assumption was updated.
- HIS: The municipal rate used to determine total pension liability was increased from 3.58% to 3.87%.

The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the collective net pension liability of

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the participating employers if the discount rate was 1.00% higher or 1.00% lower than the current discount rate at June 30, 2018.

School's Proportionate Share of FRS Net Pension Liability			School's Proportionate Share of HIS Net Pension Liability		
1% Decrease	Current Discount Rate	1% Increase	1% Decrease	Current Discount Rate	1% Increase
6.00%	7.00%	8.00%	2.87%	3.87%	4.87%
\$ 2,870,222	\$ 1,572,688	\$ 495,010	\$ 980,443	\$ 860,837	\$ 761,139

The Pension Plan's Fiduciary Net Position

The components of the collective net position liability of the participating employers for each defined benefit plan for the measurement date of June 30, 2018 are shown below (in thousands):

	FRS	HIS
Total pension liability	\$ 191,317,399	\$ 10,816,576
Plan fiduciary net position	(161,196,881)	(232,463)
Net pension liability	<u>\$ 30,120,518</u>	<u>\$ 10,584,113</u>

Plan fiduciary net position as a percentage

Of the total pension liability	84.26%	2.15%
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The total pension liability for the FRS was determined by the plan's actuary and reported in the plan's GASB 67 valuation as of June 30, 2018. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the plan. The fiduciary net position is reported in the financial statements and the net pension liability is disclosed in the notes to the financial statements. Update procedures were not used.

The total pension liability for the HIS was determined by the plan's actuary and reported in the plan's GASB 67 valuation as of June 30, 2018. The fiduciary net position used by the actuary to determine the net pension liability (as shown above) was determined on the same basis used by the plan. The fiduciary net position is reported in the financial statements and the net pension liability is disclosed in the notes to the financial statements. Update procedures were not used.

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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

At June 30, 2019, the School reported a liability of \$2,443,525 for its proportionate share of the Plan's net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019. The School's proportionate share of the net pension liability was based on the School's 2018-19 fiscal year contributions relative to the 2017-18 fiscal year contributions of all participating members.

The School's proportions are as follows:

	<u>FRS</u>	<u>HIS</u>
June 30, 2019	.00522%	.00813%
June 30, 2018	<u>.00494%</u>	<u>.00754%</u>
Change	<u>.00027%</u>	<u>.00059%</u>

In accordance with GASB 68, paragraphs 54 and 71, changes in the School's proportionate share of the net pension liability are recognized in pension expense in the current measurement period, except as indicated below. For each of the following, a portion is recognized in pension expense in the current reporting period, and the balance is amortized as deferred outflows or deferred inflows of resources using a systematic and rational method over a closed period, as defined below:

- Differences between expected and actual experience with regard to economic and demographic factors – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees).
- Changes of assumptions or other inputs – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees).
- Changes in proportion and differences between contributions and proportionate share of contributions amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees)
- Differences between expected and actual earnings on pension plan investments – amortized over five years.

Employer contributions to the pension plans from the School's employers are not included in collective pension expense; however, employee contributions are used to reduce pension expense. The average expected remaining service life of all employees provided with pensions through the pension plans at June 30, 2018, was 6.4 years for FRS and 7.2 years for HIS.

At June 30, 2019, the School reported deferred outflows of resources and deferred inflow of resources related to the pensions from the following sources:

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Description	FRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 133,230	\$ 4,836
Changes of assumptions	513,878	-
Net difference between projected and actual earnings investments	-	121,509
Employer-specific amounts due to changes in employer proportion	178,019	48,269
School FRS contributions subsequent to the measurement date	187,918	-
Total	\$1,013,045	\$ 174,614

Description	HIS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 13,179	\$ 1,463
Changes of assumptions	95,736	91,015
Net difference between projected and actual earnings investments	520	-
Employer-specific amounts due to changes in employer proportion	187,990	30,843
School FRS contributions subsequent to the measurement date	56,032	-
Total	\$ 353,457	\$ 123,321

Deferred outflows of resources related to employer contributions paid subsequent to the measurement date and prior to the employer's fiscal year end will be recognized as a reduction

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of the net pension liability in the subsequent reporting period. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension expense will be recognized as follows:

Measurement period ending June 30,	<u>FRS Expense</u>	<u>HIS Expense</u>
2019	\$ 84,909	\$ 54,271
2020	225,681	53,930
2021	157,796	53,763
2022	32,242	40,307
2023	109,048	15,895
Thereafter	<u>40,837</u>	<u>(44,062)</u>
Total	<u>\$ 650,513</u>	<u>\$ 174,104</u>

8 SCHEDULE OF STATE AND LOCAL REVENUE SOURCES

District School Board of Polk County, Florida:

Florida Education Finance Program	\$ 2,923,264
Class size reduction	782,920
ESE guaranteed allocation	743,070
Medicaid	665,698
Capital outlay	186,149
Discretionary tax equalization	174,543
Transportation	69,813
Discretionary millage funds	66,609
Supplemental academic instruction	65,817
Reading allocation	28,029
School grade recognition	24,754
Instructional materials	20,009
Total funds compression	18,904
Vocational Program	14,044
Safe School	12,762
Digital classroom	4,425
Lead teacher	4,108
Discretionary lottery funds	2,215
Additional allocation	<u>(79)</u>
Total	<u>\$ 5,807,054</u>

The administrative fee paid to the School Board during the year ended June 30, 2019 totaled approximately \$79,500 which is reflected as a school administration expense/expenditure in the accompanying statement of activities and statement of revenues, expenditures and changes in fund balances – governmental funds.

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9 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.

10 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 at year end may be impaired.

Management believes there may be contingent liabilities related to compliance with the rules and regulations governing the respective grants. For example there is a potential liability related to the calculation of FEFP monies. The county has not yet determined the potential amount of overpayment. Therefore, we are unable to estimate for financial statement preparation.

Legal Matters

In the normal course of conducting its operations, the School occasionally becomes party to various legal actions and proceedings. There is ongoing litigation with an entity in which the School previously shared common leadership. Management will continue to vigorously contest these claims. Management and counsel cannot determine the outcome or estimate any damages at this time.

There are two additional pending cases against Our Children's Academy. Although the party to the lawsuit is Our Children's Academy, the name was changed to Victory Ridge Academy effective July 1, 2017. Management believes the ultimate resolution of these legal matters will not have a significant adverse effect on the accompanying financial statements. Additionally, legal representation has indicated that should there be an adverse judgment in the resolution of these matters, OCA has appropriate insurance coverage that would cover any material damages.

VICTORY RIDGE ACADEMY, INC.

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

**Notes to Financial Statements
(continued)**

Lease Commitments

In August 2018, the School entered into a facilities lease agreement for with Victory Ridge Charitable Fund (VRCF), a related party as described in Note 6. The lease is in effect until July 2028 and the lease provides for an annual automatic extension. The School and VRCF are co-borrowers on the facility's mortgage, as described in Note 5. Rent payments shall be the monthly principal and interest payments due on the related mortgage. The School is responsible for all taxes assessed, all licenses and permits, utilities and maintenance and shall maintain appropriate insurance coverage. Future minimum lease payments are as follows:

Year Ended June 30,	
2020	\$ 223,800
2021	243,969
2022	243,969
2023	243,969
2024	243,969
Thereafter	<u>1,015,400</u>
	<u>\$ 2,215,076</u>

11 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 2018, 2017 and 2016 are subject to examination by tax authorities, and may change upon examination.

12 SUBSEQUENT EVENTS

In accordance with GASB Codification Section 2250.106, the School has evaluated subsequent events and transactions for potential recognition or disclosure through September 28, 2019, which is the date the financial statements were available to be issued

VICTORY RIDGE ACADEMY, INC.

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

Required Supplementary Information

Budgetary Comparison Schedule - General Fund

For the Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance
	Original	Final		
REVENUES				
State and local sources	\$ 5,741,000	\$ 5,741,000	\$ 5,620,905	\$ (120,095)
Contributions and other revenues	143,500	143,500	151,903	8,403
Total revenues	5,884,500	5,884,500	5,772,808	(111,692)
EXPENDITURES				
Current:				
Instruction	1,917,000	1,917,000	2,018,604	101,604
Pupil personnel services	2,063,700	2,063,700	2,018,721	(44,979)
Instructional staff training	4,500	4,500	3,155	(1,345)
Board	37,850	37,850	22,795	(15,055)
General administration	75,000	75,000	79,353	4,353
School administration	632,200	632,200	727,786	95,586
Facilities acquisition and construction	30,000	30,000	44,721	14,721
Fiscal services	38,000	38,000	37,601	(399)
Food services	17,200	17,200	16,283	(917)
Pupil transportation services	290,800	290,800	134,413	(156,387)
Operation of plant	482,750	482,750	713,774	231,024
Maintenance of plant	5,830	5,830	-	(5,830)
Capital outlay	24,000	24,000	7,000	(17,000)
Total expenditures	5,618,830	5,618,830	5,824,206	205,376
Excess (deficiency) of revenues over expenditures	265,670	265,670	(51,398)	(317,068)
OTHER FINANCIAL SOURCES (USES)				
Proceeds from note payable	-	-	3,658,531	3,658,531
Transfer to Victory Ridge Charitable Foundatior	-	-	(3,786,167)	(3,786,167)
Operating transfers in	-	-	186,149	186,149
Operating transfers out	(155,000)	(155,000)	-	155,000
Total other financial sources (uses)	(155,000)	(155,000)	58,513	213,513
Net changes in fund balances	110,670	110,670	7,115	(103,555)
Fund balance at beginning of year	635,290	635,290	635,290	-
Fund balance at end of year	\$ 745,960	\$ 745,960	\$ 642,405	\$ (103,555)

See Independent Auditor's Report.

VICTORY RIDGE ACADEMY, INC.

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

Required Supplementary Information

Budgetary Comparison Schedule - Special Revenue Fund

For the Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance
	Original	Final		
REVENUES				
Federal sources	\$ 368,000	\$ 368,000	\$ 381,071	\$ 13,071
Total revenues	368,000	368,000	381,071	13,071
EXPENDITURES				
Current:				
Instruction	364,131	364,131	379,686	15,555
Pupil personnel services	3,869	3,869	1,385	(2,484)
Total expenditures	368,000	368,000	381,071	13,071
Net change in fund balance	-	-	-	-
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	\$ -	\$ -	\$ -	\$ -

See Independent Auditor's Report.

VICTORY RIDGE ACADEMY, INC.

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

For the Year End June 30, 2019

**Schedule of the School's Proportionate Share of the Net Pension Liability-
Florida Retirement System Pension Plan**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School's proportion of the FRS net pension liability (asset)	0.00522%	0.00494%	0.00443%	0.00507%	0.00369%
School's proportionate share of the FRS net pension liability (asset)	\$ 1,572,688	\$ 1,462,456	\$ 1,117,650	\$ 655,034	\$ 225,209
School's covered-employee payroll	\$ 3,026,910	\$ 2,762,584	\$ 2,516,451	\$ 2,149,997	\$ 2,454,135
School's proportionate share if the FRS net pension liability (asset) as a percentage of its covered-employee payroll	51.96%	52.94%	44.41%	30.47%	9.18%
FRS Plan fiduciary net position as a percentage of the total pension liability	64.63%	64.46%	57.93%	46.04%	29.88%

**Schedule of School Contributions
Florida Retirement System Pension Plan**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required FRS contribution	\$ 187,918	\$ 148,803	\$ 128,709	\$ 107,943	\$ 123,644
FRS contribution in relation to the contractually required FRS contribution	(187,918)	(148,803)	(128,709)	(107,943)	(123,644)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
School's covered employee payroll	\$ 3,026,910	\$ 2,762,584	\$ 2,516,451	\$ 2,149,997	\$ 2,454,135
FRS contribution as a percentage of covered employee payroll	6.21%	5.39%	5.11%	5.02%	5.04%

VICTORY RIDGE ACADEMY, INC.

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

For the Year End June 30, 2019

Schedule of the School's Proportionate Share of the Net Pension Liability-
Health Insurance Subsidy Pension Plan

	2019	2018	2017	2016	2015
School's proportion of the HIS net pension liability (asset)	0.0081%	0.0075%	0.0069%	0.0075%	0.0057%
School's proportionate share of the HIS net pension liability (asset)	\$ 860,837	\$ 806,267	\$ 811,688	\$ 767,696	\$ 528,440
School's covered-employee payroll	\$ 3,026,910	\$ 2,762,584	\$ 2,516,451	\$ 2,149,997	\$ 2,454,135
School's proportionate share if the HIS net pension liability (asset) as a percentage of its covered-employee payroll	28.44%	29.19%	32.26%	35.71%	21.53%
HIS Plan fiduciary net position as a percentage of the total pension liability	35.37%	35.54%	42.07%	53.96%	70.12%

Schedule of School Contributions
Health Insurance Subsidy Pension Plan

	2019	2018	2017	2016	2015
Contractually required HIS contribution	\$ 56,032	\$ 44,107	\$ 39,907	\$ 35,698	\$ 28,775
FRS contribution in relation to the contractually required HIS contribution	(56,032)	(44,107)	(39,907)	(35,698)	(28,775)
HIS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
School's covered employee payroll	\$ 3,026,910	\$ 2,762,584	\$ 2,516,451	\$ 2,149,997	\$ 2,454,135
HIS contribution as a percentage of covered employee payroll	1.85%	1.60%	1.59%	1.66%	1.17%

VICTORY RIDGE ACADEMY, INC.

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

Notes to Budgetary Schedules

For the Year Ended June 30, 2019

1 BUDGETARY BASIS OF ACCOUNTING

Budgets are presented on the modified accrual basis of accounting. During the fiscal year, expenditures were controlled at the object level (e.g., salaries and benefits, purchased services, materials and supplies and capital outlay) within each activity (e.g., instruction, pupil personnel services and school administration). Budgets may be amended by resolution at any Board meeting prior to the date for the annual report.



McCRAZY & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

**Report of Independent Auditor 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 Victory Ridge Academy, Inc.
a Charter School and Component Unit of the District
School Board of Polk County, Florida

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Victory Ridge Academy, Inc. (the "School"), a charter school and component unit of the District School Board of Polk County, Florida, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 28, 2019.

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

McCrady & Associates, PLLC

Altamonte Springs, Florida
September 28, 2019

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



McCRAZY & ASSOCIATES
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 Victory Ridge Academy, Inc.
a Charter School and Component Unit of the District
School Board of Polk County, Florida

Report on the Financial Statements

We have audited the financial statements of Victory Ridge Academy, Inc. (the "School") as of and for the fiscal year ended June 30, 2019, and have issued our report thereon dated September 28, 2019.

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 Reporting Requirements

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. Disclosures in that report, if applicable, which is dated, September 28, 2019, should be considered in conjunction with this management letter.

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 be disclosed in this management letter. The official title of the entity is Victory Ridge Academy, Inc.

Financial Condition and Management

Sections 10.854(1)(e)2., and 10.855(11). Rules of the Auditor General, require us to apply appropriate procedures and communicate whether or not the School has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify 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.

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

Transparency

Sections 10.854(1)(e)7. and 10.855(13), Rules of the Auditor General, require us to apply appropriate procedures and communicate 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.

Additional Matters

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 note 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 Polk County School Board and is not intended to be and should not be used by anyone other than these specified parties.

McCrady & Associates, PLLC

Altamonte Springs, Florida
September 28, 2019

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