# Legacy21, Inc., dba Legacy Prep

**Financial Statements with Supplemental Information and Compliance Reports**
**August 31, 2020**

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) X___ approved ___ disapproved for the year ended August 31, 2020, at a meeting of the governing body of the charter school on the 12th day of January 2021.

| | |
|---|---|
| DocuSigned by: Vince Vittatoe | DocuSigned by: Byron Ricks |
| EF7F3737CC214EA... | C2558A32335A40E... |
| Signature of Board Secretary | Signature of Board President |

# Legacy21, Inc., dba Legacy Prep
## Contents

Sutton Frost Cary LLP
Certified Public Accountants

**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, 2020, 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, 2020 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 12, 2021 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.

Sutton Frost Cary

A Limited Liability Partnership

Arlington, Texas
January 12, 2021

# Legacy21, Inc., dba Legacy Prep
## Statement of Financial Position
## August 31, 2020

### Assets

| | | |
|---|---|---|
| **Current assets:** | | |
| Cash | $ | 4,292,298 |
| Due from government agencies | | 751,439 |
| Prepaid expenses | | 125,781 |
| **Total current assets** | | 5,169,518 |
| **Noncurrent assets:** | | |
| Restricted cash | | 2,272,123 |
| Property and equipment, net | | 33,239,374 |
| **Total noncurrent assets** | | 35,511,497 |
| **Total assets** | $ | 40,681,015 |

### Liabilities and Net Assets

| | | |
|---|---|---|
| **Current liabilities:** | | |
| Accounts payable | $ | 5,875 |
| Accrued expenses | | 99,850 |
| Paycheck Protection Program loan | | 877,000 |
| Bonds payable, current portion | | 605,000 |
| Capital lease obligation, current portion | | 200,165 |
| **Total current liabilities** | | 1,787,890 |
| **Noncurrent liabilities:** | | |
| Bonds payable, net | | 35,932,240 |
| Capital lease obligation, net | | 390,560 |
| **Total noncurrent liabilities** | | 36,322,800 |
| **Total liabilities** | | 38,110,690 |
| **Net assets:** | | |
| Without donor restrictions | | 1,105,424 |
| With donor restrictions | | 1,464,901 |
| **Total net assets** | | 2,570,325 |
| **Total liabilities and net assets** | $ | 40,681,015 |

# Legacy21, Inc., dba Legacy Prep
## Statement of Activities
## August 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Revenue and other support:** | | | |
| Local support: | | | |
| 5740 Other revenue from local sources | $ 257,014 | $ - | $ 257,014 |
| **Total local support** | 257,014 | - | 257,014 |
| State program revenue: | | | |
| 5810 Foundation school program | - | 15,038,972 | 15,038,972 |
| 5820 State program revenues distributed by TEA | - | 286,969 | 286,969 |
| **Total state program revenue** | - | 15,325,941 | 15,325,941 |
| Federal program revenue: | | | |
| 5920 Federal revenue distributed by TEA | - | 1,392,485 | 1,392,485 |
| 5930 Federal revenue distributed by other than TEA | - | 966,392 | 966,392 |
| **Total federal program revenue** | - | 2,358,877 | 2,358,877 |
| Net assets released from restrictions- Satisfaction of program restrictions | 18,430,705 | (18,430,705) | - |
| **Total revenue and other support** | 18,687,719 | (745,887) | 17,941,832 |
| **Expenses:** | | | |
| 11 Instruction | 9,707,985 | - | 9,707,985 |
| 13 Curriculum development and instructional staff development | 412,277 | - | 412,277 |
| 21 Instructional leadership | 25,658 | - | 25,658 |
| 23 School leadership | 1,072,878 | - | 1,072,878 |
| 31 Guidance, counseling and evaluation services | 328,188 | - | 328,188 |
| 33 Health services | 196,082 | - | 196,082 |
| 35 Food services | 645,521 | - | 645,521 |
| 36 Extracurricular activities | 40,268 | - | 40,268 |
| 41 General administration | 902,798 | - | 902,798 |
| 51 Facilities maintenance and operations | 1,085,920 | - | 1,085,920 |
| 52 Security | 83,236 | - | 83,236 |
| 53 Data processing services | 1,286,618 | - | 1,286,618 |
| 61 Community services | 165,653 | - | 165,653 |
| 71 Debt service | 2,474,522 | - | 2,474,522 |
| 81 Fundraising | 3,101 | - | 3,101 |
| **Total expenses** | 18,430,705 | - | 18,430,705 |
| **Increase (decrease) in net assets** | 257,014 | (745,887) | (488,873) |
| **Net assets at beginning of year** | 848,410 | 2,210,788 | 3,059,198 |
| **Net assets at end of year** | $ 1,105,424 | $ 1,464,901 | $ 2,570,325 |

See notes to financial statements.

# Legacy21, Inc., dba Legacy Prep
## Statement of Cash Flows
## Year Ended August 31, 2020

| | |
|---|---|
| **Cash flows from operating activities:** | |
| Decrease in net assets | $ (488,873) |
| Adjustments to reconcile decrease in net assets to net cash provided by operating activities | |
| Depreciation | 1,485,008 |
| Amortization | 215,922 |
| Changes in operating assets and liabilities: | |
| Due from government agencies | 988,884 |
| Prepaid expenses | (118,212) |
| Accounts payable | (67,565) |
| Accrued expenses | 8,129 |
| Net cash provided by operating activities | 2,023,293 |
| **Cash flows from investing activities:** | |
| Purchases of property and equipment | (22,992) |
| Net cash used by investing activities | (22,992) |
| **Cash flows from financing activities:** | |
| Proceeds from Paycheck Protection Program loan | 877,000 |
| Principal payments on bonds payable | (575,000) |
| Principal payments on capital lease obligations | (195,042) |
| Net cash provided by financing activities | 106,958 |
| **Net increase in cash** | 2,107,259 |
| **Cash at beginning of year** | 4,457,162 |
| **Cash at end of year** | $ 6,564,421 |
| **Reconciliation of cash reported within the statement of financial position to the statement of cash flows:** | |
| Cash | $ 4,292,298 |
| Restricted cash | 2,272,123 |
| **Total cash shown in the statement of cash flows** | $ 6,564,421 |
| **Supplemental disclosure of cash flow information:** | |
| Cash paid during the year for interest | $ 2,248,531 |

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. 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 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, 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, 2020, 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, 2020, 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 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 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, 2020.

***Revenues and Support***

The Academy considers all government grants and contracts to be contributions. The Academy recognizes revenue from government grants and contracts, as eligible expenditures are incurred. Revenues from the State are earned based on students' daily attendance. Advances from government agencies are recorded as deferred revenues if the monies are conditioned on an action or future event. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables. Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of any noncompliance with the terms of the grant or contract. Contributions of donated noncash assets are recorded at the estimated fair value in the period the unconditional commitment is received. The related expense is recognized as the item is used.

***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 $30,361 of donated goods for the year ended August 31, 2020.

***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, 2020. 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, 2020, 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.

### *Recent 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.

### *Adoption of Accounting Standards*

The Academy adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) September 1, 2019, using the full retrospective method. Based on the Academy's review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under this new standard. Adoption of this ASU had no impact on total beginning net assets but resulted in additional disclosures.

The Academy adopted the amendments of ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to Topic 606 and (2) determining whether a contribution is conditional. ASU 2018-08 was adopted using the full retrospective method and had no impact on total beginning net assets but resulted in additional disclosures.

## 3. Restricted Cash

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 at August 31, 2020 totaled $2,877,123. Cash on the statement of financial position includes the current portion of restricted cash totaling $605,000.

## 4. Property and Equipment

Property and equipment consist of the following as of August 31, 2020:

| | |
|---|---|
| Land | $ 2,959,123 |
| Buildings and improvements | 31,765,253 |
| Furniture and equipment | 825,494 |
| Capital leases | 1,021,946 |
| Total property and equipment | 36,571,816 |
| Less accumulated depreciation | (3,332,442) |
| Property and equipment, net | $ 33,239,374 |

Depreciation expense for the year ended August 31, 2020 totaled $1,485,008.

## 5. 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, 2020:

| | Beginning Balances | Additions | Reductions | Ending Balances | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable: | | | | | |
| Series 2018A | $ 36,920,000 | $ - | $ (10,000) | $ 36,910,000 | $ 605,000 |
| Series 2018B | 565,000 | - | (565,000) | - | - |
| Total bonds payable | 37,485,000 | - | (575,000) | 36,910,000 | 605,000 |
| Bond premiums | 302,591 | - | (10,806) | 291,785 | - |
| Bond discount | (556,940) | - | 25,520 | (531,420) | - |
| Bond issuance costs | (334,333) | - | 201,208 | (133,125) | - |
| Total bonds payable, net | $ 36,896,318 | $ - | $ (359,078) | $ 36,537,240 | $ 605,000 |

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, 2020 was $2,210,300. During the year ended August 31, 2020, 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 |
|---|---|---|---|
| 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 | 745,000 | 2,039,738 | 2,784,738 |
| 2026-2030 | 4,375,000 | 9,548,738 | 13,923,738 |
| 2031-2035 | 5,825,000 | 8,092,500 | 13,917,500 |
| 2036-2040 | 7,800,000 | 6,121,800 | 13,921,800 |
| 2041-2045 | 10,440,000 | 3,483,900 | 13,923,900 |
| 2046-2047 | 5,105,000 | 463,800 | 5,568,800 |
| Total | $36,910,000 | $38,261,964 | $75,171,964 |

## 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’s full-time employees participate in the Teacher Retirement System of Texas (TRS), a public employee retirement system. TRS is a cost-sharing, multi-employer, defined benefit pension plan. All risks and costs are not shared by the Academy, but are the liability of the State.

***Funding Policy***

Plan members contributed 7.7% of their annual covered salary in 2020. The Academy contributes 7.5% for new members of the first 90 days of employment, and the State contributes 7.5%. Additionally, the Academy makes a 1.5% 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, 2020, the Academy contributed $715,304 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, 2019 were $181.8 billion. Accumulated benefit obligation as of August 31, 2019 was $210 billion. The plan was 86.6% funded as of August 31, 2019.

## 9. Health Care Coverage

During the year ended August 31, 2020, eligible employees of the Academy were covered by BlueCross BlueShield of Texas Health Insurance Plan. The Academy contributed $417 per month per employee if the employee completed a Health Risk Assessment and $351 per employee if the employee did not complete the Health Risk Assessment for the period from September 1, 2019 to August 31, 2020. Participants, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

## 10. Paycheck Protection Program Loan

On April 27, 2020, the Academy entered into an unsecured loan (PPP Loan) in the aggregate amount of $1,727,000 with a bank pursuant to the Paycheck Protection Program (PPP), which is sponsored by the Small Business Administration (SBA), and is part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), as amended by the Paycheck Protection Program Flexibility Act of 2020 (Flexibility Act). The PPP provides for loans to qualifying businesses, the proceeds of which may only be used for payroll costs, rent, utilities, mortgage interest, and interest on other pre-existing indebtedness (Permissible Expenses). The PPP Loan matures on April 27, 2022, bears interest at a fixed rate of 1% percent per annum and is payable in monthly installments commencing on the earlier of the date on which the amount of loan forgiveness is determined or November 27, 2020. The PPP Loan may be prepaid at any time prior to maturity with no prepayment penalties. The PPP Loan, and accrued interest, may be forgiven partially or in full, if certain conditions are met. The most significant of the conditions are:

- Only amounts expended for Permissible Expenses during the eight-week or 24-week period, as elected by the Academy, following April 27, 2020 (Covered Period) are eligible for loan forgiveness. The Academy has elected a 24-week Covered Period;

- The Paycheck Protection Program Flexibility Act of 2020 (Flexibility Act) extended the deferral period for borrower payments on all PPP loans to the date that SBA remits the borrower's loan forgiveness amount to the lender (or, if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness covered period).

- Of the total amount of Permissible Expenses for which forgiveness can be granted, at least 60% must be for payroll costs, or a proportionate reduction of the maximum loan forgiveness amount will occur; and

- If employee headcount is reduced, or employee compensation is reduced by more than 25%, during the Covered Period, a further reduction of the maximum loan forgiveness amount will occur, subject to certain safe harbors added by the Flexibility Act.

In order to obtain forgiveness of the PPP Loan, in whole or in part, the Academy must request forgiveness and provide satisfactory documentation in accordance with applicable SBA guidelines. Any portion of the PPP Loan that is not forgiven, together with accrued interest, will be repaid based on the terms and conditions of the PPP Loan and in accordance with the PPP as amended by the Flexibility Act. The Academy has recorded $850,000 of the PPP Loan as revenue and remaining amount as debt at August 31, 2020 and intends to reflect the benefit of any loan forgiveness when the loan forgiveness application is submitted to, and approved by, the SBA and it has reasonable assurance from the SBA that it has met the eligibility and loan forgiveness requirements of the PPP. Management of the Academy believes the entire loan amount will be forgiven.

## 11. Liquidity and Availability of Resources

Financial assets available for general expenditure within one year from August 31, 2020 are as follows:

| | |
|---|---|
| Cash and restricted cash | $ 6,564,421 |
| Due from government agencies | 751,439 |
| Total financial assets | 7,315,860 |
| Less financial assets not available for general expenditure: | |
| Cash contractually restricted for debt service | (2,877,123) |
| Total financial assets available for general expenditure | $ 4,438,737 |

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.

## 12. Uncertainty

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. As a result of the global coronavirus pandemic of 2020, the financial picture for school districts has seen unanticipated change. To reduce the chance of spreading COVID-19, in March 2020, public schools were closed for in-person instruction through the remainder of the 2019-2020 school year. As a result, the Academy transitioned into a remote working and learning environment for the remainder of 2019-2020 school year. The Academy anticipates remaining, at least partially, in the remote working and learning environment for the 2020-2021 school year. The Academy provided updated digital devices to all students and teachers in summer 2020 and the Academy's instructional staff participated in remote teaching professional development to ensure student academic needs are met regardless of the Academy's remote or in-person operations. The extent to which COVID-19 may continue to impact the Academy's activities will depend upon future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions required to contain the virus.

As of August 31, 2020, the Academy incurred $579,717 expenses in payroll, virtual learning materials and supplies directly related to COVID-19.

## 13. Leases

### *Operating Leases*

The Academy leases a copier through a non-cancelable operating lease agreement expiring in January 2023. All other leases 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:

| | | |
|---|---|---|
| 2021 | $ | 20,040 |
| 2022 | | 20,040 |
| 2023 | | 6,680 |
| | $ | 46,760 |

Lease expense during the year ended August 31, 2020 totaled $764,175.

***Capital Leases***

The Academy leases various equipment totaling $1,021,946 under capital lease obligations at August 31, 2020. Accumulated depreciation on these assets totaled $665,887 at August 31, 2020.

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

| | | |
|---|---|---|
| 2021 | $ | 227,730 |
| 2022 | | 222,192 |
| 2023 | | 173,847 |
| 2024 | | 16,807 |
| | | 640,576 |
| Less amounts representing interest | | 49,851 |
| Present value of future minimum lease payments | | 590,725 |
| Less current maturities | | 200,165 |
| Capital lease obligations, net of current maturities | $ | 390,560 |

## 14. 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.

## 15. 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, 2020:

| | Payroll Costs | Professional & Contracted Services | Supplies & Materials | Other Operating Costs | Debt | Total |
|---|---|---|---|---|---|---|
| Program Services: | | | | | | |
| Instructional and instructional related services | $ 7,953,654 | $ 275,681 | $ 240,489 | $ 1,103,365 | $ 1,562,915 | $ 11,136,104 |
| Instructional and school leadership | - | - | - | 28,036 | 3,962 | 31,998 |
| Support services - Direct student based | 622,234 | 503,066 | 78,100 | 126,151 | 199,114 | 1,528,665 |
| Support services - Nondirect student based | 309,924 | 628,613 | 57,654 | 280,470 | 179,139 | 1,455,800 |
| Ancillary services | 123,931 | 1,565 | 861 | 54,648 | 25,582 | 206,587 |
| Total program services | 9,009,743 | 1,408,925 | 377,104 | 1,592,670 | 1,970,712 | 14,359,154 |
| Support Services: | | | | | | |
| Instructional and school leadership | 1,072,257 | - | 343 | 99,711 | 165,689 | 1,338,000 |
| Administrative support services | 501,653 | 242,622 | 7,275 | 234,918 | 139,423 | 1,125,891 |
| Support services - Nondirect student based | 333,949 | 639,286 | 120,332 | 312,294 | 198,698 | 1,604,559 |
| Fundraising | 3,101 | - | - | - | - | 3,101 |
| Total support services | 1,910,960 | 881,908 | 127,950 | 646,923 | 503,810 | 4,071,551 |
| Total expenses | $ 10,920,703 | $ 2,290,833 | $ 505,054 | $ 2,239,593 | $ 2,474,522 | $ 18,430,705 |

## 16. Subsequent Events

Subsequent to August 31, 2020, the Academy was awarded a $170,000 settlement agreement related to a construction contract to be paid over a 5 year period.

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, 2020

| | Description | Ownership Interest | | |
|---|---|---|---|---|
| | | Local | State | Federal |
| 1110 | Cash | $ - | $ 6,564,421 | $ - |
| 1510 | Land | - | 2,959,123 | - |
| 1520 | Buildings and improvements | - | 31,765,253 | - |
| 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 | $ 42,969,615 | $ 158,039 |

# Legacy21, Inc., dba Legacy Prep
## Schedule of Expenses
## Year Ended August 31, 2020

| Object Code | Description | Amount |
|---|---|---|
| 6100 | Payroll costs | $ 10,920,703 |
| 6200 | Professional and contracted services | 2,290,833 |
| 6300 | Supplies and materials | 505,054 |
| 6400 | Other operating expenses | 2,239,593 |
| 6500 | Debt service | 2,474,522 |
| | | $ 18,430,705 |

# Legacy21, Inc., dba Legacy Prep
## Budgetary Comparison Schedule
## Year Ended August 31, 2020

| | Budgeted Amounts | | | |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | Variance from Final Budget |
| **Revenue and other support:** | | | | |
| Local support: | | | | |
| 5740 Other revenue from local sources | $ 385,003 | $ 257,014 | $ 257,014 | $ - |
| **Total local support** | 385,003 | 257,014 | 257,014 | - |
| State program revenue: | | | | |
| 5810 Foundation school program act revenues | 16,393,009 | 15,038,972 | 15,038,972 | - |
| 5820 State program revenues distributed by TEA | - | 286,969 | 286,969 | - |
| **Total state program revenue** | 16,393,009 | 15,325,941 | 15,325,941 | - |
| Federal program revenue: | | | | |
| 5920 Federal revenue distributed by TEA | 448,577 | 1,392,485 | 1,392,485 | - |
| 5930 Federal revenue distributed by other than TEA | - | 966,392 | 966,392 | - |
| **Total federal program revenue** | 448,577 | 2,358,877 | 2,358,877 | - |
| **Total revenue and other support** | 17,226,589 | 17,941,832 | 17,941,832 | - |
| **Expenses:** | | | | |
| 11 Instruction | 8,305,396 | 9,707,985 | 9,707,985 | - |
| 13 Curriculum development and instructional staff development | 219,883 | 412,277 | 412,277 | - |
| 21 Instructional leadership | 11,756 | 25,658 | 25,658 | - |
| 23 School leadership | 674,937 | 1,072,878 | 1,072,878 | - |
| 31 Guidance, counseling and evaluation services | 269,028 | 328,188 | 328,188 | - |
| 33 Health services | 210,853 | 196,082 | 196,082 | - |
| 34 Student transportation | 1,452 | - | - | - |
| 35 Food services | 646,386 | 645,521 | 645,521 | - |
| 36 Extracurricular activities | 5,181 | 40,268 | 40,268 | - |
| 41 General administration | 1,422,623 | 902,798 | 902,798 | - |
| 51 Facilities maintenance and operations | 1,291,675 | 1,085,920 | 1,085,920 | - |
| 52 Security | 76,846 | 83,236 | 83,236 | - |
| 53 Data processing services | 1,123,969 | 1,286,618 | 1,286,618 | - |
| 61 Community services | 162,738 | 165,653 | 165,653 | - |
| 71 Debt service | 2,785,411 | 2,474,522 | 2,474,522 | - |
| 81 Fundraising | 5,618 | 3,101 | 3,101 | - |
| **Total expenses** | 17,213,752 | 18,430,705 | 18,430,705 | - |
| **Increase (decrease) in net assets** | 12,837 | (488,873) | (488,873) | - |
| **Net assets at beginning of year** | 3,767,809 | 3,059,198 | 3,059,198 | - |
| **Net assets at end of year** | $ 3,780,646 | $ 2,570,325 | $ 2,570,325 | $ - |

# 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, 2020, 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 12, 2021.

## *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.



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***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 12, 2021

**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, 2020. 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.

***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, 2020.



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***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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 12, 2021

# Legacy21, Inc., dba Legacy Prep
## Schedule of Findings and Questioned Costs
## Year Ended August 31, 2020

**Section I – Summary of Auditors' Results**

*Financial Statements*

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

*Federal Awards*

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

**Section II – Financial Statement Findings**

None reported.

**Section III – Federal Award Findings and Questioned Costs**

None reported.

**Section IV – Summary of Prior Year Audit Findings**

*Finding No. 2019-001: Financial Reporting*

Summary: The Academy's books and records for the 2018-2019 school year were not reconciled and closed in a timely manner resulting in several balances being identified as incorrect or improperly recorded as well as many proposed audit adjustments.

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

Finding No. 2019-002: Special Test, Assessment System Security

Summary: 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.

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, 2020

| Federal Grantor/<br>Pass through Grantor/<br>Program or Cluster Title | Federal<br>CFDA<br>Number | Pass-through<br>entity identifying<br>number | Federal<br>Expenditures |
|---|---|---|---|
| **U.S. Department of the Treasury:** | | | |
| **Passed through Texas Division of Emergency Management:** | | | |
| COVID - Coronavirus Relief Fund | 21.019 | 2020-CF-21019 | 31,017 |
| **Passed through TEA/Region 4 Service Center:** | | | |
| COVID - Coronavirus Relief Fund | 21.019 | n/a | 85,375 |
| **Total U.S. Department of Treasury** | | | 116,392 |
| **U.S. Department of Education:** | | | |
| **Passed through TEA:** | | | |
| Special Education Grants to States | 84.027 | 196600010578466000 | 14,746 |
| Special Education Grants to States | 84.027 | 206600010578466000 | 198,232 |
| **Total Special Education Cluster** | | | 212,978 |
| Grants for State Assessments and Related Activities | 84.369 | 69551902 | 2,671 |
| **Total CFDA 84.369** | | | 2,671 |
| **Passed through TEA/Region 10 Service Center:** | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 20610101057950 | 508,805 |
| **Total CFDA 84.010** | | | 508,805 |
| Supporting Effective Instruction State Grants | 84.367 | 20694501057950 | 56,616 |
| **Total CFDA 84.367** | | | 56,616 |
| English Language Acquisition State Grants | 84.365 | 20671001057950 | 66,704 |
| **Total CFDA 84.365** | | | 66,704 |
| Student Support and Academic Enrichment Program | 84.424 | 20680101057950 | 36,742 |
| **Total CFDA 84.424** | | | 36,742 |
| COVID - Education Stabilization Fund | 84.425 | 20521001057846 | 34,898 |
| **Total CFDA 84.425** | | | 34,898 |
| **Total U.S. Department of Education** | | | 919,414 |
| **U.S. Department of Agriculture:** | | | |
| **Passed through TEA:** | | | |
| School Breakfast Program | 10.553 | 71401901 | 5,694 |
| School Breakfast Program | 10.553 | 71402001 | 74,804 |
| COVID - School Breakfast Program | 10.553 | 52402001 | 10,190 |
| National School Lunch Program | 10.555 | 71301901 | 46,047 |
| National School Lunch Program | 10.555 | 71302001 | 289,763 |
| COVID - National School Lunch Program | 10.555 | 52302001 | 16,212 |
| USDA Commodities (noncash) | 10.555 | 220-912 | 30,361 |
| **Total Child Nutrition Cluster and U.S. Department of Agriculture** | | | 473,071 |
| **Total Expenditures of Federal Awards** | | | $ 1,508,877 |

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 $30,361 for the year ended August 31, 2020.