

**LEGACY COLLEGE PREPARATORY**  
**CHARTER SCHOOL**

**BRONX, NEW YORK**

**AUDITED FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2023**

**(With Comparative Totals for 2022)**



BUSINESS  
ADVISORS  
AND CPAS

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BUSINESS  
ADVISORS  
AND CPAS

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Legacy College Preparatory Charter School

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Legacy College Preparatory Charter School, which comprise the statement of financial position as of June 30, 2023, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Legacy College Preparatory Charter School of June 30, 2023 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.

#### ***Basis for Opinion***

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

#### ***Change in Accounting Principle***

As discussed in Note A to the financial statements, in 2023, Legacy College Preparatory Charter School adopted new accounting guidance related to accounting for leases. Our opinion is not modified with respect to this matter.

#### ***Responsibilities of Management for the Financial Statements***

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Legacy College Preparatory Charter School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Legacy College Preparatory Charter School's ability to continue as a going concern for a reasonable period of time.

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

### ***Report on Summarized Comparative Financial Information***

We have previously audited Legacy College Preparatory Charter School's June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 20, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 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 18, 2023 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.

*Mengel, Metzger, Barw & Co. LLP*

Rochester, New York  
October 18, 2023

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2023

(With Comparative Totals for 2022)

<u>ASSETS</u>	June 30,	
	<u>2023</u>	<u>2022</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 2,966,922	\$ 1,890,208
Grants and contracts receivables	1,564,325	2,054,563
Accounts receivable	-	26,713
Prepaid expenses	45,342	456,928
Contributions and other receivables	<u>432,120</u>	<u>-</u>
TOTAL CURRENT ASSETS	5,008,709	4,428,412
<u>PROPERTY AND EQUIPMENT, net</u>	911,690	970,086
<u>OTHER ASSETS</u>		
Security deposits	1,037,490	1,014,730
Cash in escrow	75,099	75,085
Right-of-use assets - operating	<u>71,651,408</u>	<u>-</u>
	<u>72,763,997</u>	<u>1,089,815</u>
TOTAL ASSETS	<u>\$ 78,684,396</u>	<u>\$ 6,488,313</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 521,367	\$ 465,060
Accrued payroll and benefits	638,963	581,135
Deferred revenue	131,357	-
Current portion of lease liabilities - operating	<u>1,363,954</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	2,655,641	1,046,195
<u>OTHER LIABILITIES</u>		
Long-term lease liabilities - operating	<u>71,169,154</u>	<u>-</u>
TOTAL LIABILITIES	73,824,795	1,046,195
<u>NET ASSETS, without donor restrictions</u>	<u>4,859,601</u>	<u>5,442,118</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 78,684,396</u>	<u>\$ 6,488,313</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, 2023  
(With Comparative Totals for 2022)

	<u>Year ended June 30,</u>	
	<u>2023</u>	<u>2022</u>
Revenue, gains and other support:		
Public school district:		
Resident student enrollment	\$ 11,867,797	\$ 10,415,315
Students with disabilities	1,385,473	1,325,727
Grants and contracts:		
State and local	32,009	39,501
Federal - Title and IDEA	611,759	620,782
Federal - other	1,147,931	2,033,840
Food Service/Child Nutrition Program	471,961	404,743
NYC DOE Rental Assistance	3,560,339	3,119,800
TOTAL REVENUE, GAINS AND OTHER SUPPORT	19,077,269	17,959,708
Expenses:		
Program services:		
Regular education	14,152,135	11,788,983
Special education	4,013,762	3,005,164
Total program services	18,165,897	14,794,147
Management and general	1,988,920	1,697,843
TOTAL OPERATING EXPENSES	20,154,817	16,491,990
(DEFICIT) SURPLUS FROM SCHOOL OPERATIONS	(1,077,548)	1,467,718
Support and other revenue:		
Contributions		
Individuals	11,737	50,000
Corporations	400,000	100
Foundations	48,600	-
Interest income	-	18
Miscellaneous income	34,694	96,975
TOTAL SUPPORT AND OTHER REVENUE	495,031	147,093
CHANGE IN NET ASSETS	(582,517)	1,614,811
Net assets at beginning of year	5,442,118	3,827,307
NET ASSETS AT END OF YEAR	\$ 4,859,601	\$ 5,442,118

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

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2023  
(With Comparative Totals for 2022)

		Year ended June 30,					
		2023					2022
	No. of Positions	Program Services			Supporting Services		Total
		Regular Education	Special Education	Sub-total	Management and General	Total	
Personnel services costs:							
Administrative staff personnel	34	\$ 1,837,197	\$ 543,244	\$ 2,380,441	\$ 849,483	\$ 3,229,924	\$2,232,671
Instructional personnel	73	4,656,297	1,296,046	5,952,343	-	5,952,343	5,751,667
Total salaries and staff	107	6,493,494	1,839,290	8,332,784	849,483	9,182,267	7,984,338
Fringe benefits and payroll taxes		1,361,848	386,599	1,748,447	191,301	1,939,748	1,689,871
Retirement		104,231	29,589	133,820	14,642	148,462	18,286
Legal services		-	-	-	23,843	23,843	14,424
Accounting/Audit services		-	-	-	36,600	36,600	32,450
Other Purchased/Professional/							
Consulting Services		343,549	145,526	489,075	140,483	629,558	892,057
Building rent		3,542,910	1,005,756	4,548,666	500,925	5,049,591	2,985,310
Repairs and maintenance		-	-	-	115,026	115,026	30,629
Insurance		61,686	17,511	79,197	8,665	87,862	64,362
Supplies/Materials		487,052	134,561	621,613	11,449	633,062	687,933
Equipment/Furnishings		28,867	8,195	37,062	4,055	41,117	126,961
Staff development		341,214	60,988	402,202	19,396	421,598	102,892
Marketing/Recruitment/Retention		78,182	21,873	100,055	6,041	106,096	305,550
Technology		89,660	25,452	115,112	12,595	127,707	13,052
Food service		380,620	104,575	485,195	-	485,195	611,410
Student services		468,393	128,690	597,083	-	597,083	165,540
Office expense		134,732	38,248	172,980	19,715	192,695	371,030
Depreciation and amortization		235,697	66,909	302,606	33,109	335,715	321,062
Other		-	-	-	1,592	1,592	74,833
		<u>\$ 14,152,135</u>	<u>\$ 4,013,762</u>	<u>\$ 18,165,897</u>	<u>\$ 1,988,920</u>	<u>\$ 20,154,817</u>	<u>\$ 16,491,990</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, 2023  
(With Comparative Totals for 2022)

	Year ended June 30,	
	2023	2022
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (582,517)	\$ 1,614,811
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	335,716	321,062
Changes in certain assets and liabilities affecting operations:		
Grants and contracts receivables	490,238	(1,531,676)
Accounts receivable	26,713	(26,713)
Prepaid expenses	411,586	18,838
Contributions and other receivables	(432,120)	-
Security deposits	(22,760)	-
Accounts payable and accrued expenses	56,307	205,430
Accrued payroll and benefits	57,828	302,349
Deferred rent	-	(350,000)
Deferred revenue	131,357	-
Lease liability, net of right-of-use asset	881,700	-
NET CASH PROVIDED FROM OPERATING ACTIVITIES	1,354,048	554,101
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(277,320)	(699,345)
NET CASH USED FOR INVESTING ACTIVITIES	(277,320)	(699,345)
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	1,076,728	(145,244)
Cash and restricted cash at beginning of year	1,965,293	2,110,537
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 3,042,021</u>	<u>\$ 1,965,293</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	\$ 2,966,922	\$ 1,890,208
Cash in escrow	75,099	75,085
Total cash and restricted cash shown in the statement of cash flows	<u>\$ 3,042,021</u>	<u>\$ 1,965,293</u>

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



# LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2023

(With Comparative Totals for 2022)

### 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 through July 2022 beginning when instruction began. The School requested a five-year renewal in August 2021 which was granted and is now renewed through July 31, 2027.

#### 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, 2023 or 2022.

#### 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, 2023

(With Comparative Totals for 2022)

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.

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

	June 30,		
	2023	2022	2021
Accounts receivable	\$ -	\$ 26,713	\$ -
Accounts payable	96,915	-	-

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.

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, 2023

(With Comparative Totals for 2022)

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. There was \$131,357 reported as deferred revenue at June 30, 2023 and no amounts at June 30, 2022.

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 \$75,099 and \$75,085 at June 30, 2023 and 2022, 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, 2023 or 2022.

Contributions and other receivables

Contributions and other receivables are composed of amounts due from Friends of Legacy for a donation, \$400,000 and expense reimbursements, \$32,120 at June 30, 2023.

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals for 2022)

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

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.

Major renewals and betterments are capitalized, while repairs and maintenance are charged to operations as incurred. Upon sale or retirement, the related cost and allowances for depreciation are removed from the accounts and the related gain or loss is reflected in operations.

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 which would not be significant to the financial statements.

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, 2020 through the year ended June 30, 2023 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, recruitment and retention costs approximated \$106,000 and \$305,600 for the years ended June 30, 2023 and 2022, 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, 2022

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, 2022, from which the summarized information was derived.

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals for 2022)

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

Leases

The Charter School leases building space and equipment and determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets and lease liabilities on the accompanying statement of financial position.

ROU assets represent the Charter School's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, the Charter School uses a risk-free rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Charter School will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

The Charter School's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating contracts to determine if they qualify as a lease, the Charter School considers factors such as if the Charter School has obtained substantially all of the rights to the underlying asset through exclusivity, if the Charter School can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

Adoption of new accounting standard – 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 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 adopted ASC 842 with the date of initial application of July 1, 2022.

The Charter School recognized and measured leases existing at July 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended June 30, 2022, are made under prior lease guidance in FASB ASC 840.

As part of the adoption of ASC 842, the Charter School elected practical expedients to account for the existing operating leases as operating leases, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard; (b) whether classification of operating leases would be different in accordance with the new guidance; or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Charter School recognized on July 1, 2022 operating lease liabilities of \$74,469,654, which represents the present value of the remaining operating lease payments of \$113,577,992, discounted using the Charter School's weighted average risk-free rate of 3.15%, and a right-of-use asset of \$74,469,654.

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals for 2022)

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

The standard had a material impact on the accompanying statement of financial position but did not have a significant impact on the statements of activities, changes in net assets and cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

New accounting pronouncement – credit losses

In June 2016 the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASU 2016-13), which requires entities to use a new impairment model referred to as the current expected credit losses (CECL) model rather than incurred losses. The new standard affects accounting for loans, accounts (trade) receivable, held-to-maturity debt securities, and other financial assets included in the scope. For non-public entities, the new standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. 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.

Reclassifications

Certain prior year amounts have been reclassified to conform with the present year presentation.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 18, 2023, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

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 2023 and 2022.

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals for 2022)

NOTE B: LIQUIDITY AND AVAILABILITY, Cont'd

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, 2023 and 2022:

	<u>June 30,</u>	
	<u>2023</u>	<u>2022</u>
Cash	\$ 2,966,922	\$ 1,890,208
Accounts receivable	-	26,713
Grants and contracts receivables	1,564,325	2,054,563
Contributions and other receivables	<u>432,120</u>	<u>-</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 4,963,367</u>	<u>\$ 3,971,484</u>

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2023 and 2022 consisted of the following:

	<u>June 30,</u>	
	<u>2023</u>	<u>2022</u>
Leasehold improvements	\$ 87,301	\$ 87,301
Furniture and fixtures	813,621	589,053
Computer equipment	975,164	944,756
Machinery and equipment	<u>273,887</u>	<u>251,543</u>
	2,149,973	1,872,653
Less accumulated depreciation	<u>1,238,283</u>	<u>902,567</u>
	<u>\$ 911,690</u>	<u>\$ 970,086</u>

NOTE D: LEASES

Related Party Facility Leases

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. 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 but 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 July 2022, this lease was amended to extend the lease with monthly escalating lease payments of approximately \$137,000 through June 2032. The Charter School has also provided a guarantee to the Overlandlord related to the payment of lease payments from Friends of Legacy to the Overlandlord.

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals for 2022)

NOTE D: LEASES, Cont'd

Effective June 28, 2022, the original lease between the Charter School and a third party for an additional facility, 808-810 Cauldwell Avenue, was assigned to Friends of Legacy, Inc. The Charter School entered into a thirty-year sublease with Friends of Legacy, Inc. for these facilities commencing in September 2022 and expiring in September 2052. The Charter School's base rent will be approximately \$185,000 per month during the year ending June 30, 2024. The lease has escalating payments throughout the term.

In conjunction with these facility leases, the Charter School paid security deposits of \$1,037,490 and \$1,014,730 which is included in security deposits on the accompanying statements of financial position at June 30, 2023 and 2022.

Equipment leases

The Charter School entered into non-cancelable lease agreements for office equipment expiring at various dates through August 2025 with total monthly lease payments of approximately \$7,600.

A summary of lease right-of-use assets and liabilities at June 30, 2023 are as follows:

<u>Statement of Financial Position Classification</u>		
<u>Assets</u>		
Operating Leases	Other assets	<u>\$ 71,651,408</u>
<u>Liabilities</u>		
Current:		
Operating Leases	Current liabilities	\$ 1,363,954
Non-current:		
Operating Leases	Other liabilities	<u>71,169,154</u>
		<u>\$ 72,533,108</u>

The components of lease expense were as follows:

Operating lease cost	\$ 5,138,045
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LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals for 2022)

NOTE D: LEASES, Cont'd

As of June 30, 2023, minimum payments due for lease liabilities for future years are as follows:

	<u>Operating leases</u>
2024	\$ 3,664,909
2025	4,054,708
2026	4,129,355
2027	4,235,248
2028	4,350,384
Thereafter	<u>89,212,705</u>
Total lease payments	109,647,309
Less: Interest	<u>(37,114,201)</u>
Present value of lease liabilities	<u><u>\$ 72,533,108</u></u>

Supplemental information for the year ended June 30, 2023:

Cash paid for amounts included for the year ended June 30, 2023	
Operating cash flows from operating leases	\$ 4,221,174
Right-of-use assets obtained in exchange for new lease liabilities (non-cash):	
Operating leases	\$ 74,469,654
Weighted-average remaining lease term:	
Operating leases	24.92 years
Weighted-average discount rate:	
Operating leases	3.15%

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, 2023

(With Comparative Totals for 2022)

NOTE F: CONCENTRATIONS

At June 30, 2023 and 2022, approximately 100% of grants and contracts receivables are due from New York State and federal agencies relating to certain grants.

During the years ended June 30, 2023 and 2022 total revenue, gains and other support came from the following sources:

	June 30,	
	2023	2022
New York City per-pupil	69%	65%
New York City DOE rental assistance	19%	17%
Federal	12%	17%

The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

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. Through June 30, 2022, the Charter School matched the employee contribution up to 3% of the employee's annual compensation. Beginning July 1, 2022, the match changed to be between 3% and 10% based upon the employees years of employment. The Charter School contributed approximately \$148,500 and \$18,300 to the Plan for the years ended June 30, 2023 and 2022, respectively.

NOTE H: NET ASSETS

Net assets without donor restrictions are as follows:

	June 30,	
	2023	2022
Undesignated	\$ 3,947,911	\$ 4,472,032
Invested in property and equipment	911,690	970,086
	<u>\$ 4,859,601</u>	<u>\$ 5,442,118</u>

LEGACY COLLEGE PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2023

(With Comparative Totals for 2022)

NOTE I: 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 J: ACCOUNTING IMPACT OF COVID-19 OUTBREAK

In response to the COVID-19 outbreak, the Federal Government passed several COVID relief acts which include funding for elementary and secondary education. The Elementary and Secondary School Emergency Relief Fund (ESSER Fund) was established to award grants to state and local educational agencies. The Charter School has recognized \$1,036,505 and \$1,958,297 of revenue relative to ESSER grants during the years ended June 30, 2023 and 2022, respectively. The Charter School has \$1,118,953 of ESSER grants still available through September 30, 2024 as of June 30, 2023.