Legacy21, Inc., dba Legacy Prep

Financial Statements with Supplemental Information and Compliance Reports
August 31, 2019

Sutton Frost Cary LLP
Certified Public Accountants

Legacy21, Inc., dba Legacy Prep
Certificate of Board

Legacy21, Inc.		27-4013601
Name of Charter Holder		Federal Employer ID Number
Legacy Preparatory	DALLAS	057-846
Name of Charter School	County	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, 2019, at a meeting of the governing body of the charter school on the 17th day of January 2020.

Marc P. Desgraves IV
Signature of Board Secretary

Byron Ritks
Signature of Board President

Legacy21, Inc., dba Legacy Prep
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Independent Auditors' Report

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

Report on Financial Statements

We have audited the accompanying financial statements of Legacy21, Inc., dba Legacy Prep (a nonprofit organization), which comprise the statement of financial position as of August 31, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legacy21, Inc., dba Legacy Prep as of August 31, 2019 and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Supplemental 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 is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the financial statements. The supplemental 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 U.S. generally accepted auditing standards. In our opinion, the 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 17, 2020 on our consideration of Legacy21, Inc., dba Legacy Prep internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Legacy21, Inc., dba Legacy Prep's internal control over financial reporting and compliance.

Correction of Errors

As discussed in Note 2 to the financial statements, certain errors resulting in an understatement of net assets without donor restrictions and net assets with donor restrictions as of September 1, 2018 were discovered by management of Legacy21, Inc., dba Legacy Prep during the current year. Accordingly, amounts reported for net assets without and with donor restrictions as of September 1, 2018 have been restated in the August 31, 2019 financial statements to correct the errors. Our opinion is not modified with respect to that matter.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
January 17, 2020

Legacy21, Inc., dba Legacy Prep
Statement of Financial Position
August 31, 2019

Assets

Current assets:		
Cash and cash equivalents	$	2,162,543
Due from government agencies		1,740,323
Prepaid expenses		7,569
Total current assets		3,910,435
Noncurrent assets:		
Restricted cash equivalents		2,294,619
Property and equipment, net		34,701,390
Total noncurrent assets		36,996,009
Total assets	$	40,906,444

Liabilities and Net Assets

Current liabilities:		
Accounts payable	$	73,440
Accrued interest		91,721
Bonds payable, current portion		575,000
Capital lease obligation, current portion		195,042
Total current liabilities		935,203
Noncurrent liabilities:		
Bonds payable, net		36,321,318
Capital lease obligation, net		590,725
Total noncurrent liabilities		36,912,043
Total liabilities		37,847,246
Net assets:		
Without donor restrictions		848,410
With donor restrictions		2,210,788
Total net assets		3,059,198
Total liabilities and net assets	$	40,906,444

See notes to financial statements.

Legacy21, Inc., dba Legacy Prep
Statement of Activities
August 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Local support:			
5740 Other revenue from local sources	$ 365,534	$ -	$ 365,534
5750 Food service activity	52,931	-	52,931
Total local support	418,465	-	418,465
State program revenue:			
5810 Foundation school program act revenues	-	13,327,479	13,327,479
5820 State program revenues distributed by TEA	-	67,856	67,856
Total state program revenue	-	13,395,335	13,395,335
Federal program revenue:			
5920 Federal revenue distributed by TEA	-	1,119,781	1,119,781
Total federal program revenue	-	1,119,781	1,119,781
Net assets released from restrictions-			
Satisfaction of program restrictions	15,363,008	(15,363,008)	-
Total revenue and other support	15,781,473	(847,892)	14,933,581
Expenses:			
11 Instruction	7,955,011	-	7,955,011
13 Curriculum development and instructional staff development	426,949	-	426,949
21 Instructional leadership	11,756	-	11,756
23 School leadership	840,226	-	840,226
31 Guidance, counseling and evaluation services	350,969	-	350,969
33 Health services	172,974	-	172,974
34 Student transportation	2,817	-	2,817
35 Food services	643,689	-	643,689
36 Extracurricular activities	93,294	-	93,294
41 General administration	778,800	-	778,800
51 Facilities maintenance and operations	905,693	-	905,693
52 Security	58,711	-	58,711
53 Data processing services	924,728	-	924,728
61 Community services	101,625	-	101,625
71 Debt service	2,090,457	-	2,090,457
81 Fundraising	5,309	-	5,309
Total expenses	15,363,008	-	15,363,008
Increase (decrease) in net assets	418,465	(847,892)	(429,427)
Net assets at beginning of year, as restated	429,945	3,058,680	3,488,625
Net assets at end of year	$ 848,410	$ 2,210,788	$ 3,059,198

See notes to financial statements.

Legacy21, Inc., dba Legacy Prep
Statement of Cash Flows
Year Ended August 31, 2019

Cash flows from operating activities:		
Decrease in net assets	$	(429,427)
Adjustments to reconcile decrease in net assets		
to net cash used by operating activities		
Depreciation		1,069,133
Amortization		215,920
Changes in operating assets and liabilities:		
Due from government agencies		(428,562)
Prepaid expenses		(6,914)
Accounts payable		(1,231,843)
Accrued interest		91,721
Accrued expenses		(42,974)
Net cash used by operating activities		(762,946)
Cash flows from investing activities:		
Construction and purchases of property and equipment		(6,288,823)
Net cash used by investing activities		(6,288,823)
Cash flows from financing activities:		
Principal payments on bonds payable		(530,000)
Principal payments on capital lease obligations		(365,146)
Net cash used by financing activities		(895,146)
Net decrease in cash and cash equivalents		(7,946,915)
Cash and cash equivalents at beginning of year, as restated		12,404,077
Cash and cash equivalents at end of year	$	4,457,162
Reconciliation of cash and cash equivalents reported within the statement of financial position to the statement of cash flows:		
Cash and cash equivalent	$	2,162,543
Restricted cash equivalents		2,294,619
Total cash and cash equivalents shown in the statement of cash flows	$	4,457,162
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest including capitalized interest totaling $394,480	$	1,817,527
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired through capital lease	$	118,407

See notes to financial statements.

1. Organization and Nature of Activities

Legacy21, Inc., dba Legacy Prep (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 was organized to provide educational services to at-risk students and their programs, services, activities and functions are governed by the Academy's board of directors. The Academy does not conduct any other charter or non-charter activities.

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. Prior Year Restatement

The Academy's net assets as of September 1, 2018 were restated to correct for certain accounting errors uncovered by management and to present its financial statements in accordance with U.S. generally accepted accounting principles (GAAP) as applicable to nonprofit organizations. The net effect of the restatement was an increase in net assets totaling $1,465,512, made up of the following adjustments:

- Entries to record the FSP and other TEA receivables increasing net assets by $1,268,952.
- Entry to true-up cash per reconciliation increasing net assets by $156,608.
- Entry to record capital leases decreasing net assets by $1,535.
- Entry to correct food service cash balance decreasing net assets by $3,744.
- Entry to remove amortization of capitalized interest increasing net assets by $45,231.

3. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Academy prepares its financial statements on the accrual basis of accounting in accordance with 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 restrictions 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, restricted cash equivalents and due from government agencies. Cash and restricted cash equivalents are 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, 2019, the Academy's uninsured bank balances totaled $1,430,345. The uninsured balance was fully collateralized by securities held by the bank in the Academy's name. The Academy has not experienced any losses on such accounts. 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, 2019, 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 Equivalents

Restricted cash equivalents are limited as to use under the terms of the bond indenture. The current and long-term portion of restricted cash equivalents represents amounts restricted for construction activity and 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 provided on the straight-line method based upon the estimated useful lives of 3 to 40 years which represents the estimated useful lives of the assets. 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 long-lived assets to determine if facts and circumstances suggest that they may be impaired or that the depreciation or amortization period may need to be changed. The Academy did not recognize an impairment loss during the year ended August 31, 2019.

Revenues and Contributions

Revenues from the State's FSP are earned based on reported attendance. Government grant contracts that are entered into by the Academy are recognized as revenue when services are rendered or when expenses in connection with those services are incurred.

All contributions are considered available for unrestricted use unless specifically restricted by the donor or grantor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as an increase in net assets with donor restrictions.

Contributed Goods and Services

Contributed goods and services are recognized in the accompanying financial statements at fair value if the goods and 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 services were utilized that met the criteria to be recorded as revenue in the Academy's financial statements. The Academy received $29,315 of donated food for the year ended August 31, 2019.

Bond 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, 2019. 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, 2019, 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 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The entity should recognize revenue when (or as) the entity satisfies a performance obligation. Not-for-profit entities must consider whether certain arrangements are fully or partially subject to Topic 606. Examples include, but are not limited to memberships, sponsorships, grants and contracts. Further, judgment is required to bifurcate transactions between contribution and exchange components. The effective date of ASU 2014-09 is for annual periods beginning after December 15, 2018 for the majority of not-for-profit organizations.

In 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made* to address difficulty and diversity in practice among not-for-profit entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) subject to Topic 958, *Not-for-Profit Entities* or as exchanges (reciprocal transactions) subject to Topic 606 and (2) determining between conditional and unconditional contributions. This ASU applies to all entities that receive or make contributions. The term used in the presentation of financial statements to label revenue (for example, contribution, grant, donation) that is accounted for within Topic 958 is not a factor for determining whether an agreement is within the scope of that guidance. The standard is effective for annual periods beginning after December 15, 2018 for the majority of not-for-profit entities. The changes in this standard should generally be applied on a retrospective basis in the year that it is first applied.

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. For not-for-profit organizations, the standard takes effect for fiscal years beginning after December 15, 2020.

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

Accounting Pronouncements Adopted

The Academy adopted FASB ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities* as of and for the year ended August 31, 2019. As result, the major changes applicable for the Academy include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (c) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (d) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources and (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The adoption of this ASU had no effect on net assets or the change in net assets presented for the year ended August 31, 2019.

The Academy adopted FASB ASU 2016-18, *Statement of Cash Flows: Restricted Cash* as of and for the year ended August 31, 2019. This ASU requires that the statement of cash flows explains the change during the year in total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents are included with the cash and cash equivalents to reconcile the beginning of year and end of year total amounts shown on the statement of cash flows.

4. Restricted Cash Equivalents

As a result of issuing the series 2018A and 2018B bonds, the Academy is required to maintain separate bank accounts held by the bond trustee that are restricted for construction and debt-related matters. The balance of restricted cash equivalents at August 31, 2019 totaled $2,869,619. Cash and cash equivalents on the statement of financial position includes the current portion of restricted cash equivalents totaling $575,000.

5. Property and Equipment

Property and equipment consist of the following as of August 31, 2019:

Land	$ 2,959,123
Buildings and improvements	31,742,261
Furniture and equipment	825,494
Capital leases	1,021,946
Total property and equipment	36,548,824
Less accumulated depreciation	(1,847,434)
Property and equipment, net	$ 34,701,390

For the year ended August 31, 2019, the Academy capitalized interest totaling $394,480, net of interest income totaling $121,989. Depreciation expense for the year ended August 31, 2019 totaled $1,069,133.

6. Long-Term Debt

In February 2018, the Academy issued $36,920,000 of Education Revenue Bonds Series 2018A and $1,095,000 of Education Revenue Bonds Series 2018B. After paying fees and issuance costs, the remaining balances were used to pay off outstanding debt and purchase, contract, renovate and improve educational facilities located in Plano and Mesquite, Texas. The bonds mature 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, 2019:

	Beginning Balances	Additions	Reductions	Ending Balances	Amounts Due Within One Year
Bonds payable:					
Series 2018A	$ 36,920,000	$ -	$ -	$ 36,920,000	$ 10,000
Series 2018B	1,095,000	-	(530,000)	565,000	565,000
Total bonds payable	38,015,000	-	(530,000)	37,485,000	575,000
Bond premiums	313,398	-	(10,807)	302,591	-
Bond discount	(582,459)	-	25,519	(556,940)	-
Bond issuance costs	(535,541)	-	201,208	(334,333)	-
Total bonds payable, net	$ 37,210,398	$ -	$ (314,080)	$ 36,896,318	$ 575,000

The bonds were issued as education revenue bonds, and have interest rates 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, 2019 was $2,240,775, of which $394,480 was capitalized. During the year ended August 31, 2019, 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 requirements of the 2018A and 2018B bonds are as follows for the years ending August 31:

	Principal	Interest	Total
2020	$ 575,000	$ 2,210,300	$ 2,785,300
2021	605,000	2,177,288	2,782,288
2022	640,000	2,145,525	2,785,525
2023	670,000	2,111,925	2,781,925
2024	705,000	2,076,750	2,781,750
2025-2029	4,145,000	9,779,776	13,924,776
2030-2034	5,495,000	8,422,200	13,917,200
2035-2039	7,360,000	6,463,400	13,823,400
2040-2044	9,845,000	4,074,600	13,919,600
2045-2047	7,445,000	910,499	8,355,499
Total	$37,485,000	$40,372,263	$77,857,263

7. 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.

8. Multi-employer Defined Benefit Pension Plan

The Academy participates in a cost-sharing multi-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan (Plan) is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The Plan's Board of Trustees does not have the authority to establish or amend benefit terms. All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the Plan.

TRS provides service retirement and disability retirement benefits, and death benefits to eligible employees (and their beneficiaries) of public and higher education in Texas. Charter schools are legally separate entities from the State and each other. Assets contributed by one charter school or Independent School District (ISD) may be used for the benefit of an employee of another ISD or charter school. The unfunded obligations get passed along to the other charter schools and ISDs. There is not a withdrawal penalty for leaving the TRS system.

Information with respect to the Plan and the Academy's participation in the Plan for the year ended August 31, 2018 is as follows:

Legal Name of Plan:	Teacher Retirement System of Texas
EIN/Pension Plan Number:	N/A
Total Plan Assets:	$177,944,103,876
Accumulated Benefit Obligations:	$209,611,328,793
Plan funded percentage:	73.74% funded
Is plan covered by collective bargaining agreements?	No
Employer contributions to the plan:	$549,482
Contributions greater than 5% of total plan contributions?	No
Contribution rates:	
Member	7.7%
Non-Employer Contributing Entity (State)	6.8%
Employers	6.8%

There have been no changes that would affect the comparison of employer contributions from year to year.

9. Health Care Coverage

During the year ended August 31, 2019, eligible employees of the Academy were covered by BlueCross BlueShield of Texas Health Insurance Plan. The Academy contributed $399 per month per employee if the employee completed a Health Risk Assessment and $332 per employee if the employee did not complete the Health Risk Assessment for the period from September 1, 2018 to August 31, 2019. Participants, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

10. Liquidity and Availability of Resources

Financial assets available for general expenditure within one year from August 31, 2019 are as follows:

Cash and restricted cash equivalents	$ 4,457,162
Due from government agencies	1,740,323
Total financial assets	6,197,485
Less financial assets not available for general expenditure:	
Cash contractually restricted for debt service	(2,294,619)
Total financial assets available for general expenditure	$ 3,902,866

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.

11. Leases

Operating Leases

The Academy leases a copier through a non-cancellable operating lease agreement expiring in January 2023. All other leases including the administrative office are paid on a month-to-month basis.

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

2020	$	20,040
2021		20,040
2022		20,040
2023		20,040
2024		5,010

Lease expense during the year ended August 31, 2019 totaled $540,768.

Capital Leases

The Academy leases various equipment totaling $1,021,946 under capital lease obligations at August 31, 2019. Accumulated depreciation on these assets totaled $364,986 at August 31, 2019.

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

2020	$	233,268
2021		227,730
2022		222,192
2023		173,847
2024		16,807
		873,844
Less amounts representing interest		88,077
Present value of future minimum lease payments		785,767
Less current maturities		195,042
Capital lease obligations, net of current maturities	$	590,725

12. 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.

13. 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, 2019:

	Payroll Costs	Professional & Contracted Services	Supplies & Materials	Other Operating Costs	Debt	Total
Program Services:						
Instructional and instructional related services	$ 6,851,937	$ 178,707	$ 159,499	$ 763,417	$ 1,252,811	$ 9,206,371
Instructional and school leadership	-	-	-	12,825	2,091	14,916
Support services - student	387,061	753,638	108,147	125,659	216,571	1,591,076
Support services - nonstudent based	307,978	512,089	44,995	184,124	165,773	1,214,959
Ancillary services	38,163	1,125	1,265	69,946	17,351	127,850
Total program services	7,585,139	1,445,559	313,906	1,155,971	1,654,597	12,155,172
Support Services:						
Instructional and school leadership	744,425	91,475	-	77,989	144,032	1,057,921
Administrative support services	531,588	153,521	4,493	157,409	133,371	980,382
Support services - nonstudent based	405,435	401,284	115,858	83,190	158,457	1,164,224
Fundraising	3,103	-	2,206	-	-	5,309
Total support services	1,684,551	646,280	122,557	318,588	435,860	3,207,836
Total expenses	$ 9,269,690	$ 2,091,839	$ 436,463	$ 1,474,559	$ 2,090,457	$ 15,363,008

14. 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

Legacy21, Inc., dba Legacy Prep
Schedule of Capital Assets
August 31, 2019

		Ownership Interest		
	Description	Local	State	Federal
1510	Land	$ -	$ 2,959,123	$ -
1520	Buildings and improvements	-	31,742,261	-
1539	Furniture and equipment	-	102,346	-
1549	Furniture and equipment	8,583	556,526	158,039
1559	Furniture and equipment	-	1,021,946	-
		$ 8,583	$ 36,382,202	$ 158,039

Legacy21, Inc., dba Legacy Prep
Budgetary Comparison Schedule
Year Ended August 31, 2019

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance from Final Budget
Revenue and other support:				
Local support:				
5740 Other revenue from local sources	$ 105,921	$ 365,534	$ 365,534	$ -
5750 Food service activity	-	52,931	52,931	-
Total local support	105,921	418,465	418,465	-
State program revenue:				
5810 Foundation school program act revenues	14,154,302	13,327,479	13,327,479	-
5820 State program revenues distributed by TEA	-	67,856	67,856	-
Total state program revenue	14,154,302	13,395,335	13,395,335	-
Federal program revenue:				
5920 Federal revenue distributed by TEA	618,456	1,119,781	1,119,781	-
Total federal program revenue	618,456	1,119,781	1,119,781	-
Total revenue and other support	14,878,679	14,933,581	14,933,581	-
Expenses:				
11 Instruction	6,398,774	7,955,011	7,955,011	-
13 Curriculum development and instructional staff development	385,109	426,949	426,949	-
21 Instructional leadership	252	11,756	11,756	-
23 School leadership	526,621	840,226	840,226	-
31 Guidance, counseling and evaluation services	246,912	350,969	350,969	-
33 Health services	183,226	172,974	172,974	-
34 Student transportation	3,090	2,817	2,817	-
35 Food services	683,561	643,689	643,689	-
36 Extracurricular activities	10,307	93,294	93,294	-
41 General administration	1,144,469	778,800	778,800	-
51 Facilities maintenance and operations	919,183	905,693	905,693	-
52 Security	100,000	58,711	58,711	-
53 Data processing services	1,067,450	924,728	924,728	-
61 Community services	109,190	101,625	101,625	-
71 Debt service	2,817,994	2,090,457	2,090,457	-
81 Fundraising	3,357	5,309	5,309	-
Total expenses	14,599,495	15,363,008	15,363,008	-
Increase (decrease) in net assets	279,184	(429,427)	(429,427)	-
Net assets at beginning of year, as restated	3,488,625	3,488,625	3,488,625	-
Net assets at end of year	$ 3,767,809	$ 3,059,198	$ 3,059,198	$ -

Legacy21, Inc., dba Legacy Prep
Schedule of Expenses
Year Ended August 31, 2019

Object Code	Description	Amount
6100	Payroll costs	$ 9,380,330
6200	Professional and contracted services	1,981,199
6300	Supplies and materials	436,463
6400	Other operating expenses	1,474,559
6500	Debt service	2,090,457
		$ 15,363,008

Compliance Reports

Sutton Frost Cary LLP
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 Prep

We have audited, in accordance with U.S. generally accepted auditing standards 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 Prep (Academy), which comprise the statement of financial position as of August 31, 2019, 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 17, 2020.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs as Finding No. 2019-001, we identified certain deficiencies in internal control that collectively we consider to be a material weakness.

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 17, 2020

Sutton Frost Cary LLP
Certified Public Accountants

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 Prep

Report on Compliance for Each Major Federal Program

We have audited Legacy21, Inc., dba Legacy Prep's (Academy) (a nonprofit organization) 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, 2019. The Academy's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Academy's compliance.

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Phone 817.649.8083

Opinion on Major Federal Program

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 effect on its major federal programs for the year ended August 31, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

The Academy's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Academy's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response

Report on Internal Control over Compliance

Management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's 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 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identity certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-002, that we consider to be a significant deficiency.

The Academy's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Academy's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 17, 2020

Legacy21, Inc., dba Legacy Prep
Schedule of Findings and Questioned Costs
Year Ended August 31, 2019

<u>Section I – Summary of Auditors' Results</u>

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
• Material weaknesses identified?	_X_ yes	___ no
• Significant deficiencies identified?	___ yes	_X_ none reported
Noncompliance material to financial statements noted?	_X_ yes	___ no

Federal Awards

Internal control over major programs:		
• Material weaknesses identified?	___ yes	_X_ no
• Significant deficiencies identified?	_X_ yes	___ 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)?	_X_ yes	___ no

Identification of major federal program or cluster:

Title I, Part A – Improving Basic Programs	CFDA 84.010
Child Nutrition Cluster	CFDAs 10.553 and 10.555

Dollar threshold used to distinguish between type A and type B programs:	$750,000	
Auditee qualified as low-risk auditee?	___ yes	_X_ no

<u>Section II – Financial Statement Findings</u>

Material Weaknesses:

Finding No. 2019-001: Financial Reporting

Criteria: The Academy's internal control structure should ensure that financial information is complete, accurate and made in a timely and orderly manner.

Condition: Throughout the audit, we noted errors in the financial reporting process as discussed below that indicated internal control was not operating effectively. These comments on their own would not have been considered a material weakness; however, collectively they represent a material weakness over financial reporting. As a result of audit procedures, the following significant adjustments were required:

During the year, management noted that the FSP and NSLP receivables were not properly recorded in the prior period financial statements resulting in a restatement of net assets as of September 1, 2018. The restatement increased net assets with donor restrictions by $1,268,952.

During testing of cash balances, we noted bank reconciliations did not agree to the trial balance. The restatement increased net assets with donor restrictions by $156,608.

During testing of bonds payable, we noted capitalized interest in prior year had amortization expense recorded. The related asset was not placed into service until the year ended August 31, 2019 resulting in a restatement of net assets as of September 1, 2018. The restatement increased net assets without donor restrictions by $45,231.

During testing of leases, we noted several capital leases were not being recorded in accordance with GAAP.

During testing of accounts receivable, we noted receivables from TEA that were not properly recorded in accordance with GAAP. This resulted in an entry increasing net income by $45,035.

During testing of accounts payable, we noted payments made in September 2019 related to August 2019 expenses that were not properly accrued for in accordance with GAAP. This resulted in an entry decreasing net income by $73,440.

During testing of property and equipment, we noted the need for an entry to true-up depreciation expense. This resulted in a decrease to net income totaling $152,890.

Cause: The Academy needs to strengthen internal controls to ensure the accuracy of the financial statements in accordance with GAAP.

Effect: There is a risk that, without the assistance of the independent auditors in identifying potential misstatements, the Academy's financial statements could contain a material misstatement.

Recommendation: Additional internal controls should be established to ensure accurate presentation of the financial statements in accordance with GAAP. Specifically we recommend:

- Each month accounting staff should prepare balance sheet account reconciliations. Management should be responsible for reviewing and approving the balance sheet account reconciliations to ensure they are properly prepared and completed in a timely manner.

- All leases should be reviewed by management to determine whether the lease terms constitute a capital lease agreement. All capital leases should be recorded in the general ledger in accordance with GAAP.

Management's Response: The Academy concurs with Finding 2019-001. The Academy has implemented policies and procedures and improved the internal control structure to ensure that financial information is complete, accurate and made in a timely and orderly manner. The staff accountant will prepare and the Director of Finance will review and approve the balance sheet account reconciliation monthly to ensure the accuracy and timely recording. The Academy will review and record the leases in the general ledger in accordance with GAAP. The Academy will ensure the findings related to prior year audit will not occur in the future years.

Section III – Federal Award Findings and Questioned Costs

Finding No. 2019-002: Special Test, Assessment System Security – significant deficiency in internal control over compliance and compliance finding

CFDA 84.010 Title I, Part A – Improving Basic Programs

Criteria: Local education agencies, in conjunction with state education agencies, are required to establish and maintain an assessment system that is valid, reliable and consistent with relevant professional and technical standards.

Condition: During special testing for assessment system security, 5 out of 25 sampled Texas Education Agency material control forms were not retained.

Cause: The documents were shredded or misplaced by the previous administrative staff.

Effect: The Academy did not retain required documentation, in accordance with the Texas Education Agency's assessment system security procedures and the Academy's internal control over compliance procedures.

Recommendation: Management should ensure documentation of completed material control forms is retained.

Management's Response: The Academy concurs with Finding 2019-002. The Academy has implemented policies and procedures and improved documentation and material control protocol to maintain an assessment system security to ensure the TEA required material control forms are retained so that the Academy is in compliance with TEA requirements.

Section IV – Summary of Prior Year Audit Findings

Finding No. 2018-001: Financial Reporting

Summary: The Academy's books and records for the 2017-2018 school year were not reconciled and closed in a timely manner resulting several balances being identified with incorrect or improperly recorded as well as many proposed audit adjustments.

Status: We noted a similar finding during the audit. See current finding 2019-001.

Finding No. 2018-002: Bank Reconciliations

Summary: It was noted that multiple bank accounts were not reconciled to their respective general ledger accounts. It was also noted that the review and approval of bank reconciliations were not documented and reviewed.

Status: Management implemented processes and controls as indicated in the prior year corrective action plan. Finding resolved.

Legacy21, Inc., dba Legacy Prep
Schedule of Expenditures of Federal Awards
Year Ended August 31, 2019

Federal Grantor/ Pass through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through entity identifying number	Federal Expenditures
U.S. Department of Education:			
Passed through Texas Education Agency:			
Special Education-Grants to States (IDEA, Part B)	84.027	186600010578466000	$ 15,996
Special Education-Grants to States (IDEA, Part B)	84.027	196600010578466000	165,879
Total Special Education Cluster			181,875
Grants for State Assessments and Related Activities	84.369	69551802	2,503
Passed through TEA/Region 10 Service Center:			
Title I Grants to Local Educational Agencies	84.010	18610101057950	405,723
Improving Teacher Quality State Grants (Title II)	84.367	18694501057950	45,710
English Language Acquisition State Grants (Title III)	84.365	18671001057950	19,681
Title IV	84.424	18680101057950	26,565
Total U.S. Department of Education			682,057
U.S. Department of Agriculture:			
Passed through Texas Education Agency:			
National School Breakfast Program	10.553	71401801	4,929
National School Breakfast Program	10.553	71401901	41,651
National School Lunch Program	10.555	71301801	36,631
National School Lunch Program	10.555	71301901	325,198
USDA Commodities (noncash)	10.555	220-912	29,315
Total Child Nutrition Cluster and U.S. Department of Agriculture			437,724
Total Expenditures of Federal Awards			$ 1,119,781

See notes to schedule of expenditures of federal awards.

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Legacy21, Inc. dba Legacy Prep (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.

2. Non-Cash Federal Awards

The Academy received non-cash awards in the form of food commodities totaling $29,315 for the year ended August 31, 2019.