

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Financial Statements  
For The Year Ended August 31, 2016

## TABLE OF CONTENTS

<b>Certificate of Board</b>	3
<b>Independent Auditor's Report</b>	4-5
<b>Financial Statements:</b>	6
Statement of Financial Position	7
Statement of Activities	8
Statement of Cash Flows	9
Notes to Financial Statements	10-18
<b>Supplementary Information:</b>	19
Schedule of Expenses	20
Schedule of Capital Assets	21
Budgetary Comparison Schedule	22
<b>Compliance and Internal Controls Section:</b>	23
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>	24-25
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	26-27
Schedule of Findings and Questioned Costs	28
Summary Schedule of Prior Audit Findings	29-30
Schedule of Expenditures of Federal Awards	31
Notes to Schedule of Expenditures of Federal Awards	32

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
(Federal Employer Identification Number: 24-4013601)  
Certificate of Board

We, the undersigned, certify that the attached Financial and Compliance Report of Legacy21, inc., dba Legacy Preparatory Charter Academy was reviewed and (check one)  approved  disapproved for the year ended August 31, 2016 at a meeting of governing body of the charter holder on the 19 day of January, 2017.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Legacy21, Inc.  
Legacy Preparatory Charter Academy  
Dallas, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Legacy21, Inc., dba Legacy Preparatory Charter Academy (the "Corporation") (a nonprofit organization) which comprise the statement of financial position as of August 31, 2016, 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 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy as of August 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Other Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis 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 (CFR) 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. 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 19, 2017, on our consideration of Legacy21, Inc., dba Legacy Preparatory Charter Academy'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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's internal control over financial reporting and compliance.

Waco, Texas  
January 19, 2017

## FINANCIAL STATEMENTS

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Statement of Financial Position  
August 31, 2016

Assets

Current Assets	
Cash and cash equivalents	\$ 472,351
Due from governments	136,216
Other receivables	1,303
Prepaid expenses	38,363
Total current assets	<u>648,233</u>
Property and equipment, net	557,687
Other assets	<u>75,000</u>
Total Assets	<u>\$ 1,280,920</u>

Liabilities and Net Assets

Current Liabilities	
Note payable - current portion	\$ 159,427
Capital lease obligation - current portion	43,439
Accounts payable	269,679
Accrued expenses	108,211
Accrued interest payable	5,370
Deferred revenue	30,255
Total current liabilities	<u>616,381</u>
Long-term Liabilities	
Note payable	389,507
Capital lease obligation	<u>206,561</u>
Total long-term liabilities	<u>596,068</u>
Total Liabilities	<u>1,212,449</u>
Net Assets	
Unrestricted	21,056
Temporarily restricted	<u>47,415</u>
Total Net Assets	<u>68,471</u>
Total Liabilities and Net Assets	<u>\$ 1,280,920</u>

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

Legacy21, Inc. dba  
Legacy Preparatory Charter Academy  
Statement of Activities  
For the Year Ended August 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Revenues</b>			
Local support:			
Interest and other income	\$ 105,127	\$ 183,034	\$ 288,161
Total local support	105,127	183,034	288,161
State program revenues:			
Foundation school program act	-	10,222,760	10,222,760
Other state aid	-	151,364	151,364
Total state program revenues	-	10,374,124	10,374,124
Federal program revenues:			
ESEA, Title I, Part A	-	290,662	290,662
ESEA, Title II, Part A	-	45,087	45,087
Title III, Part A - LEP	-	20,712	20,712
Summer School LEP	-	2,226	2,226
National School Lunch and Breakfast Program	-	385,596	385,596
IDEA - Part B, Formula	-	152,085	152,085
Total federal program revenues	-	896,368	896,368
Net assets released from restrictions:			
Restrictions satisfied by payments	11,234,329	(11,234,329)	-
<b>Total Revenues</b>	<b>11,339,456</b>	<b>219,197</b>	<b>11,558,653</b>
<b>Expenses</b>			
Program Services:			
Instruction and instructional - related services	5,833,385	-	5,833,385
Instructional and school leadership	750,757	-	750,757
Support services:			
Administrative support services	475,036	-	475,036
Ancillary services	163,835	-	163,835
Support services non-student based	3,010,823	-	3,010,823
Support services student (pupil)	1,060,557	-	1,060,557
Debt service	29,156	-	29,156
Fund raising	5,604	-	5,604
<b>Total Expenses</b>	<b>11,329,153</b>	<b>-</b>	<b>11,329,153</b>
Change in Net Assets	10,303	219,197	229,500
Net Assets, Beginning of Year	10,753	(171,782)	(161,029)
<b>Net Assets, End of Year</b>	<b>\$ 21,056</b>	<b>\$ 47,415</b>	<b>\$ 68,471</b>

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



Legacy 21, Inc. dba  
Legacy Preparatory Charter Academy  
Statement of Cash Flows  
For the Year Ended August 31, 2016

**Cash Flows from Operating Activities:**

Foundation school program payments	\$ 10,255,371
Other state aid	151,364
Grant payments	814,602
Miscellaneous sources	288,161
Payments to vendors for goods and services rendered	(4,542,272)
Payments to charter school personnel for services rendered	(6,540,666)
Interest payments	<u>(32,464)</u>
Net Cash Provided/(Used) by Operating Activities	<u>394,096</u>

**Cash Flows from Investing Activities:**

Purchase of capital assets	<u>(503,759)</u>
Net Cash Provided/(Used) by Investing Activities	<u>(503,759)</u>

**Cash Flows from Financing Activities:**

Principal payments on note payable	(151,509)
Proceeds from capital lease obligation	<u>250,000</u>
Net Cash Provided/(Used) by Financing Activities	<u>98,491</u>

Net Increase (Decrease) in Cash	(11,173)
---------------------------------	----------

<b>Cash at Beginning of Year</b>	<u>483,524</u>
----------------------------------	----------------

<b>Cash at End of Year</b>	<u><u>\$ 472,351</u></u>
----------------------------	--------------------------

**Reconciliation of Change in Net Assets to Net Cash Provided**

**by Operating Activities:**

Change in Net Assets	\$ 229,500
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	33,015
(Increase) Decrease in assets:	
Due from governments	(49,155)
Other receivables	92,540
Prepaid expenses	(38,363)
Other assets	(75,000)
Increase (Decrease) in liabilities:	
Accounts payable	66,403
Accrued expenses	108,209
Accrued interest payable	(3,308)
Deferred revenue	<u>30,255</u>
Net Cash Provided/(Used) by Operating Activities	<u><u>\$ 394,096</u></u>

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**NOTE 1 - Summary of Significant Accounting Policies**

The financial statements of Legacy21, Inc., dba Legacy Preparatory Charter Academy (the "Corporation") (a nonprofit organization) were prepared in conformity with accounting principles generally accepted in the United States of America. The Financial Accounting Standards Board is the accepted standard setting body for establishing not-for-profit accounting and financial reporting principles.

**Reporting Entity**

The Corporation is a not-for-profit organization incorporated in the State of Texas in 2010 and exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. The Corporation is governed by a Board of Directors comprised of four members. The Board of Directors is selected pursuant to the bylaws of the Corporation and has the authority to make decisions, appoint the chief executive officer of the Corporation, and significantly influence operations. The Board of Directors has the primary accountability for the fiscal affairs of the Corporation.

Since the Corporation received funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds.

**Corporate Operations**

The State Board of Education of the State of Texas granted the Corporation an open-enrollment charter pursuant to Chapter 12 of the Texas Education Code. Pursuant to the program described in the charter application approved by the State Board of Education and the terms of the applicable Contract for Charter, Legacy21, Inc., dba Legacy Preparatory Charter Academy was opened. Legacy21, Inc., dba Legacy Preparatory Charter Academy was organized to provide educational services to at-risk students and their programs, services, activities and functions are governed by the Corporation's Board of Directors.

**Basis of Accounting and Presentation**

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles.

Net assets and revenues, expenses, gains, and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Restricted revenues whose restrictions are met in the same year as received are shown as unrestricted revenues. Accordingly, net assets of the Corporation and changes therein are classified and reported as follows:

**Unrestricted** - net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted** - net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Corporation, the charter school, and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

**Permanently restricted** - net assets required to be maintained in perpetuity with only the income to be used for the Corporation's activities due to donor-imposed restrictions.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**NOTE 1 - Summary of Significant Accounting Policies (continued)**

**Use of Estimates**

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Contributions**

The Corporation accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

**Cash and Cash Equivalents**

For financial statement purposes, the Corporation considers all highly liquid investment instruments with an original maturity of three months or less to be cash equivalents.

**Capital Assets**

Capital assets, which includes building and improvements, and furniture and equipment are reported in the financial statements. Capital assets are defined by the Corporation as assets with an estimated useful life of more than one year. Such assets are recorded at historical cost and are depreciated over the estimated useful lives of the assets, which range from three to twenty-five years, using the straight-line method of depreciation. Expenditures for additions, major renewals and betterments are capitalized, and maintenance and repairs are charged to expense as incurred. Donations of assets are recorded as direct additions to net assets at fair value at the date of donation, which is then treated as cost.

**Due From Governments**

The Corporation considers all government grants and contracts as exchange transactions rather than contributions. The Corporation recognizes revenue from fee-for-service transactions as services are rendered and, for grants, as eligible expenditures are incurred. Advances from government agencies are recorded as deferred revenues. 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 terms of the grant contract.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Impairment of Long-Lived Assets**

The Corporation reviews the carrying value of capital assets for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, and the effects of obsolescence, demand, competition, and other economic factors. The Corporation did not recognize an impairment loss during the year ended August 31, 2016.

**State Funding**

The amount of state foundation school program act revenue the Corporation earns may vary until the time when final values for all factors in the state aid formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation school program act revenue estimate for the year ended August 31, 2016 will change.

**Revenue Recognition**

Revenues from the State of Texas are based on reported attendance. Public and private grants received are recognized in the period received and when the terms of the grant are met.

**Donated Services and Assets**

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills that are provided by individuals possessing those skills and which would typically need to be purchased if not provided by donation are recorded at the estimated fair market value in the period received.

Contributions of donated noncash assets are recorded at the estimated fair market value in the period received.

**Functional Allocation of Expenses**

The costs of providing various programs and activities have been summarized on a functional basis in the Statement of Activities and net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Contingencies**

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Corporation which will only be resolved when one or more future events occur or fail to occur. The Corporation's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Corporation or unasserted claims that may result in such proceedings, the Corporation's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Contingencies (continued)**

If the assessment of a contingency indicates it is possible that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Corporation's financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

**Fair Value Measurements and Disclosures**

The requirements of *Fair Value Measurements and Disclosures* of the Accounting Standards Codification ("ASC") apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. *Fair Value Measurements and Disclosures* also establishes a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Inputs – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets or liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

At August 31, 2016, the Corporation had no investments.

The fair value of the Corporation's cash and cash equivalents, due from governments, other receivables, prepaid expenses, accounts payable, accrued expenses and deferred revenue approximate the carrying amounts of such instruments due to their short-term maturity.

**Note 2 - Cash and Cash Equivalents**

Cash and cash equivalents as of August 31, 2016 consist of the following:

Checking accounts	\$ 415,623
Money market accounts	<u>56,728</u>
	\$ <u>472,351</u>

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**Note 3 - Due from Governments**

Amounts due from governments consist of the following:

Texas Department of Education, Texas Education Agency	\$ 9,825
U. S. Department of Education passed through Texas Education Agency	<u>126,391</u>
Total	<u>\$136,216</u>

**Note 4 - Capital Assets**

A summary of changes in capital assets is as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Accumulated Depreciation	Net Capital Assets
Building and Improvements	\$ -0-	\$333,000	\$ -0-	\$ 333,000	\$ 2,778	\$330,222
Furniture and Equipment	<u>275,149</u>	<u>170,759</u>	-0-	<u>445,908</u>	<u>218,443</u>	<u>227,465</u>
Capital Assets, Net	<u>\$275,149</u>	<u>\$503,759</u>	\$ -0-	<u>\$778,908</u>	<u>\$221,221</u>	<u>\$557,687</u>

Capital assets acquired with public funds received by the Corporation for the operation of Legacy21, Inc., dba Legacy Preparatory Charter Academy constitute public property pursuant to Chapter 12 of the Texas Education Code. These assets are specifically identified in the Schedule of Capital Assets.

Depreciation expense for the year ended August 31, 2016 was \$33,015.

**Note 5 - Long-Term Debt**

In 2012, the Corporation obtained a credit facility of \$1,000,000 from Vintage Bank, Waxahachie, Texas to finance school start-up activities. Advances of \$948,108, with interest at six percent, were made and the initial maturity date of the loan was September 13, 2013. Interest only, of \$61,582, was paid to August 31, 2013.

Effective September 15, 2013, the \$948,108 was converted to a term loan, payable in twenty-four quarterly payments of \$46,064 with interest at 5.07 percent. The balance of the loan at August 31, 2016 was \$548,934.

At August 31, 2016, future debt service requirements for the loans payable are as follows:

Fiscal Year Ending <u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$159,427	\$ 24,830	\$ 184,257
2018	167,664	16,593	184,257
2019	176,326	7,931	184,257
2020	45,517	547	46,064
2021	-	-	-
2022 thereafter	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 548,934</u>	<u>\$ 49,901</u>	<u>\$ 598,835</u>

Interest expense for the year ended August 31, 2016 was \$29,156.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**Note 6 - Pension Plan Obligations**

**Plan Description**

The Corporation contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, defined benefit pension plan with one exception: all risks and costs are not shared by the Corporation, but are the liability of the State of Texas. Based on FASB Statement No. 87, a multiemployer plan is a pension plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. Although TRS has no collective bargaining agreements, the defined benefit pension plan is considered to be a multiemployer plan for the purposes of not-for-profit charter holders due to various significant factors. These factors include: 1) charter holders are legally separate entities from the state and each other; 2) assets contributed by one participating entity may be used to provide benefits to employees of other participating employers since assets contributed by one entity are not segregated in a separate account or restricted to provide benefits only to employees of that entity; 3) upon withdrawal from the plan, the unfunded obligation or net pension liability of that entity will be passed along to the remaining other entities who contribute to the plan; and 4) there is not a withdrawal penalty for leaving the TRS system.

TRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas State Legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701; by calling the TRS Communications Department at 1-800-223-8778; or by downloading the report from the TRS website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publication Heading.

**Funding Policy and Funded Status**

Contribution requirements are not actuarially determined but are established and amended by the Texas State Legislature. The State funding policy is as follows: (1) the State constitution requires the legislature to establish a member contribution rate of not less than six percent of the member's annual compensation and a State contribution rate of not less than six percent and not more than ten percent of the aggregate annual compensation of all members of the system; (2) State statute prohibits benefit improvements if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years or, if the amortization period already exceeds 31 years, the period would be increased by such action.

As of August 31, 2016, TRS' total plan assets were \$128,538,706,212, accumulated benefit obligation (or total pension liability) was \$163,887,375,172, and the plan was 78.43 percent funded.

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**Note 6 - Pension Plan Obligations (continued)**

**Contributions**

State law provides for a member contribution rate of 7.2 percent for fiscal year 2016, 6.7 percent for fiscal year 2015, and 6.4 percent for fiscal year 2014, and a State contribution rate of 6.8 percent for fiscal years 2016, 2015, and 2014. In addition, state law provides for a member contribution rate of 7.7 percent for fiscal year 2017, while maintaining a state contribution rate of 6.8 percent for fiscal year 2017.

The Corporation employees' contributions to TRS for the year ending August 31, 2016 were \$402,153, equal to the required contribution. These contributions did not represent more than five percent of the total contributions to the plan.

The Corporation made contributions for the Non-Old Age Survivor and Disability Insurance (Non-OASDI) for certain employees. The total amount contributed for Non-OASDI for fiscal year ending August 31, 2016 was \$83,778.

**NOTE 7 - Retiree Health Care Plan**

**Plan Description**

The Corporation contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing, multiple-employer defined benefit postemployment health care plan administered by the TRS. TRS Care provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for TRS-Care. That report may be obtained by visiting the TRS website at [trs.state.tx.us](http://trs.state.tx.us); by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701; or by calling 1-800-223-8778.

**Funding Policy**

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were one percent for fiscal year 2016 and 0.65 percent of school payroll, with the Corporation contributing a percentage of payroll set at 0.55 percent for fiscal year 2016. Per Texas Insurance Code, Chapter 1575, the school contribution may not be less than 0.25 percent or greater than 0.75 percent of the salary of each active employee of the public school. For the year ended August, 31 2016, the State's contributions to TRS Care was \$2,145; the active member contributions were \$30,720, and the Corporation's contribution were \$19,394 which equaled the required contribution.

**Note 8 - Health Care Coverage**

During the year ended August 31, 2016, employees of the Corporation were covered by a Health Insurance Plan ("Plan"). The Corporation contributed \$334 per month per employee for the period from September 1, 2015 to August 31, 2016 to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

(continued)



Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**Note 9 - Risk Management Program**

Worker's compensation coverage, general liability, professional liability and property coverage are being provided through purchased commercial insurance with minimum deductibles for each line of coverage. Settled claims resulting from these risks have historically not exceeded commercial coverage.

**Note 10 - Leases**

The Corporation leases its facilities under non-cancellable operating leases, which contain varying renewal options. Approximate aggregate remaining minimum rental commitments as of August 31, 2016 under these leases are summarized as follows:

<u>Fiscal Year Ending June 30,</u>	
2017	\$ 1,840,494
2018	1,842,510
2019	1,844,527
2020	1,790,081
2021 – 2028	<u>44,696,144</u>
Total	\$ <u>52,013,756</u>

Rent expense for all operating leases for the year ended August 31, 2016 was \$1,853,926.

**Note 11 - Back Office Services**

The Corporation contracts with a company for back office services. The agreement provides, among other things, for the payment of a fee calculated based upon the gross revenues of the Corporation. The expense for the services for the year ended August 31, 2016 was \$ 414,720.

**Note 12 - Income Tax**

The Corporation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business taxable income. The Corporation has no material unrelated business income for the year ended August 31, 2016.

Generally accepted accounting principles requires that the Corporation recognize in its financial statements the financial effects of a tax position, if that position is more likely than not of being sustained upon examination, including resolution of any appeals or litigation processes, based upon the technical merits of the tax position. The new requirements also provide guidance on measurement, classification, interest and penalties, and disclosure.

Tax positions taken related to the Corporation's tax exempt status, unrelated business activities taxable income and deductibility of expenses and other miscellaneous tax positions have been reviewed, and management is of the opinion that material positions taken would more likely than not be sustained by examination. Accordingly, the

(continued)

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes To Financial Statements  
August 31, 2016

**Note 12 - Income Tax (continued)**

Corporation has not recorded an income tax liability for uncertain tax benefits. For the year ended August 31, 2016, there were no interest or penalties related to income taxes recorded or included in the financial statements. As of August 31, 2016, the Corporation's tax years 2013 through 2015 remain subject to examination.

**Note 13 - Credit Risk**

Financial instruments that potentially subject the Corporation to credit risk consist of cash at financial institutions. At times, the balances in cash accounts may be in excess of FDIC insurance limits. The financial institution pledges investment securities to compensate for deposits in excess of FDIC insurance limits.

**Note 14 - Commitments and Contingencies**

The Corporation 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 the Texas Education Agency 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 Corporation have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

**Note 15 - Evaluation of Subsequent Events**

The Corporation has evaluated subsequent events through January 19, 2017, the date which the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

Legacy 21, Inc. dba  
Legacy Preparatory Charter Academy  
Schedule of Expenses  
For the Year Ended August 31, 2016

**Expenses**

6100 Payroll costs	\$ 6,540,666
6200 Professional and contracted services	3,822,260
6300 Supplies and materials	474,189
6400 Other operating costs	429,717
6500 Debt	<u>29,156</u>
Total Expenses	<u><u>\$ 11,295,988</u></u>

Legacy 21, Inc. dba  
 Legacy Preparatory Charter Academy  
 Schedule of Capital Assets  
 August 31, 2016

		Ownership Interest		
		Local	State	Federal
1520	Building and improvements	\$ -	\$ 333,000	\$ -
1539	Furniture and equipment	-	107,248	-
1549	Furniture and equipment	<u>50,364</u>	<u>178,440</u>	<u>109,856</u>
		<u>\$ 50,364</u>	<u>\$ 618,688</u>	<u>\$ 109,856</u>

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

Legacy 21, Inc. dba  
Legacy Preparatory Charter Academy  
Budgetary Comparison Schedule  
For the Year Ended August 31, 2016

	Budgeted Amounts		Actual Amounts	Variance from Final Budget
	Original	Final		
<b>Revenues</b>				
Local support:				
5740 Interest income and other income	\$ -	\$ 119,531	\$ 215,623	\$ 96,092
5750 Cocurricular activities	-	56,339	72,538	16,199
Total local support	-	175,870	288,161	112,291
State program revenues:				
5810 Foundation school program act	-	10,205,859	10,222,760	16,901
5820 State program revenues distributed by Texas Education Agency	80,000	257,028	151,364	(105,664)
5830 State program revenues distributed by Texas Government Agency	-	-	-	-
Total state program revenues	80,000	10,462,887	10,374,124	(88,763)
Federal program revenues:				
5920 Federal revenues distributed by the Texas Education Agency	1,048,474	947,154	875,657	(71,497)
5930 Federal revenues distributed by Other State of Texas Agencies	27,536	28,261	20,711	(7,550)
Total federal program revenues	1,076,010	975,415	896,368	(79,047)
Total Revenues	1,156,010	11,614,172	11,558,653	(55,519)
<b>Expenses</b>				
11 Instruction	4,770,358	5,512,950	5,303,000	209,950
13 Curriculum development and instructional staff development	215,605	530,327	530,383	(56)
21 Instructional leadership	171,305	3,458	3,458	-
23 School leadership	1,073,799	757,929	747,299	10,630
31 Guidance, counseling and evaluation services	158,950	285,363	260,117	25,246
33 Health services	174,111	129,783	130,497	(714)
35 Food services	100,305	525,863	502,584	23,279
36 Cocurricular/extracurricular activities	18,000	206,609	167,359	39,250
41 General administration	416,211	495,452	475,036	20,416
51 Plant maintenance and operations	2,413,017	2,508,756	2,445,804	62,952
52 Security and monitoring services	9,000	22,444	22,284	160
53 Data processing services	425,288	547,892	542,735	5,157
61 Community services	80,000	175,591	163,835	11,756
71 Debt service	184,096	32,465	29,156	3,309
81 Fund raising	5,000	5,700	5,604	96
Total Expenses	10,215,045	11,740,582	11,329,151	411,431
Change in Net Assets	(9,059,035)	(126,410)	229,502	355,912
Net Assets, Beginning of Year	(161,029)	(161,029)	(161,029)	-
Net Assets, End of Year	\$ (9,220,064)	\$ (287,439)	\$ 68,473	\$ 355,912

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

**COMPLIANCE AND INTERNAL CONTROLS SECTION**

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 Directors  
Legacy21, Inc., dba Legacy Preparatory Charter Academy  
Dallas, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Legacy21, Inc., dba Legacy Preparatory Charter Academy (the "Corporation") (a nonprofit organization), which comprise the statement of financial position as of August 31, 2016, 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 19, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Legacy21, Inc., dba Legacy Preparatory Charter 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Legacy21, Inc., dba Legacy Preparatory Charter 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 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 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.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Legacy21, Inc., dba Legacy Preparatory Charter 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 Legacy21, Inc., dba Legacy Preparatory Charter 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Waco, Texas  
January 19, 2017

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
Legacy21, Inc., dba Legacy Preparatory Charter Academy  
Dallas, Texas

**Report on Compliance For Each Major Federal Program**

We have audited Legacy21, Inc., dba Legacy Preparatory Charter Academy's (the "Corporation") (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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's major federal programs for the year ended August 31, 2016. Legacy21, Inc., dba Legacy Preparatory Charter Academy's major federal programs are identified in the summary of auditor's 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Legacy21, Inc., dba Legacy Preparatory Charter 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). 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 Legacy21, Inc., dba Legacy Preparatory Charter 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 Legacy21, Inc., dba Legacy Preparatory Charter Academy's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, Legacy21, Inc., dba Legacy Preparatory Charter Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

## **Report on Internal Control Over Compliance**

Management of Legacy21, Inc., dba Legacy Preparatory Charter 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 Legacy21, Inc., dba Legacy Preparatory Charter 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 the 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 Legacy21, Inc., dba Legacy Preparatory Charter 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the 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.

Waco, Texas  
January 19, 2017

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Schedule of Findings and Questioned Costs  
For the Year Ended August 31, 2016

**I. SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditor's report issued Unmodified

Internal Control over Financial Reporting:

Material weakness(es) identified?  Yes  No

Significant deficiencies(s) identified that are not considered to be material weaknesses?  Yes  No

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal Control over Major Programs:

Material weakness(es) identified?  Yes  No

Significant deficiencies(s) identified that are not considered to be material weaknesses?  Yes  No

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?  Yes  No

Identification of Major Programs:

<u>CFDA Number(s)</u>	Name of Federal Program
84.010A	ESEA, Title I, Part A – Improving Basic Programs
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**II. FINANCIAL STATEMENT FINDINGS**

None identified

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None identified

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended August 31, 2016

**Note 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Legacy21, Inc., dba Legacy Preparatory Charter Academy under programs of the Federal Government for the year ended August 31, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Heritage Academy Charter Schools, Inc., it is not intended to, and does not, present the financial position, change in net assets, or cash flows of Heritage Academy Charter Schools, Inc.

**Note 2 - Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the costs principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**Note 3 - Standard Financial Accounting System**

For all federal programs, Legacy21, Inc., dba Legacy Preparatory Charter Academy used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, No-Profit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by the grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Summary Schedule of Prior Audit Findings  
For the Year Ended August 31, 2016

**I. FINANCIAL STATEMENT FINDINGS**

None identified

**II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None identified

Legacy 21, Inc., dba  
 Legacy Preparatory Charter Academy  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended August 31, 2016

Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Education:</b>			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101057950	\$ 290,662
ESEA, Title II, Part A - Teacher and Principal Training	84.367A	16694501057950	45,087
Title III, Part A - LEP	84.365A	16671001057950	20,712
IDEA - Part B, Formula	84.027A	156600010578466000	152,085
Summer School LEP	84.369A	69551502	2,226
Total Passed Through State Department of Education			510,772
<b>U.S. Department of Agriculture:</b>			
<u>Passed Through State Department of Education</u>			
National School Lunch Program	10.555	71301501	48,763
National School Lunch Program	10.555	71301601	270,667
School Breakfast Program	10.553	71401501	5,164
School Breakfast Program	10.553	71401601	26,191
Food Distribution (Commodities)	10.550		34,811
Passed Through State Department of Agriculture			385,596
<b>Total Expenditures of Federal Awards</b>			<b>\$ 896,368</b>

See accompanying notes to Schedule of Expenditures of Federal Awards

Legacy21, Inc., dba  
Legacy Preparatory Charter Academy  
Notes to Schedule of Expenditures of Federal Awards  
For the Year Ended August 31, 2016

**Note 1 Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Legacy21, Inc., dba Legacy Preparatory Charter Academy under programs of the Federal Government for the year ended August 31, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Legacy21, Inc., dba Legacy Preparatory Charter Academy it is not intended to, and does not, present the financial position, change in net assets, or cash flows of Legacy21, Inc., dba Legacy Preparatory Charter Academy.

**Note 2 Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the costs principles contained in Uniform Guidance; wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**Note 3 Standard Financial Accounting System**

For all federal programs, Legacy21, Inc., dba Legacy Preparatory Charter Academy used the net asset classes and codes specified by the Texas Education Agency in the *Special Supplement to Financial Accounting and Reporting, Non-Profit Charter School Chart of Accounts*. Temporarily restricted net asset codes are used to account for resources restricted to or designated for specific purposes by the grantor. Federal and state financial assistance is generally accounted for in temporarily restricted net asset codes.