LEGACY ACADEMY

FINANCIAL STATEMENTS

June 30, 2008

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S&C Swanhorst & Company LLC
Certified Public Accountants

Board of Directors
Legacy Academy
Elizabeth, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Legacy Academy, component unit of Elbert County School District No. C-1, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the Legacy Academy, as listed in the table of contents. These financial statements are the responsibility of the Legacy Academy's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Legacy Academy, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Swanhorst & Company LLC

November 29, 2008

8400 E. Crescent Parkway • Suite 600 • Greenwood Village, CO 80111 • (720) 528-4306 Fax: (720) 528-4307

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
June 30, 2008

The discussion and analysis of Legacy Academy financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2008. The intent of this narrative overview and analysis is to review the School's financial performance as a whole. Readers should also review notes to the financial statements and financial statements to expand understanding of the School's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, issued June 1999.

The Mission of Legacy Academy is to help guide students in the development of their character and academic potential through an academically rigorous, content-rich educational program. Legacy Academy measures performance based on student testing data and annual surveys; the results of each are analyzed and the results are incorporated in subsequent decision making for the School.

Financial Highlights

The year ended June 30, 2008 is the eleventh year of operations for the School. The general fund fund balance increased to $697,854 from $538,822 in the year ended June 30, 2007.

Legacy Academy funds the operations of the School by tax revenue received under the State School Finance Act. Tax revenue for the year from Per Pupil Revenue was approximately $2,623,156. The School operated within budget allocations and supplemental budget allocations approved by the Board of Directors. There were no major budget revisions during the year.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to Legacy Academy’s basic financial statements. The basic statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the School’s finances in a manner similar to a private-sector business.

The statement of net assets presents information on all the School’s assets and liabilities, with the difference between the two being reported as net assets. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School’s net assets changed during the year. All changes in net worth are reported as soon as the underlying event giving rise the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

Governmental Funds
Governmental funds provide a more restricted view than government-wide financial statements. This provides readers with an enhanced awareness of the long-term impact of the School's near-term financing decisions. The focus of governmental financial statements is on year-end available resources and near-term inflows and outflows of available resources during the fiscal year. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Legacy Academy maintains and adopts an annual budget for its general fund and capital reserve fund. Budgetary comparisons have been provided for the general fund and capital reserve funds to demonstrate compliance with this budget.

Proprietary Funds
Elbert County Building Corporation is considered a blended component unit of Legacy Academy and is presented as an enterprise fund. Its activities are related to holding title to the school facility and include accumulating resources and making payment for the Elbert County Building Corporation capital and debt service costs.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. Notes to financial statements are provided on pages 8 – 15.

Table I: Net Assets

	2008 Governmental Activities	2007 Governmental Activities	%	2008 Business Type Activities	2007 Business Type Activities	%
Current Assets	891,786	733,445	22	765,434	737,589	4
Non-Current Assets	-	-	-	5,851,360	6,007,674	-3
Total Assets	**891,786**	**733,445**	**22**	**6,616,794**	**6,745,263**	**-2**
Current Liabilities	193,932	194,623	-	70,000	65,000	8
Long-Term Liabilities	-	-	-	5,892,517	5,946,115	-1
Total Liabilities	**193,932**	**194,623**	**0**	**5,962,517**	**6,011,115**	**-1**
Invested in Fixed / Capital Assets, Net of Related Debt	-	-	-	31,987	141,165	-77
Restricted for Debt Service	-	-	-	568,944	541,372	5
Restricted for Emergencies	86,000	100,000	-14	-	-	-
Restricted for R&Replace	-	-	-	53,346	51,611	3
Unrestricted	611,854	438,822	39	-	-	-
Total Net Assets	**697,854**	**538,822**	**30**	**654,277**	**734,148**	**-11**

Table II: Change in Net Assets
For the Years Ended June 30, 2007 and June 30, 2008

	2008 Governmental Activities	2007 Governmental Activities	%	2008 Business Type Activities	2007 Business Type Activities	%
Per Pupil Revenue	2,623,156	2,426,083	8	-	-	-
Capital Construction Funding	46,772	78,556	-40	-	-	-
Unrestricted Grants	133,569	178,620	-25	-	-	-
Investment Earnings	25,060	23,664	6	29,318	37,012	-21
Other	24,938	26,373	-5	-	-	-
Transfers, Net	-499,023	-772,880	-35	499,023	772,880	-35
Charges for Instruction Svs.	28,739	27,592	4	-	-	-
Charges for Support Svs.	84,371	47,216	79	-	-	-
Operating Grants	57,914	67,231	-14	-	-	-
Total Revenue	**2,525,496**	**2,102,455**	**20**	**528,341**	**809,892**	**-35**
Instruction	1,711,655	1,708,408	-	-	-	-
Support	654,809	595,422	10	608,212	548,668	11
Total Expenses	**2,366,464**	**2,303,830**	**3**	**608,212**	**548,668**	**11**
Change in Net Assets	**159,032**	**-201,375**	**-179**	**-79,871**	**261,224**	**-131**
Beginning Net Assets 6/30/07	**538,822**	**740,197**	**-27**	**734,148**	**472,924**	**55**
Ending Net Assets 6/30/08	**697,854**	**538,822**	**30**	**654,277**	**734,148**	**-11**

Financial Analysis of the School's Funds

As discussed previously, Legacy Academy operates by means of fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds
As of the end of the June 30, 2008 fiscal year, Legacy Academy governmental funds reported a combined ending fund balance of $697,854. Legacy Academy designates $86,000 of these funds as restricted to comply with Article X, Section 20 of the Colorado Constitution, know as the TABOR Amendment. The remaining approximately $611,854 is unrestricted and available to meet the School's ongoing financial obligations.

Compared with the prior year, Legacy Academy received an increase of 8% PPR funding for the year ended June 30, 2008; this increase is attributed to a 4.5% funding increase between years and an increase of 13.5 funded students. Salary and Benefit expenditures increased by 6% as a result of additional staff, raises assigned to existing staff and new hires to replace staff turnover. Purchased Service expenditures increased by 17% and Supplies and Materials increased by 16% due to continued support from the Title V Implementation grant program. Property expenditures decreased by 88% and transfers to the Proprietary Fund in excess of the facility payment were eliminated since the new facility was completed.

Proprietary Funds
Elbert County Charter School Building Corp. net assets decreased $79,871 to $654,277 from June 30, 2007 to June 30, 2008. The decrease represents a reduction in net transfer from the General fund to the Proprietary fund compared to prior year when there was a sale of capital assets.

General Fund Budgetary Highlights

The School budgeted for expenditures of $2,981,809 for the year ended June 30, 2008. Actual expenditures were $2,817,515. Administration and the Board of Directors review budget to actual reports as part of the monthly financial report provided to the Board by administration.

The School's original budget for the 2007/08 school year was approved March, 2007; a revised budget was approved August, 2007. A final budget revision was approved in September, 2007 based on actual student count. A Supplemental Budget to allocate a supplemental award from the Title V Implementation Grant program was approved in June, 2008.

Capital Asset and Debt Administration

Capital Assets

Elbert County Charter School Building Corp. recognized investment in capital assets as of June 30, 2008 in the amount of $5,662,347 (net of accumulated depreciation). This investment in capital assets includes land and buildings. The detail of this investment is in Note 3 to the financial statements.

Long-term debt

As of June 30, 2008, Elbert County Charter School Building Corp. had outstanding debt of $5,819,373. Details regarding long-term debt are included in Note 4 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the School is student enrollment. Enrollment for the 2008-2009 school year is 370 FTE, a decrease of 32 funded students. This is the first enrollment decline in the eleven year history of the School. The Elizabeth C-1 school district has also experienced a decline in student enrollment over the past several years and is down this year by approximately 100 students. The current state of the global, country, state and local economies are impacting this rural area School. The School has achieved a substantial reserve (approximately 25% of current year income) to support this budget year and the Board is committed to strategic planning this winter to create plans for the School given the situation. These factors were considered in preparing the budget for 2008-2009.

Requests for Information

The financial report is designed to provide a general overview of Legacy Academy's finances for all those with an interest in the School. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Legacy Academy
1975 Legacy Circle
Elizabeth, CO 80107

BASIC FINANCIAL STATEMENTS

LEGACY ACADEMY

STATEMENT OF NET ASSETS
June 30, 2008

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS 2008	TOTALS 2007
ASSETS				
Cash and Investments	$ 750,167	$ -	$ 750,167	$ 645,790
Restricted Cash and Investments	-	765,434	765,434	737,589
Grants Receivable	141,619	-	141,619	87,022
Deposits	-	-	-	633
Debt Issuance Costs, Net of Accumulated Amortization	-	189,013	189,013	194,952
Capital Assets, Not Being Depreciated	-	347,000	347,000	347,000
Capital Assets, Net of Accumulated Depreciation	-	5,315,347	5,315,347	5,465,722
TOTAL ASSETS	891,786	6,616,794	7,508,580	7,478,708
LIABILITIES				
Accounts Payable	19,000	-	19,000	41,308
Accrued Salaries and Benefits	163,602	-	163,602	141,796
Deferred Revenues	11,330	-	11,330	11,519
Accrued Interest Payable	-	143,144	143,144	144,606
Noncurrent Liabilities				
Due Within One Year	-	70,000	70,000	65,000
Due in More Than One Year	-	5,749,373	5,749,373	5,801,509
TOTAL LIABILITIES	193,932	5,962,517	6,156,449	6,205,738
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	-	31,987	31,987	141,165
Restricted for Debt Service	-	568,944	568,944	541,372
Restricted for Repairs and Replacements	-	53,346	53,346	51,611
Restricted for Emergencies	86,000	-	86,000	100,000
Unrestricted	611,854	-	611,854	438,822
TOTAL NET ASSETS	$ 697,854	$ 654,277	$ 1,352,131	$ 1,272,970

The accompanying notes are an integral part of the financial statements.

LEGACY ACADEMY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES CHARGES FOR SERVICES	PROGRAM REVENUES OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities			
Instruction	$ 1,711,655	$ 28,739	$ 57,914
Supporting Services	654,809	84,371	-
Total Governmental Activities	2,366,464	113,110	57,914
Business-Type Activities			
Building Corporation	608,212	-	-
TOTAL PRIMARY GOVERNMENT	$ 2,974,676	$ 113,110	$ 57,914

GENERAL REVENUES
Per Pupil Operating Revenue
Capital Construction Funding
Grants and Contributions not Restricted to Specific Programs
Investment Earnings
Miscellaneous
TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET ASSETS

NET ASSETS, Beginning

NET ASSETS, Ending

The accompanying notes are an integral part of the financial statements.

NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS 2008	TOTALS 2007
$ (1,625,002)	$ -	$ (1,625,002)	$ (1,613,585)
(570,438)	-	(570,438)	(548,206)
(2,195,440)	-	(2,195,440)	(2,161,791)
-	(608,212)	(608,212)	(548,668)
(2,195,440)	(608,212)	(2,803,652)	(2,710,459)
2,623,156	-	2,623,156	2,426,083
46,772	-	46,772	78,556
133,569	-	133,569	178,620
25,060	29,318	54,378	60,676
24,938	-	24,938	26,373
(499,023)	499,023	-	-
2,354,472	528,341	2,882,813	2,770,308
159,032	(79,871)	79,161	59,849
538,822	734,148	1,272,970	1,213,121
$ 697,854	$ 654,277	$ 1,352,131	$ 1,272,970

LEGACY ACADEMY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	GENERAL	CAPITAL RESERVE	TOTALS 2008	TOTALS 2007
ASSETS				
Cash and Investments	$ 750,167	$ -	$ 750,167	$ 645,790
Grants Receivable	141,619	-	141,619	87,022
Other Assets	-	-	-	633
TOTAL ASSETS	$ 891,786	$ -	$ 891,786	$ 733,445
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	$ 19,000	$ -	$ 19,000	$ 41,308
Accrued Salaries and Benefits	163,602	-	163,602	141,796
Deferred Revenues	11,330	-	11,330	11,519
TOTAL LIABILITIES	193,932	-	193,932	194,623
FUND BALANCES				
Reserved for Emergencies	86,000	-	86,000	100,000
Unreserved, Reported in General Fund	611,854	-	611,854	438,822
TOTAL FUND BALANCES	697,854	-	697,854	538,822
TOTAL LIABILITIES AND FUND BALANCES	$ 891,786	$ -	$ 891,786	$ 733,445

The accompanying notes are an integral part of the financial statements.

LEGACY ACADEMY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	GENERAL	CAPITAL RESERVE	TOTALS 2008	TOTALS 2007
REVENUES				
Local Sources				
Per Pupil Operating Revenue	$ 2,623,156	$ -	$ 2,623,156	$ 2,426,083
Contributions and Donations	24,851	-	24,851	46,612
Student Fees and Activities	64,135	-	64,135	27,592
Food Services	48,975	-	48,975	47,216
Grants	3,838	-	3,838	38,388
Investment Earnings	25,060	-	25,060	23,664
Miscellaneous	23,738	1,200	24,938	26,373
State Sources				
Capital Construction Funding	-	46,772	46,772	78,556
Special Education	57,914	-	57,914	67,231
Federal Sources				
Grants	104,880	-	104,880	93,620
TOTAL REVENUES	2,976,547	47,972	3,024,519	2,875,335
EXPENDITURES				
Instruction	1,711,655	-	1,711,655	1,708,408
Supporting Services	654,809	499,023	1,153,832	1,094,757
TOTAL EXPENDITURES	2,366,464	499,023	2,865,487	2,803,165
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	610,083	(451,051)	159,032	72,170
OTHER FINANCING SOURCES (USES)				
Transfers In	-	451,051	451,051	270,690
Transfers Out	(451,051)	-	(451,051)	(544,235)
TOTAL OTHER FINANCING SOURCES (USES)	(451,051)	451,051	-	(273,545)
NET CHANGE IN FUND BALANCES	159,032	-	159,032	(201,375)
FUND BALANCES, Beginning	538,822	-	538,822	740,197
FUND BALANCES, Ending	$ 697,854	$ -	$ 697,854	$ 538,822

The accompanying notes are an integral part of the financial statements.

LEGACY ACADEMY

STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2008

	BUILDING CORPORATION 2008	BUILDING CORPORATION 2007
ASSETS		
CURRENT ASSETS		
Restricted Cash and Investments	$ 765,434	$ 737,589
TOTAL CURRENT ASSETS	765,434	737,589
NONCURRENT ASSETS		
Debt Issuance Costs, Net of Accumulated Amortization	189,013	194,952
Capital Assets, Not Being Depreciated	347,000	347,000
Capital Assets, Net of Accumulated Depreciation	5,315,347	5,465,722
TOTAL NONCURRENT ASSETS	5,851,360	6,007,674
TOTAL ASSETS	6,616,794	6,745,263
LIABILITIES		
CURRENT LIABILITIES		
Accrued Interest Payable	143,144	144,606
Loan Payable, Current Portion	70,000	65,000
TOTAL NONCURRENT LIABILITIES	213,144	209,606
NONCURRENT LIABILITIES		
Loan Payable	5,749,373	5,801,509
TOTAL LIABILITIES	5,962,517	6,011,115
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	31,987	141,165
Restricted for Debt Service	568,944	541,372
Restricted for Repairs and Replacements	53,346	51,611
TOTAL NET ASSETS	$ 654,277	$ 734,148

The accompanying notes are an integral part of the financial statements.

LEGACY ACADEMY

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2008

	BUILDING CORPORATION	
	2008	2007
OPERATING INCOME		
Building Lease	$ 499,023	$ 499,335
TOTAL OPERATING INCOME	499,023	499,335
OPERATING EXPENSES		
Depreciation	150,375	150,375
Amortization of Debt Issuance Costs	5,939	5,939
Debt Service		
Interest	450,220	390,396
Fees	1,678	1,958
TOTAL OPERATING EXPENSES	608,212	548,668
OPERATING LOSS	(109,189)	(49,333)
NONOPERATING INCOME		
Investment Earnings	29,318	37,012
NET LOSS BEFORE TRANSFERS	(79,871)	(12,321)
Transfers In	-	273,545
CHANGE IN NET ASSETS	(79,871)	261,224
NET ASSETS, Beginning	734,148	472,924
NET ASSETS, Ending	$ 654,277	$ 734,148

The accompanying notes are an integral part of the financial statements.

LEGACY ACADEMY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2008
Increase (Decrease) in Cash and Cash Equivalents

	BUILDING CORPORATION	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Lease Payments Received	$ 499,023	$ 499,335
Cash Received from Investment Earnings	29,318	37,012
Debt Principal Paid	(65,000)	(60,000)
Debt Interest and Fees Paid	(435,496)	(375,841)
Net Cash Provided by Operating Activities	27,845	100,506
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash Received from Sale of Modular Building	-	165,000
Transfer from Charter School	-	273,545
Acquisition of Property and Equipment	-	(1,103,932)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(665,387)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	27,845	(564,881)
CASH AND CASH EQUIVALENTS, Beginning	737,589	1,302,470
CASH AND CASH EQUIVALENTS, Ending	$ 765,434	$ 737,589
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	$ (109,189)	$ (49,333)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities		
Depreciation Expense	150,375	150,375
Amortization of Debt Issuance Costs	5,939	5,939
Amortization of Discount	1,454	1,454
Amortization of Loss on Refunding	16,410	16,409
Investment Earnings	29,318	37,012
Changes in Assets and Liabilities		
Accrued Interest Payable	(1,462)	(1,350)
Loan Payable	(65,000)	(60,000)
Net Cash Provided by Operating Activities	$ 27,845	$ 100,506

The accompanying notes are an integral part of the financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Legacy Academy, formerly known as Elbert County Charter School (the "School") was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Elbert County School District No. C-1.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of the School and organizations for which the School is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. In addition, any legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on, the School.

The School includes the Elbert County Charter School Building Corporation (the "Building Corporation") within its reporting entity. The Building Corporation was organized exclusively for the purpose of holding title to real and/or personal property for, and to make same available for use by, the School and to otherwise provide facilities, equipment and other physical plant and related support to the School. The Building Corporation is blended into the School's financial statements as an enterprise fund. Separate financial statements for the Building Corporation are not available.

The School is a component unit of the Elbert County School District No. C-1 (the "District"). The majority of the School's funding is provided by the District.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted revenues not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for the governmental and proprietary funds. Major individual funds are reported in separate columns in the fund financial statements.

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as is the proprietary fund in the fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current year.

Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The School has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, and the unrestricted resources as they are needed.

The School reports the following major governmental funds:

General Fund - This fund is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Reserve - This fund is used to account for specific revenue sources that are restricted to capital purposes and the related expenditures.

The School reports one major proprietary fund, as follows:

Building Corporation - This fund is used to account for the accumulation of resources for, and payment of, the Building Corporation's capital and debt service costs.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balances/Net Assets

Cash and Investments - Cash equivalents include investments with original maturities of three months or less. Investments are reported at fair value.

Accounts Receivable - All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Capital Assets - Capital assets, which include property and equipment, are reported in the government-wide financial statements and the proprietary fund in the fund financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net assets in the government-wide financial statements and the proprietary fund in the fund financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method:

Buildings	40 years

Interest incurred during construction is included in the capitalized value of the capital assets in the proprietary fund.

Accrued Salaries and Benefits - Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

Deferred Revenues - Deferred revenues include grant funding that has been collected but the corresponding expenditures have not been incurred.

Long-Term Debt - In the government-wide financial statements, and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund. Issuance costs are deferred and amortized over the life of the debt using the straight-line method.

In the fund financial statements, governmental funds recognize the face amount of debt issued as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Compensated Absences - The School's compensated absences policy does not provide for the payment of accrued sick or vacation time upon termination. Therefore, no liability has been reported in the financial statements.

Net Assets/Fund Balances - In the government-wide financial statements, and the proprietary fund in the fund financial statements, net assets are restricted when constraints placed on the net assets are externally imposed. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries commercial insurance for these risks of loss.

Comparative Information

Comparative total information for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the School's financial position and operations. However, complete comparative information in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to understand.

NOTE 2: CASH AND INVESTMENTS

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all local government entities deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2008, the School had bank deposits of $675,222 collateralized with securities held by the financial institution's agent but not in the School's name.

Investments

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity, and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk.

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

At June 30, 2008, the Building Corporation had the following investments:

Investment	Maturity	Fair Value
Money Market Fund	NA	$ 261,309
Guaranteed Investment Contract	3/1/35	504,125
Total		**$ 765,434**

NOTE 2: CASH AND INVESTMENTS (Continued)

Investments (Continued)

Interest Rate Risk - State statutes limit investments in guaranteed investment contracts (GICs) to a maturity of three years unless pledged to the payment of debt.

Credit Risk - State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with Rule 2a-7, and either have assets of one billion dollars or the highest rating issued by a nationally recognized statistical rating organizations ("NRSRO"). At June 30, 2008, the Building Corporation's investment in a money market fund was rated AAAm by Standard & Poor's.

State statues limit investments in GICs to those where the issuing party has obtained one of the two highest ratings issued by two or more NRSROs at the date of purchase. The issuer of the Building Corporation's GIC had a long-term rating of AAA from Fitch Ratings.

Concentration of Credit Risk - State statutes do not limit the amount the School may invest in one issuer. At June 30, 2008, the Building Corporation's investment in the guaranteed investment contract represented 66% of total investments.

Restricted Cash and Investments

Cash and investments of $765,434 have been restricted by the Building Corporation for debt service and building repairs.

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, is summarized below:

	Balances 6/30/07	Additions	Deletions	Balances 6/30/08
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	$ 347,000	$ -	$ -	$ 347,000
Capital Assets, Being Depreciated				
Buildings	5,628,576	-	-	5,628,576
Less Accumulated Depreciation	(162,854)	(150,375)	-	(313,229)
Total Capital Assets, Being Depreciated, Net	5,465,722	(150,375)	-	5,315,347
Business-Type Activities Capital Assets, Net	**$ 5,812,722**	**$ (150,375)**	**$ -**	**$ 5,662,347**

NOTE 4: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2008:

	Balances 6/30/07	Additions	Payments	Balances 6/30/08	Due Within One Year
Business-Type Activities					
2004 Building Loan	$ 5,955,000	$ -	$ 65,000	$ 5,890,000	$ 70,000
Discount	(39,262)	-	(1,454)	(37,808)	-
Loss on Refunding	(49,229)	-	(16,410)	(32,819)	-
Total	**$ 5,866,509**	**$ -**	**$ 47,136**	**$ 5,819,373**	**$ 70,000**

Building Loan

In November, 2004, the Colorado Educational and Cultural Facilities Authority ("CECFA") issued $6,015,000 Charter School Revenue Refunding and Improvement Bonds (Elbert County Charter School Project), Series 2004. A portion of the bond proceeds were used to refund the CECFA Charter School Revenue Bonds, Series 2000, and the remainder was loaned to the Building Corporation under a mortgage and loan agreement to construct a school facility. Proceeds of the Series 2000 Bonds were used to purchase and place in service modular facilities for the School. The School is obligated under a lease agreement to make monthly lease payments to the Building Corporation for use of the facilities. The Building Corporation is required to make monthly loan payments to the Trustee, for payment of the bonds. Annual principal payments and semi-annual interest payments, with interest accruing at rates ranging from 6.75% to 7.375%, are required under the bond indenture. The bonds mature on March 1, 2035.

Future debt service requirements for the bonds are as follows:

Year Ended June 30,	Principal	Interest	Total
2009	$ 70,000	$ 429,431	$ 499,431
2010	75,000	424,706	499,706
2011	80,000	419,644	499,644
2012	85,000	414,244	499,244
2013	90,000	408,506	498,506
2014 - 2018	565,000	1,937,668	2,502,668
2019 - 2023	805,000	1,701,094	2,506,094
2024 - 2028	1,140,000	1,363,025	2,503,025
2029 - 2033	1,635,000	875,044	2,510,044
2034 - 2035	1,345,000	168,519	1,513,519
Total	**$ 5,890,000**	**$ 8,141,881**	**$ 14,031,881**

Defeased Debt

CECFA bond proceeds of $598,458 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments for $500,000 of the 2000 Bonds. As a result, the refunded bonds are considered defeased and have been removed from the financial statements. The outstanding balance of the defeased debt at June 30, 2008, was $235,000.

NOTE 5: INTERFUND TRANSFERS

The School is required by State statute to allocate a minimum of $292 per funded pupil for insurance and capital expenditures. During the year ended June 30, 2008, the General Fund transferred $451,051 to the Capital Reserve Fund to comply with this statute.

NOTE 6: DEFINED BENEFIT PENSION PLAN

Plan Description - The School contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The SDTF provides retirement and disability, post-retirement annual increases, and death benefits for members or their beneficiaries. All employees of the School are members of the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the SDTF. That report may be obtained by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

Funding Policy - Plan members and the School are required to contribute at a rate set by statute. The contribution requirements of Plan members and the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members was 8% of covered salary and for the School was 11.15% from July 1, 2007, through December 31, 2007, and 12.05% thereafter. A portion of the School's contribution (1.02% of covered salary) is allocated to the Health Care Trust Fund (See Note 7). The School's contributions to the SDTF for the years ended June 30, 2008, 2007 and 2006, were $164,666, $144,364 and $121,674, respectively, equal to the required contributions for each year.

NOTE 7: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description - The School contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by the PERA. The HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained by contacting PERA as described above.

Funding Policy - The School was required to contribute at a rate of 1.02% of covered salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208, CRS, as amended. The School's contributions to the HCTF for the years ended June 30, 2008, 2007 and 2006, were $14,270, $13,505 and $11,930, respectively, equal to the required contributions for each year.

NOTE 8: COMMITMENTS AND CONTINGENCIES

Tabor Amendment

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with the requirements of the Amendment. The Amendment requires the School to establish a reserve for emergencies. At June 30, 2008, the School's reserve, of $86,000, was reported as a reservation of fund balance in the General Fund.

Claims and Judgments

The School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor government. At June 30, 2008, significant grant expenditures have not been audited but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

REQUIRED SUPPLEMENTARY INFORMATION

LEGACY ACADEMY

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Per Pupil Operating Revenue	$ 2,748,467	$ 2,623,140	$ 2,623,156	$ 16
Contributions and Donations	25,000	25,000	24,851	(149)
Student Fees and Activities	35,000	50,000	64,135	14,135
Food Services	50,000	50,000	48,975	(1,025)
Grants	54,000	162,000	166,632	4,632
Investment Earnings	22,000	30,000	25,060	(4,940)
Miscellaneous	-	28,825	23,738	(5,087)
TOTAL REVENUES	2,934,467	2,968,965	2,976,547	7,582
EXPENDITURES				
Salaries	1,461,261	1,495,555	1,485,124	10,431
Employee Benefits	350,458	355,778	302,349	53,429
Purchased Services	358,450	338,486	263,929	74,557
Supplies and Materials	177,500	230,297	229,509	788
Property	63,255	80,442	70,815	9,627
Miscellaneous	29,500	30,000	14,738	15,262
TOTAL EXPENDITURES	2,440,424	2,530,558	2,366,464	164,094
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	494,043	438,407	610,083	171,676
OTHER FINANCING SOURCES (USES)				
Transfers Out	(459,523)	(451,251)	(451,051)	200
NET CHANGE IN FUND BALANCE	34,520	(12,844)	159,032	171,876
FUND BALANCE, Beginning	147,494	538,822	538,822	-
FUND BALANCE, Ending	$ 182,014	$ 525,978	$ 697,854	$ 171,876

See the accompanying independent auditors' report.

LEGACY ACADEMY

BUDGETARY COMPARISON SCHEDULE
CAPITAL RESERVE FUND
Year Ended June 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Miscellaneous	$ -	$ -	$ 1,200	$ 1,200
State Sources				
Capital Construction Funding	40,000	46,772	46,772	-
TOTAL REVENUES	40,000	46,772	47,972	1,200
EXPENDITURES				
Supporting Services				
Building Lease	499,522	499,523	499,023	500
TOTAL EXPENDITURES	499,522	499,523	499,023	500
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(459,522)	(452,751)	(451,051)	1,700
OTHER FINANCING SOURCES				
Transfers In	459,522	451,251	451,051	(200)
NET CHANGE IN FUND BALANCE	-	(1,500)	-	1,500
FUND BALANCE, Beginning	-	1,500	-	(1,500)
FUND BALANCE, Ending	$ -	$ -	$ -	$ -

See the accompanying independent auditors' report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2008

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgets are required by State statutes for all funds and are adopted on a basis consistent with generally accepted accounting principles.

The School adheres to the following procedures in establishing the budgetary data reflected in the financial statements.

- By June 30, management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. All budgets lapse at year end.
- Prior to June 30, the budget is adopted by the Board of Directors.
- Expenditures may not legally exceed appropriations at the fund level.
- Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.