Legacy21, Inc., dba Legacy Preparatory

Financial Statements with Supplemental Information and Compliance Reports
August 31, 2022

Certified Public Accountants

Legacy21, Inc., dba Legacy Preparatory
Certificate of Board

Legacy21, Inc. Name of Charter Holder		27-4013601 Federal Employer ID Number
Legacy Preparatory Name of Charter School	DALLAS County	057-846 Co. Dist. Number

We, the undersigned, certify that the attached Financial and Compliance Report of Legacy21, Inc. was reviewed and (check one) ✓ approved ___ disapproved for the year ended August 31, 2022, at a meeting of the governing body of the charter school on the 26th day of January 2023.

DocuSigned by:
Vincent Vittatoe
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Signature of Board Secretary

Byron Riske
Signature of Board President

Legacy21, Inc., dba Legacy Preparatory
Contents

Independent Auditors' Report

To the Board of Directors of
Legacy21, Inc. dba
Legacy Preparatory

Opinion

We have audited the accompanying financial statements of Legacy21, Inc., dba Legacy Preparatory (a nonprofit organization), which comprise the statement of financial position as of August 31, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legacy21, Inc., dba Legacy Preparatory as of August 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Legacy21, Inc., dba Legacy Preparatory and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Legacy21, Inc., dba Legacy Preparatory's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Legacy21, Inc., dba Legacy Preparatory's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Legacy21, Inc., dba Legacy Preparatory's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information listed in the accompanying table of contents is presented for purposes of additional analysis as required by the Texas Education Agency and Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2023 on our consideration of Legacy21, Inc., dba Legacy Preparatory'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 the effectiveness of Legacy21, Inc., dba Legacy Preparatory's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Legacy21, Inc., dba Legacy Preparatory's internal control over financial reporting and compliance.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
January 26, 2023

Legacy21, Inc., dba Legacy Preparatory
Statement of Financial Position
August 31, 2022

Assets

Current assets:		
Cash	$	3,551,321
Due from government agencies		3,567,781
Prepaid expenses		5,834
Other asset		2,800
Total current assets		7,127,736
Noncurrent assets:		
Restricted cash		2,130,826
Property and equipment, net		30,815,093
Total noncurrent assets		32,945,919
Total assets	$	40,073,655

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued expenses	$	139,565
Bonds payable, current portion		670,000
Capital lease obligation, current portion		168,552
Total current liabilities		978,117
Noncurrent liabilities:		
Bonds payable, net		34,649,851
Capital lease obligation, net		16,423
Total noncurrent liabilities		34,666,274
Total liabilities		35,644,391
Net assets:		
Without donor restrictions		2,548,464
With donor restrictions		1,880,800
Total net assets		4,429,264
Total liabilities and net assets	$	40,073,655

See notes to financial statements.

Legacy21, Inc., dba Legacy Preparatory
Statement of Activities
Year Ended August 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Local support:			
5740 Other revenue from local sources	$ 360,743	$ -	$ 360,743
Total local support	360,743	-	360,743
State program revenue:			
5810 Foundation school program	-	15,903,255	15,903,255
5820 State program revenues distributed by TEA	-	88,612	88,612
5830 State revenues from state government agencies	-	14,046	14,046
Total state program revenue	-	16,005,913	16,005,913
Federal program revenue:			
5910 Federal revenue distributed by other Texas agencies	-	2,775,171	2,775,171
5920 Federal revenue distributed by TEA	-	1,526,037	1,526,037
Total federal program revenue	-	4,301,208	4,301,208
Net assets released from restrictions- Satisfaction of program restrictions	20,084,091	(20,084,091)	-
Total revenue and other support	20,444,834	223,030	20,667,864
Expenses:			
11 Instruction	10,129,465	-	10,129,465
13 Curriculum development and instructional staff development	1,254,474	-	1,254,474
21 Instructional leadership	40,559	-	40,559
23 School leadership	1,311,607	-	1,311,607
31 Guidance, counseling and evaluation services	347,305	-	347,305
33 Health services	193,799	-	193,799
34 Student transportation	896	-	896
35 Food services	643,612	-	643,612
36 Extracurricular activities	17,299	-	17,299
41 General administration	1,007,455	-	1,007,455
51 Facilities maintenance and operations	1,289,802	-	1,289,802
52 Security	57,702	-	57,702
53 Data processing services	1,312,013	-	1,312,013
61 Community services	263,923	-	263,923
71 Debt service	2,211,445	-	2,211,445
81 Fundraising	2,735	-	2,735
Total expenses	20,084,091	-	20,084,091
Change in net assets	360,743	223,030	583,773
Net assets at beginning of year	2,187,721	1,657,770	3,845,491
Net assets at end of year	$ 2,548,464	$ 1,880,800	$ 4,429,264

See notes to financial statements.

Legacy21, Inc., dba Legacy Preparatory
Statement of Cash Flows
Year Ended August 31, 2022

Cash flows from operating activities:	
Change in net assets	$ 583,773
Adjustments to reconcile increase in net assets to net cash used by operating activities	
Depreciation	1,074,540
Amortization	48,095
Changes in operating assets and liabilities:	
Due from government agencies	(2,281,088)
Prepaid expenses	29,448
Accounts payable and accrued expenses	50,886
Net cash used by operating activities	(494,346)
Cash flows from financing activities:	
Principal payments on bonds payable	(640,000)
Principal payments on capital lease obligations	(205,586)
Net cash used by financing activities	(845,586)
Net change in cash	(1,339,932)
Cash at beginning of year	7,022,079
Cash at end of year	$ 5,682,147
Reconciliation of cash reported within the statement of financial position to the statement of cash flows:	
Cash	$ 3,551,321
Restricted cash	2,130,826
Total cash shown in the statement of cash flows	$ 5,682,147
Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	$ 2,145,525

See notes to financial statements.

1. Organization and Nature of Activities

Legacy21, Inc., dba Legacy Preparatory (Academy) is a nonprofit organization incorporated on November 17, 2010 under the laws of the state of Texas. The original charter was issued for a period from June 20, 2012 to July 31, 2017. The charter was renewed on March 31, 2017 and now expires on July 31, 2027. The charter is subject to review and renewal prior to expiration. The Academy is governed by a board of directors comprised of four members. The board of directors is selected pursuant to the bylaws of the Academy and has the authority to make decisions, appoint the chief executive officer, significantly influence operations and has the primary accountability for the fiscal affairs of the Academy. The Academy does not conduct any other charter or non-charter activities.

The Academy's mission is to facilitate educational experiences through teaching that engages, a culture that empowers, and technology that enables scholars to be college, career, and military-ready, who produce impactful outcomes.

The Academy is part of the public school system of the State of Texas (State) and is therefore entitled to distribution from the State's Foundation School Program (FSP). The Academy does not have the authority to impose ad valorem taxes or to charge tuition.

2. Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation

The Academy prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The accounting system is organized under the *Special Supplement to Financial Accounting and Reporting – Nonprofit Charter School Chart of Accounts,* a module of the Texas Education Agency Financial Accountability Resource Guide.

Net assets and revenues, expenses, gains and losses are classified based on the existence and nature or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

> *Net assets without donor restrictions* - Net assets not subject to donor or grantor-imposed restrictions even though their use may be limited in other respects, such as by contract or board designation.
>
> *Net assets with donor restrictions* - Net assets subject to donor or grantor stipulations that will be met by actions of the Academy and/or the passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Financial Instruments and Credit Risk Concentrations

Financial instruments which are potentially subject to concentrations of credit risk consist of cash, and amounts due from government agencies. Cash is placed with high credit quality financial institutions to minimize risk. The Academy maintains cash balances at financial institutions located in Texas. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At August 31, 2022, the Academy had no uninsured bank balances. Amounts due from government agencies are unsecured and are due from the Texas Education Agency (TEA). The Academy continually evaluates the collectability of accounts receivable and maintains allowances as necessary. No provision has been made for uncollectible accounts receivable as of the statement of financial position date, given that none have been identified.

For the year ended August 31, 2022, the Academy received 98% of its total revenue and support from the TEA and the federal government. Any unforeseen loss of the charter agreement with TEA or changes in legislative funding could have a material effect on the ability of the Academy to continue to provide the current level of services to its students.

Restricted Cash

Restricted cash is limited as to use under the terms of the bond indenture. The restricted cash represents amounts restricted for debt service requirements for bonds.

Property and Equipment

Property and equipment purchased by the Academy are recorded at cost. Donated assets are reported at the fair market value. Capital assets are defined by the Academy as assets with an individual cost of more than $5,000 and a useful life longer than one year. Depreciation is calculated on the straight-line method based upon the estimated useful lives of 3 to 40 years. Expenditures for maintenance and repairs are expensed when incurred; significant renewals and betterments are capitalized. Property and equipment acquired with public funds received for the operation of the Academy constitute public property pursuant to Chapter 12 of the Texas Education Code.

For depreciable property and equipment, or resources to be used to acquire depreciable property and equipment, the donor or grantor restriction expires over the assets' useful life, as required by the TEA.

The Academy reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected from its use and eventual disposition. The Academy did not recognize an impairment loss during the year ended August 31, 2022.

Revenues and Support

Revenues from the State's available school fund are earned based on reported attendance.

A portion of the Academy's revenue is derived from cost-reimbursement contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts are recognized as revenue when services are rendered or when the Academy has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to providing services or incurring qualifying expenditures are reported as refundable advances in the statement of financial position. The Academy was awarded cost-reimbursable grants of $4,894,013 that have not been received or recognized at August 31, 2022 because qualifying expenditures have not been incurred.

All contributions are considered to be available for purposes without restriction unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support that increases net assets with donor restrictions.

Contributed Goods and Services

Contributed services are recognized in the accompanying financial statements at fair value if the services received create or enhance non-financial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Numerous individuals donate significant amounts of time to the Academy. No donated goods or services were utilized that met the criteria to be recorded as revenue in the Academy's financial statements.

Debt Issuance Costs

Costs of obtaining bond financing are recorded as bond issuance costs and are deferred as a direct deduction from the carrying amount of that debt liability and amortized using the interest method over the related bond period. Amortization expense is included in debt service in the accompanying statement of activities.

Federal Income Taxes

The Academy is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (Code) and has not been classified as a private foundation as defined in the Code. Income generated from activities unrelated to the Academy's exempt purposes is subject to tax under Code Section 511. The Academy had no unrelated business income for the year ended August 31, 2022. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Academy's tax returns and recognition of a tax liability (or asset) if the Academy has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Academy, and has concluded that as of August 31, 2022, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASUs) to the FASB's Accounting Standards Codification. The Academy considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Academy's financial position and changes in net assets.

In 2016, the FASB issued its leasing standard in ASU 2016-02, *Leases* for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use assets and related lease liabilities on the statement of financial position for all lease arrangements with terms longer than 12 months. The pattern of expense recognition in the statement of activities will depend on a lease's classification. The new standard is effective for the Academy for the fiscal year beginning September 1, 2022.

The Academy is currently assessing the impact that adopting this new guidance will have on the financial statements.

3. Restricted Cash

As a result of issuing the series 2018A bond, the Academy is required to maintain separate bank accounts held by the bond trustee that are restricted for debt-related matters. The balance of restricted cash at August 31, 2022 totaled $2,800,826. Cash on the statement of financial position does not include the current portion of restricted cash totaling $670,000.

4. Property and Equipment

Property and equipment consist of the following as of August 31, 2022:

Land	$ 2,959,123
Buildings and improvements	31,894,057
Furniture and equipment	827,494
Capital leases	1,021,946
Total property and equipment	36,702,620
Less accumulated depreciation and amortization	(5,887,527)
Property and equipment, net	$ 30,815,093

Depreciation expense for the year ended August 31, 2022 totaled $1,074,540. Amortization expense related to capitalized interest totaled $34,289 for the year ended August 31, 2022.

5. Long-Term Debt

In February 2018, the Academy issued $36,920,000 of Education Revenue Bonds Series 2018A. After paying fees and issuance costs, the remaining balance was used to pay off outstanding debt and purchase, contract, renovate and improve educational facilities located in Plano and Mesquite, Texas. The bond matures over thirty years with varying amounts of principal due each year.

The following is a summary of changes in the Academy's long-term debt for the year ended August 31, 2022:

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Bonds payable:					
Series 2018A	$ 36,305,000	$ -	$ (640,000)	$ 35,665,000	$ 670,000
Total bonds payable	36,305,000	-	(640,000)	35,665,000	670,000
Bond premium	280,977	-	(10,807)	270,170	-
Bond discount	(511,738)	-	19,682	(492,056)	-
Bond issuance costs	(128,194)	-	4,931	(123,263)	-
Total bonds payable, net	35,946,045	-	(626,194)	35,319,851	670,000
Leaf - LED lighting	67,897	-	(24,836)	43,061	26,638
Sharp - computers	78,852	-	(44,171)	34,681	34,681
Vantage - computers	243,812	-	(136,579)	107,233	107,233
Total	$ 36,336,606	$ -	$ (831,780)	$ 35,504,826	$ 838,552

The bond was issued as an education revenue bond, and has an interest rate ranging from 5.25% to 6%, maturing in varying amounts through August 2047, and are collateralized by a deed of trust. Interest paid during the year ended August 31, 2022 was $2,145,525. During the year ended August 31, 2022, the Academy was in compliance with the financial covenants and all other applicable covenants contained in the Supplemental Master Trust Indentures and loan agreement.

The required debt service payments to satisfy the requirement of the 2018A bond is as follows for the years ending August 31:

	Principal	Interest	Total
2023	$ 670,000	$ 2,111,925	$ 2,781,925
2024	705,000	2,076,750	2,781,750
2025	745,000	2,039,738	2,784,738
2026	785,000	2,000,625	2,785,625
2027	825,000	1,959,413	2,784,413
2028-2032	4,895,000	9,027,000	13,922,000
2033-2037	6,545,000	7,372,500	13,917,500
2038-2042	8,765,000	5,157,900	13,922,900
2043-2047	11,730,000	2,193,300	13,923,300
Total	$35,665,000	$33,939,151	$69,604,151

6. Net Assets With Donor Restrictions

Net assets with donor restrictions are available to pay expenses as allowed by Section 45.105(c) of the Texas Education Code.

7. Multi-employer Defined Benefit Pension Plan

Plan Description

The Academy contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805, respectively. The State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

Funding Policy

Plan members contributed 8% of their annual covered salary in 2022. The Academy contributes 7.75% for new members of the first 90 days of employment, and the State contributes 7.75%. Additionally, the Academy makes a 1.7% non-OASDI payment for all TRS eligible employees. The Academy contributions do not represent more than 5% of the TRS' total contributions. For the year ended August 31, 2022, the Academy contributed $821,749 to TRS.

The risks of participating in a multi-employer, defined benefit plan are different from single-employer plans because (a) amounts contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers and (b) if an employer stops contributing to TRS, unfunded obligations of TRS may be required to be borne by the remaining employers. There is no withdrawal penalty for leaving TRS.

Total TRS plan assets as of the most recent fiscal year ended for TRS of August 31, 2021 were $223 billion. Accumulated benefit obligation as of August 31, 2021 was $227 billion. The plan was 88.79% funded as of August 31, 2021.

8. Health Care Coverage

During the year ended August 31, 2022, eligible employees of the Academy were covered by BlueCross BlueShield of Texas Health Insurance Plan. The Academy contributed $429 per month per employee for the period from September 1, 2021 to August 31, 2022. Participants, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

9. Liquidity and Availability of Resources

Financial assets available for general expenditure within one year from August 31, 2022 are as follows:

Cash and restricted cash	$ 5,682,147
Due from government agencies	3,567,781
Total financial assets	9,249,928
Less financial assets not available for general expenditure:	
Cash contractually restricted for debt service	(2,800,826)
Total financial assets available for general expenditure	$ 6,449,102

The Academy relies on state aid and federal grants to meet general expenditures related to operations. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Academy considers all expenditures related to its ongoing activities of education, as well as the conduct of services undertaken to support those activities, to be general expenditures.

As part of the Academy's liquidity management, it structures its financial assets to be available as its general expenditures and liabilities become due or as additional funding opportunities are presented by maintaining a significant portion of its assets in cash.

10. Leases

Operating Leases

The Academy leases a copier through a non-cancelable operating lease agreement expiring in January 2023. The Academy also leased office space through a non-cancellable operating lease agreement which expired in August 2022. The Academy entered into a new office space lease beginning in June 2022 and expiring in May 2027. All other leases are paid on a month-to-month basis.

The following is a schedule of future minimum lease payments for the copier and office space for the years ending August 31:

2023	$	84,680
2024		78,000
2025		78,000
2026		78,000
2027		32,500

Lease expense related to these lease agreements totaled $61,940 during the year ended August 31, 2022.

Capital Leases

The Academy leases various equipment totaling $1,021,946 under capital lease obligations at August 31, 2022. Accumulated depreciation on these assets totaled $930,751 at August 31, 2022.

The present value of future minimum lease payments are as follows for the years ending August 31:

2023	$	173,847
2024		16,808
		190,655
Less amounts representing interest		5,680
Present value of future minimum lease payments		184,975
Less current maturities		168,552
Capital lease obligations, net of current maturities	$	16,423

11. Contingencies

The Academy receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to TEA and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the Academy have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

12. Functional Allocation of Expenses

Expenses are reported by their functional classification as program services or support services. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the Academy exists. Fundraising activities include the solicitation of contributions of money, securities, material, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities.

Expenses that are attributable to one or more program or supporting activities are allocated among the activities benefited. Salaries and related costs are charged directly either to program services or support services based on actual time worked in each area. Information technology costs, depreciation, interest expense, and occupancy costs are allocated based on whether the costs are associated with instructional (program services) or administrative (support services) purposes.

The following is a schedule of functional expenses for the year ended August 31, 2022:

	Payroll Costs	Professional & Contracted Services	Supplies & Materials	Other Operating Costs	Debt	Total
Program Services:						
Instructional and instructional related services	$ 9,160,355	$ 672,661	$ 222,146	$ 939,739	$ 1,408,171	$ 12,403,072
Instructional and school leadership	1,348,068	-	-	6,537	5,017	1,359,622
Support services - Direct student based	629,373	545,935	21,193	78,743	148,798	1,424,042
Support services - Nondirect student based	767,224	1,071,189	499,773	402,358	166,683	2,907,227
Ancillary services	210,804	7,003	4,734	57,252	32,647	312,440
Total program services	12,115,824	2,296,788	747,846	1,484,629	1,761,316	18,406,403
Support Services:						
Instructional and school leadership	-	-	-	78,869	162,243	241,112
Administrative support services	526,212	310,705	13,601	217,517	124,620	1,192,655
Support services - Nondirect student based	-	-	-	78,893	162,293	241,186
Fundraising	2,735	-	-	-	-	2,735
Total support services	528,947	310,705	13,601	375,279	449,156	1,677,688
Total expenses	$ 12,644,771	$ 2,607,493	$ 761,447	$ 1,859,908	$ 2,210,472	$ 20,084,091

13. Subsequent Events

The Academy evaluated subsequent events through the date the financial statements were available to be issued and concluded that no additional disclosures are required.

Supplemental Information Required by Texas Education Agency

Legacy21, Inc., dba Legacy Preparatory
Schedule of Assets
August 31, 2022

		Ownership Interest		
	Description	Local	State	Federal
1110	Cash	$ -	$ 5,682,147	$ -
1510	Land	-	2,959,123	-
1520	Buildings and improvements	-	31,894,057	-
1539	Furniture and equipment	-	104,346	-
1549	Furniture and equipment	8,583	556,526	158,039
1559	Furniture and equipment	-	1,021,946	-
		$ 8,583	$ 42,218,145	$ 158,039

Legacy21, Inc., dba Legacy Preparatory
Schedule of Expenses
Year Ended August 31, 2022

Object Code	Description	Amount
6100	Payroll costs	$ 12,644,771
6200	Professional and contracted services	2,607,493
6300	Supplies and materials	761,447
6400	Other operating expenses	1,859,908
6500	Debt service	2,210,472
		$ 20,084,091

Legacy21, Inc., dba Legacy Preparatory
Budgetary Comparison Schedule
Year Ended August 31, 2022

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance from Final Budget
Revenue and other support:				
Local support:				
5740 Other revenue from local sources	$ 769,946	$ 360,743	$ 360,743	$ -
Total local support	769,946	360,743	360,743	-
State program revenue:				
5810 Foundation school program	17,747,240	15,903,255	15,903,255	-
5820 State program revenues distributed by TEA		88,612	88,612	
5830 State program revenues from state government agencies	-	14,046	14,046	-
Total state program revenue	17,747,240	16,005,913	16,005,913	-
Federal program revenue:				
5910 Federal revenue distributed by other Texas agencies	-	2,775,171	2,775,171	-
5920 Federal revenue distributed by TEA	150,859	1,526,037	1,526,037	-
Total federal program revenue	150,859	4,301,208	4,301,208	-
Total revenue and other support	18,668,045	20,667,864	20,667,864	-
Expenses:				
11 Instruction	8,097,282	10,129,465	10,129,465	-
13 Curriculum development and instructional staff development	346,728	1,254,474	1,254,474	-
21 Instructional leadership	94,206	40,559	40,559	
23 School leadership	1,132,499	1,311,607	1,311,607	-
31 Guidance, counseling and evaluation services	360,880	347,305	347,305	-
33 Health services	217,507	193,799	193,799	-
34 Student transportation	3,000	896	896	-
35 Food services	75,000	643,612	643,612	-
36 Extracurricular activities	1,351	17,299	17,299	-
41 General administration	1,162,131	1,007,455	1,007,455	-
51 Facilities maintenance and operations	1,433,577	1,289,802	1,289,802	-
52 Security	116,364	57,702	57,702	-
53 Data processing services	1,385,389	1,312,013	1,312,013	-
61 Community services	96,006	263,923	263,923	-
71 Debt service	2,788,288	2,211,445	2,211,445	-
81 Fundraising	5,653	2,735	2,735	-
Total expenses	17,315,861	20,084,091	20,084,091	-
Change in net assets	1,352,184	583,773	583,773	-
Net assets at beginning of year	3,626,849	3,845,491	3,845,491	-
Net assets at end of year	$ 4,979,033	$ 4,429,264	$ 4,429,264	$ -

Legacy21, Inc., dba Legacy Preparatory
Education Programs Schedule
Year Ended August 31, 2022

Data Codes	Section A: Compensatory Education Programs		Responses
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year?		Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?		Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.		$1,852,611
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year. (PIC's 24, 26, 28, 29, 30, 34)		$1,033,942
	Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?		Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?		Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year		$368,275
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PIC's 25, 35)		$216,877

Legacy21, Inc., dba Legacy Preparatory
Schedule of Real Property Ownership Interest
Year Ended August 31, 2022

		Total	Ownership Interest		
Description	Property Address	Assessed Value	Local	State	Federal
Legacy 21, Inc DB Legacy Prep Charter Academy COLLIN CREEK VILLAGE - TRACT	601 Accent Dr, Plano, TX 75075	$ 9,100,000		$ 9,100,000	
Skyline Village Sec 3	2727 Military Parkway, Mesquite, TX 75149	$23,660,000		$23,660,000	

Legacy21, Inc., dba Legacy Preparatory
Schedule of Related Party Transactions
Year Ended August 31, 2022

Related Party Name	Name of Relation to the Related Party	Relationship	Type of Transaction	Description of Terms and Conditions	Source of Funds Used	Payment Frequency	Total Paid During Fiscal Year	Principal Balance Due
None								

Legacy21, Inc., dba Legacy Preparatory
Schedule of Related Party Compensation and Benefits
Year Ended August 31, 2022

Related Party Name	Name of Relation to the Related Party	Relationship	Compensation or Benefit	Payment Frequency	Description	Source of Funds Used	Total Paid During Fiscal Year
None							

Compliance Reports

SFC
Certified Public Accountants

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

To the Board of Directors of
Legacy21, Inc., dba Legacy Preparatory

We have audited, 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, the financial statements of Legacy21, Inc., dba Legacy Preparatory (Academy), which comprise the statement of financial position as of August 31, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 26, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy'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 Academy'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.

Sutton Frost Cary LLP
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Phone 817.649.8083

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy'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 Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
January 26, 2023

Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors of
Legacy21, Inc., dba Legacy Preparatory

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Legacy21, Inc., dba Legacy Preparatory's (Academy) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended August 31, 2022. The Academy's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Academy complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effects on each of its major federal programs for the year ended August 31, 2022

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Academy and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Academy's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Academy's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Academy's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Academy's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Academy's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Academy's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
January 26, 2023

Legacy21, Inc., dba Legacy Preparatory
Schedule of Findings and Questioned Costs
Year Ended August 31, 2022

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs or cluster:

Title I Grants to Local Educational Agencies	ALN 84.010
Education Stabilization Fund Under the Coronavirus Aid, Relief, And Economic Security Act	ALN 84.425, 84.425D, 84.425U

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None.

Section III – Federal Award Findings and Questioned Costs

None.

Section IV – Summary of Prior Year Audit Findings

None.

Legacy21, Inc., dba Legacy Preparatory
Schedule of Expenditures of Federal Awards
Year Ended August 31, 2022

Federal Grantor/ Pass through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-through entity identifying number	Federal Expenditures
U.S. Department of Education:			
Passed through Texas Education Agency:			
Special Education - Preschool Grants (IDEA Preschool)	84.173	H173A200004	884
COVID-19 Special Education Grants to States (IDEA, Part B)	84.027X	H027X210008	6,034
Special Education Grants to States (IDEA, Part B)	84.027A	H027A200008	234,643
Total Special Education Cluster			241,561
Passed through Texas Education Agency/Region 10 Service Center:			
Title I Grants to Local Educational Agencies	84.010	-	567,347
Supporting Effective Instruction State Grants	84.367	-	48,999
English Language Acquisition State Grants	84.365	-	47,783
Student Support and Academic Enrichment Program	84.424	-	28,169
COVID-19 Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	84.425D	-	343,898
COVID-19 Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	84.425U	S425U210042	228,120
COVID-19 Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	84.425	-	88,299
COVID-19 Education Stabilization Fund Under the Coronavirus Aid, Relief, and Economic Security Act	84.425U	-	1,994,574
Total ALN 84.425			2,654,891
Total U.S. Department of Education			3,588,750
U.S. Department of Agriculture:			
Passed through Texas Education Agency:			
School Breakfast Program	10.553	71402101/71402201	112,090
National School Lunch Program	10.555	71302101/71302201	600,369
Total Child Nutrition Cluster and U.S. Department of Agriculture			712,459
Total Expenditures of Federal Awards			$ 4,301,209

See notes to schedule of expenditures

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Legacy21, Inc. dba Legacy Preparatory (Academy). The information in this schedule is presented in accordance with the requirements of Title U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Academy, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Academy.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Academy has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.