

LEGACY COLLEGE PREPARATORY
CHARTER SCHOOL

BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2020

(With Comparative Totals for 2019)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

<u>AUDITED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditor's Report	3
Statement of Financial Position	5
Statement of Activities and Changes in Net Assets	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	10
 <u>REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS</u>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Legacy College Preparatory Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Legacy College Preparatory Charter School, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legacy College Preparatory Charter School as of June 30, 2020, and the changes in its net assets, functional expenses, and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Legacy College Preparatory Charter School's June 30, 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 16, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2020 on our consideration of Legacy College Preparatory Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Legacy College Preparatory Charter School's internal control over financial reporting and compliance.

Emphasis of Matter with Respect to Change in Accounting Methods

As discussed in Note A to the financial statements in 2020, Legacy College Preparatory Charter School adopted new accounting guidance for recognition of revenue, contributions received and statement of cash flow presentation. Our opinion is not modified with respect to these matters.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 27, 2020

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

(With Comparative Totals for 2019)

<u>ASSETS</u>	June 30,	
	<u>2020</u>	<u>2019</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 1,048,712	\$ 146,810
Grants and contracts receivables	145,524	545,003
Accounts receivable	74,286	-
Prepaid expenses	<u>118,960</u>	<u>126,229</u>
TOTAL CURRENT ASSETS	1,387,482	818,042
<u>PROPERTY AND EQUIPMENT, net</u>	496,228	439,100
<u>OTHER ASSETS</u>		
Security deposits	1,014,730	406,860
Cash in escrow	<u>75,044</u>	<u>50,015</u>
	<u>1,089,774</u>	<u>456,875</u>
TOTAL ASSETS	<u>\$ 2,973,484</u>	<u>\$ 1,714,017</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 136,537	\$ 148,067
Accrued payroll and benefits	267,758	235,394
Deferred revenue	<u>-</u>	<u>21,812</u>
TOTAL CURRENT LIABILITIES	404,295	405,273
<u>PAYCHECK PROTECTION PROGRAM NOTE PAYABLE</u>	<u>729,057</u>	<u>-</u>
TOTAL LIABILITIES	<u>1,133,352</u>	<u>405,273</u>
<u>NET ASSETS, without donor restrictions</u>	<u>1,840,132</u>	<u>1,308,744</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,973,484</u>	<u>\$ 1,714,017</u>

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

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2020
(With Comparative Totals for 2019)

	Year ended June 30,	
	2020	2019
Revenue, gains and other support:		
Public school district:		
Resident student enrollment	\$ 6,138,211	\$ 3,786,569
Students with disabilities	633,966	471,799
Grants and contracts:		
State and local	127,650	134,172
Federal - Title and IDEA	294,984	214,612
Federal - other	14,608	450,724
Food Service/Child Nutrition Program	149,049	161,903
NYC DOE Rental Assistance	1,569,224	931,224
TOTAL REVENUE, GAINS AND OTHER SUPPORT	8,927,692	6,151,003
Expenses:		
Program services:		
Regular education	6,214,972	4,013,567
Special education	1,459,701	829,077
Total program services	7,674,673	4,842,644
Management and general	808,377	909,573
TOTAL OPERATING EXPENSES	8,483,050	5,752,217
SURPLUS FROM SCHOOL OPERATIONS	444,642	398,786
Support and other revenue:		
Contributions		
Foundations	-	1,000
Individuals	31,456	22,593
Corporations	12,633	200
Fundraising	-	63,662
Interest income	29	15
Miscellaneous income	42,628	42,141
TOTAL SUPPORT AND OTHER REVENUE	86,746	129,611
CHANGE IN NET ASSETS	531,388	528,397
Net assets at beginning of year	1,308,744	780,347
NET ASSETS AT END OF YEAR	\$ 1,840,132	\$ 1,308,744

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

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020
(With Comparative Totals for 2019)

		Year ended June 30,					
		2020					2019
	No. of Positions	Program Services			Supporting Services	Total	Total
		Regular Education	Special Education	Sub-total	Management and General		
Personnel services costs:							
Administrative staff personnel	13	\$ 807,271	\$ 189,603	\$ 996,874	\$ 148,238	\$ 1,145,112	\$ 934,436
Instructional personnel	39	2,224,452	522,454	2,746,906	-	2,746,906	1,626,606
Total salaries and staff	52	3,031,723	712,057	3,743,780	148,238	3,892,018	2,561,042
Fringe benefits and payroll taxes		606,519	142,452	748,971	29,656	778,627	465,223
Retirement		18,871	4,432	23,303	923	24,226	7,995
Legal services		-	-	-	8,378	8,378	131
Accounting/Audit services		-	-	-	27,050	27,050	24,064
Other Purchased/Professional/ Consulting Services		66,860	15,703	82,563	317,227	399,790	440,292
Building rent		1,312,118	308,175	1,620,293	-	1,620,293	936,200
Repairs and maintenance		45,855	10,770	56,625	-	56,625	28,640
Insurance		25,508	5,991	31,499	5,558	37,057	27,325
Utilities		-	-	-	-	-	749
Supplies/Materials		225,397	52,939	278,336	-	278,336	347,856
Equipment/Furnishings		22,644	5,318	27,962	-	27,962	52,158
Staff development		63,980	15,027	79,007	83,794	162,801	63,657
Marketing/Recruitment		71,042	16,686	87,728	-	87,728	79,944
Technology		43,091	10,121	53,212	-	53,212	48,382
Food service		309,306	72,646	381,952	-	381,952	304,039
Student services		224,433	52,711	277,144	-	277,144	79,570
Office expense		-	-	-	156,382	156,382	141,280
Depreciation and amortization		147,625	34,673	182,298	-	182,298	114,146
Other		-	-	-	31,171	31,171	29,524
		<u>\$ 6,214,972</u>	<u>\$ 1,459,701</u>	<u>\$ 7,674,673</u>	<u>\$ 808,377</u>	<u>\$ 8,483,050</u>	<u>\$ 5,752,217</u>

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

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020
(With Comparative Totals for 2019)

	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 531,388	\$ 528,397
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	182,298	114,146
Changes in certain assets and liabilities affecting operations:		
Grants and contracts receivables	399,479	(333,962)
Accounts receivable	(74,286)	-
Prepaid expenses	7,269	(57,684)
Accounts payable and accrued expenses	(36,330)	42,536
Accrued payroll and benefits	32,364	165,381
Deferred revenue	(21,812)	21,812
NET CASH PROVIDED FROM OPERATING ACTIVITIES	1,020,370	480,626
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(214,626)	(419,077)
Security deposits	(607,870)	(344,360)
NET CASH USED FOR INVESTING ACTIVITIES	(822,496)	(763,437)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Paycheck Protection Program borrowings	729,057	-
NET CASH PROVIDED FROM FINANCING ACTIVITIES	729,057	-
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	926,931	(282,811)
Cash and restricted cash at beginning of year	196,825	479,636
CASH AND RESTRICTED CASH AT END OF YEAR	\$ 1,123,756	\$ 196,825

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2020
(With Comparative Totals for 2019)

	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Reconciliation of cash reported within the statement of financial position that sum to the total amounts shown in the statement of cash flows:		
Cash	\$ 1,048,712	\$ 146,810
Cash in escrow	<u>75,044</u>	<u>50,015</u>
Total cash and restricted cash shown in the statement of cash flows	<u>\$ 1,123,756</u>	<u>\$ 196,825</u>
<u>NON-CASH OPERATING AND INVESTING ACTIVITIES</u>		
Purchases of property and equipment included in accounts payable	<u>\$ 24,800</u>	<u>\$ -</u>

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

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

Legacy College Preparatory Charter School (the “Charter School”) is an educational corporation that operates as a charter school in Bronx, New York. The Charter School provides a full range of educational services appropriate for grades six through twelve. On October 11, 2016, the Board of Trustees of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration.

Classification of net assets

To ensure observance of limitations and restrictions placed on the use of resources available to the Charter School, the accounts of the Charter School are maintained in accordance with the principles of accounting for not-for-profit Charter Schools. This is the procedure by which resources are classified for reporting purposes into net asset groups, established according to their nature and purpose. Accordingly, all financial transactions have been recorded and reported by net asset group.

The assets, liabilities, activities, and net assets are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Trustees has discretionary control to use these in carrying on operations in accordance with the guidelines established by the Charter School.

Net Assets With Donor Restrictions

Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Charter School had no net assets with donor restrictions at June 30, 2020 or 2019.

Revenue and support recognition

Revenue from Exchange Transactions: The Charter School recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

The Charter School records substantially all revenues over time as follows:

Public school district revenue

The Charter School recognizes revenue as educational programming is provided to students throughout the year. The Charter School earns public school district revenue based on the approved per pupil tuition rate of the public school district in which the pupil resides. The amount received each year from the resident district is the product of the approved per pupil tuition rate and the full-time equivalent student enrollment of the School. Each NYS school district has a fixed per pupil tuition rate which is calculated annually by NYSED in accordance with NYS Education Law. Amounts are billed in advance every other month and payments are typically received in six installments during the year. At the end of each school year, a reconciliation of actual enrollment to billed enrollment is performed and any additional amounts due or excess funds received are agreed upon between the Charter School and the district(s) and are paid or recouped. Additional funding is available for students requiring special education services. The amount of additional funding is dependent upon the length of time and types of services provided by the Charter School to each student, subject to a maximum amount based upon a set rate for each district as calculated by NYSED.

Rental assistance

Facilities rental assistance funding is provided by the New York City Dept of Education (NYCDOE) to qualifying charter schools located in the five boroughs of NYC. In order to receive rental assistance funding, a charter school must have commenced instruction or added grade levels in the 2014-15 school year or thereafter, and go through a space request process with the NYCDOE. If NYCDOE is not able to provide adequate space, the charter school can become eligible for rental assistance. Rental assistance is calculated as the lesser of 30% of the per-pupil tuition rate for NYC times the number of students enrolled, or actual total rental costs. As rental assistance is based on the number of students enrolled, revenue is recognized throughout the year as educational programming is provided to students.

The following table summarizes contract balances at their respective statement of financial position dates:

	June 30,		
	2020	2019	2018
Accounts receivable	\$ 74,286	\$ -	\$ 46,700

Contributions

The Charter School recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Contributions and unconditional promises to give are recorded as revenue in the appropriate class of net assets depending on the existence of any donor restrictions. A contribution that is received and expended in the same period for a specific purpose is classified as revenue without donor restrictions.

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets related from restrictions.

Grant revenue

Some of the Charter School's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Charter School has incurred expenditures in compliance with specific contract or grant provisions. Certain grants are subject to audit and retroactive adjustments by its funders. Any changes resulting from these audits are recognized in the year they become known. Qualifying expenditures that have been incurred but are yet to be reimbursed are reported as grants receivable in the accompanying statement of financial position. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the accompanying statement of financial position and amounted to \$21,812 at June 30, 2019. There were no amounts reported as deferred revenue at June 30, 2020.

Cash

Cash balances are maintained at financial institutions located in New York and are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Cash in escrow

The Charter School maintains cash in an escrow account in accordance with the terms of its charter agreement. The amount in escrow was \$75,044 and \$50,015 at June 30, 2020 and 2019, respectively. The agreement requires \$25,000 be placed in escrow each of the first three years of operations and a balance of \$75,000 be maintained to fund any audit and legal expenses incurred should the Charter School cease operations and dissolve.

Grants and contracts receivables

Grants and contracts receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2020 or 2019.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to five years. Leasehold improvements are being amortized over the term of the lease.

Contributed Services

The Charter School receives contributed services from volunteers to develop its academic program and to serve on the Board of Trustees. The Charter School was unable to determine a value for these services.

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the periods ended June 30, 2017 through the year ended June 30, 2020 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

Marketing costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruitment costs approximated \$87,700 and \$79,900 for the years ended June 30, 2020 and 2019, respectively.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparatives for year ended June 30, 2019

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Adoption of new accounting standards

Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued a new standard related to revenue recognition. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. For nonpublic entities, the guidance in this new standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Charter School adopted ASC 606 with the date of initial application of July 1, 2019.

The Charter School applied ASC 606 using the cumulative effect method, which generally requires the recognition of the cumulative effect of initially applying the new guidance as an adjustment to the opening balance of net assets, at July 1, 2019. There was no adjustment to the opening balance of net assets at July 1, 2019, as a result of this new accounting standard. In addition, the comparative information has not been adjusted and continues to be reported under existing revenue guidance. The Charter School does not expect the adoption of the new revenue standard to have a material impact on its income on an ongoing basis.

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

As part of the adoption of ASC 606, the Charter School elected to use the following transition practical expedients: (1) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligation, determining the transaction price, and allocating the transaction price have been reflected in the aggregate; and (2) ASC 606 is applied only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

Contributions received and contributions made

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made". ASU 2018-08 assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. For most resource recipients, this standard is effective for annual reporting periods beginning after December 15, 2018. The Charter School adopted the provisions of ASU 2018-08 applicable to contributions received with a date of initial application of July 1, 2019 under a modified prospective basis. Accordingly, there is no effect on net assets.

Statement of cash flows

In November 2016, the FASB issued new guidance related to the statement of cash flows (ASC 230), which requires entities to include restricted cash in the reconciliation of the beginning-of-year to the end-of-year of cash in the statement of cash flows. ASC 230 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Charter School adopted this standard as of July 1, 2019 using the retrospective transition method.

New accounting pronouncement - leases

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among entities by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. For nonpublic entities, the FASB voted on May 20, 2020, to extend the guidance in this new standard to be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Charter School is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Charter School's financial position or results of operations.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 27, 2020, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted except for Note D.

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE B: LIQUIDITY AND AVAILABILITY

The Charter School regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Charter School's main source of liquidity is its cash accounts.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Charter School considers all expenditures related to its ongoing activities of teaching, and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Charter School operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Charter School's cash and shows positive cash generated by operations for fiscal year 2020 and 2019.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2020 and 2019:

	June 30,	
	2020	2019
Cash	\$ 1,048,712	\$ 146,810
Grants and contracts receivables	145,524	545,003
Accounts receivable	74,286	-
Total financial assets available to management for general expenditures within one year	<u>\$ 1,268,522</u>	<u>\$ 691,813</u>

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2020 and 2019 consisted of the following:

	June 30,	
	2020	2019
Leasehold improvements	56,065	56,065
Furniture and fixtures	263,591	211,117
Computer equipment	325,288	162,106
Machinery and equipment	191,768	167,998
	836,712	597,286
Less accumulated depreciation	340,484	158,186
	<u>\$ 496,228</u>	<u>\$ 439,100</u>

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE D: SCHOOL FACILITY

The Charter School leased its facilities from a third party through June 30, 2020. During 2018, the lease was amended to include utilities and use of the second floor of the facility. Under the amended lease, annual base rent was increased to \$931,224 through July 31, 2019. For the period from August 1, 2019 through July 31, 2020, annual base rent increased to \$1,627,224. Including other rental costs, rent expense incurred under this lease for the years ended June 30, 2020 and 2019 was approximately \$1,620,000 and \$936,000, respectively. During June 2020, effective July 1, 2020, the Charter School entered into an assignment agreement with the third party whereby the lease agreement was assigned to Friends of Legacy, a separate by related entity. The Charter School then entered into a sublease agreement with Friends of Legacy to rent the facility for two years at \$1,338,083 per year.

In June 2020, the Charter School executed a sublease agreement with Friends of Legacy for an additional facility, 332 E. 149th Street, commencing July, 2020. The sublease agreement calls for annual base rent of \$1,031,998 through June 30, 2021, increasing to \$1,731,998 through June 30, 2022.

The future minimum payments required under these agreements are approximately as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 2,370,000
2022	<u>3,070,000</u>
	<u>\$ 5,440,000</u>

In conjunction with these facility leases, and an additional property that is being negotiated, the Charter School paid security deposits of \$1,014,730 which is included in security deposits on the accompanying statement of financial position at June 30, 2020.

NOTE E: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE F: CONCENTRATIONS

At June 30, 2020, 34% of accounts, grants and contracts receivables are due from New York State agencies relating to certain grants. At June 30, 2020 and 2019, approximately 66% and 100%, respectively, of accounts, grants and contract receivables are due from the federal government relating to certain grants.

For the years ended June 30, 2020 and 2019, 77% and 69%, respectively, of total revenue, gains and other support came from per-pupil funding provided by New York State through the New York City School District. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located. For the years ended June 30, 2020 and 2019, 18% and 15%, respectively, of revenue and support was from the NYC DOE rental assistance. An additional 13% of revenue and support came from the federal government relating to certain grants for the year ended June 30, 2019.

NOTE G: RETIREMENT PLAN

The Charter School sponsors a 403(b) retirement plan (the "Plan") for its employees. All employees who work more than 20 hours per week are immediately eligible to participate in the Plan. Employees can make pretax contributions up to a maximum of 100% of their annual compensation to the Plan, subject to IRS restrictions. The Charter School matches the employee contribution up to 3% of the employee's annual compensation. The Charter School contributed approximately \$24,000 and \$7,000 to the Plan for the years ended June 30, 2020 and 2019, respectively

NOTE H: OPERATING LEASE

The Charter School entered into non-cancelable lease agreements for office equipment expiring at various dates through July 2022. The future minimum payments on these agreements are approximately as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 12,700
2022	4,700
	<u>\$ 17,400</u>

NOTE I: NET ASSETS

Net assets without donor restrictions are as follows:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Undesignated	\$ 1,343,904	\$ 869,644
Invested in property and equipment	496,228	439,100
	<u>\$ 1,840,132</u>	<u>\$ 1,308,744</u>

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals for 2019)

NOTE J: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses that are allocated to more than one program or supporting function are allocated on the basis of estimates of time and effort.

NOTE K: PAYCHECK PROTECTION PROGRAM NOTE PAYABLE

In response to the COVID-19 outbreak, the Charter School applied for and was approved by a bank for a loan of \$729,057 through the Paycheck Protection Program established by the Small Business Administration. The loan has a maturity of 2 years and an interest rate of 1%. The loan has the potential for forgiveness provided certain requirements are met by the Charter School. The loan was funded on May 1, 2020. Due to the potential forgiveness, repayment terms have not been finalized as of the report date; therefore, the entire balance is classified as long-term as of June 30, 2020.

NOTE L: ACCOUNTING IMPACT OF COVID-19 OUTBREAK

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Charter School’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Charter School is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Legacy College Preparatory Charter School

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Legacy College Preparatory Charter School, which comprise the statement of financial position as of June 30, 2020 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2020.

Internal Control over Financial Reporting

Management of Legacy College Preparatory Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered Legacy College Preparatory Charter School's internal control over financial reporting (internal control) to determine the audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Legacy College Preparatory Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Legacy College Preparatory Charter School's internal control.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

- 20 -

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Legacy College Preparatory Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of Legacy College Preparatory Charter School in a separate letter dated October 27, 2020.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 27, 2020

LEGACY COLLEGE PREPARATORY
CHARTER SCHOOL

REPORT TO THE FINANCE COMMITTEE

JUNE 30, 2020



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants



October 27, 2020

Finance Committee
Legacy College Preparatory Charter School

We have audited the financial statements of Legacy College Preparatory Charter School as of June 30, 2020 and have issued our report thereon dated October 27, 2020. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated May 1, 2020, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of Legacy College Preparatory Charter School solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to management.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence. Safeguards in place to eliminate or reduce threats to independence to an acceptable level include a skilled, knowledgeable and experienced finance committee and outsourced financial team who reviews draft financial statements prior to issuance and accepts responsibility for them.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Legacy College Preparatory Charter School is included in Note A to the financial statements. As described in Note A to the financial statements, effective July 1, 2019, the Charter School changed its method of accounting for revenue recognition by adopting FASB Accounting Standards Codification (ASC) 606 *Revenue from Contracts with Customers* and Accounting Standards Update (ASU) 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. In addition, the Charter School changed its statement of cash flows presentation to by adopting FASB ASC 230. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are the allocations of costs for the statement of functional expenses and the collectability of grants receivable. We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Legacy College Preparatory Charter School's financial statements relate to revenue and support recognition, which is referred to in the notes of the financial statements.

Significant Difficulties Encountered during the Audit

We are pleased to report we encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Legacy College Preparatory Charter School's financial statements or the auditor's report. We are pleased to report no such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings or Issues

In the normal course of our professional association with Legacy College Preparatory Charter School, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Legacy College Preparatory Charter School's auditors.

Status of matters included in our letter as of June 30, 2019 dated October 16, 2019

Special Education Services

During our 2019 and 2018 audits, we noted certain students receiving special education services were not being provided with all of the services described in their IEP. We also noted the Charter School only provides Math and ELA services. Counseling Services are provided by an outside service organization that bills the State. The counseling is not paid for by the School and, therefore, not billed by the School. All other services on the students IEP (Social Studies, Sciences, Speech-language Therapy, PT, and OT) were not provided by the Charter School. It was indicated the Charter School communicated this to the parents verbally and attempted to get other companies to come to provide the services; however, they were not able to do so. We noted these services were properly not billed for.

Recommendation

We recommended the Charter School make every effort possible to provide the services outlined on the student's IEP. These services are generally required to be provided by the students' home district if the Charter School cannot provide the required services. Furthermore, we recommend the School communicate in writing to the parents if the School is unable to provide all services included on a student's IEP.

Status as of June 30, 2020

No change. We continue to recommend the Charter School communicate in writing to the parent if the Charter School is unable to provide all services included on a student's IEP.

Dual Signatures

During our 2020, 2019 and 2018 audits, we noted instances of checks over \$5,000 that were only signed by the Director of Operations. The Financial Policies and Procedures Manual requires signatures from the Director of Operations and the Board Treasurer for checks over \$5,000.

Recommendation

We continue to recommend the Charter School consistently follow their check signing policies as outline in their Financial Policies and Procedures Manual or update the Manual to reflect current practices. However, the check noted during our 2020 audit was dated before the completion of our 2019 audit.

School Lunch Program

During our 2019 audit, we noted the Charter School was unable to locate documentation for the school lunch program for the months September 2018 through December 2018.

Recommendation

We recommend the Charter School keep all records in an organized manner to ensure proper documentation is on hand for the school lunch program for at least three years.

Status as of June 30, 2020

No issues noted in the year ended June 30, 2020.

* * * * *

Should you desire further information concerning these matters, Ray Jacobi or Caitlin Langmead will be happy to meet with you at your convenience.

This report is intended solely for the information and use of the Board of Trustees, Finance Committee and management of Legacy College Preparatory Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP