

LEGAL PREP CHARTER ACADEMIES

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

LEGAL PREP CHARTER ACADEMIES

YEARS ENDED JUNE 30, 2022 AND 2021

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Independent Auditors' Report

Board of Directors
Legal Prep Charter Academies

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Legal Prep Charter Academies, which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legal Prep Charter Academies as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Legal Prep Charter Academies and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Legal Prep Charter Academies' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 generally accepted auditing standards and *Government Auditing Standards* 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 generally accepted auditing standards and *Government Auditing Standards*, 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 Legal Prep Charter Academies' 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 Legal Prep Charter Academies' 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2022 on our consideration of Legal Prep Charter Academies' 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 solely 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 the effectiveness of Legal Prep Charter Academies' 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 Legal Prep Charter Academies' internal control over financial reporting and compliance.

Ostrow Reisin Berk & Abrams, Ltd.

October 20, 2022

LEGAL PREP CHARTER ACADEMIES

STATEMENTS OF FINANCIAL POSITION

June 30,	2022	2021
ASSETS		
Current assets:		
Cash	\$ 266,887	\$ 327,384
Accounts and pledges receivable	287,474	140,342
Prepaid expenses	19,197	15,345
Total current assets	573,558	483,071
Property and equipment, net	6,126,884	6,231,371
Deposits	1,000	1,000
Total assets	\$ 6,701,442	\$ 6,715,442
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of notes payable	\$ 182,628	\$ 169,738
Accounts payable and accrued expenses	224,626	244,219
Total current liabilities	407,254	413,957
Long-term liability:		
Notes payable, less current maturities	5,017,545	5,200,866
Total liabilities	5,424,799	5,614,823
Net assets:		
Without donor restrictions	1,276,643	1,083,119
With donor restrictions		17,500
Total net assets	1,276,643	1,100,619
Total liabilities and net assets	\$ 6,701,442	\$ 6,715,442

See notes to financial statements.

LEGAL PREP CHARTER ACADEMIES

STATEMENTS OF ACTIVITIES

Years ended June 30,	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenue:						
Chicago Public Schools:						
Per pupil and related funding	\$ 4,211,701		\$ 4,211,701	\$ 4,179,148		\$ 4,179,148
E-Rate	19,342		19,342	20,693		20,693
Contributions and grants	165,091		165,091	176,671	\$ 35,000	211,671
Contributed goods and services	6,102		6,102	26,810		26,810
Fundraising events	171,719		171,719	138,715		138,715
School lunch revenue	97,149		97,149	81,839		81,839
Student activities	44,840		44,840	21,253		21,253
Forgiveness of debt - PPP loan				569,655		569,655
Net assets released from restrictions	17,500	\$ (17,500)		30,000	(30,000)	
Total revenue	4,733,444	(17,500)	4,715,944	5,244,784	5,000	5,249,784
Expenses:						
Program services	4,063,163		4,063,163	3,781,620		3,781,620
Supporting services:						
Management and general	410,521		410,521	389,254		389,254
Fundraising	66,236		66,236	59,998		59,998
Total expenses	4,539,920		4,539,920	4,230,872		4,230,872
Change in net assets	193,524	(17,500)	176,024	1,013,912	5,000	1,018,912
Net assets:						
Beginning of year	1,083,119	17,500	1,100,619	69,207	12,500	81,707
End of year	\$ 1,276,643	\$ -	\$ 1,276,643	\$ 1,083,119	\$ 17,500	\$ 1,100,619

See notes to financial statements.

LEGAL PREP CHARTER ACADEMIES

STATEMENTS OF FUNCTIONAL EXPENSES

Years ended June 30,	2022				2021			
	Supporting Services				Supporting Services			
	Program services	Management and general	Fundraising	Total	Program services	Management and general	Fundraising	Total
Advertising and recruitment	\$ 23,919		\$ 7,973	\$ 31,892	\$ 17,929		\$ 5,976	\$ 23,905
Contracted services	63,260			63,260	57,368			57,368
CPS administrative fee		\$ 90,568		90,568		\$ 97,385		97,385
Depreciation	173,424	15,080		188,504	191,033	16,612		207,645
Employee benefits and payroll taxes	635,350	41,436	13,812	690,598	554,643	36,172	12,058	602,873
Food service	91,299			91,299	65,953			65,953
Insurance	54,151			54,151	48,103			48,103
Interest expense	319,851			319,851	335,946			335,946
Office supplies and expenses	46,167	4,015		50,182	58,060	5,049		63,109
Professional fees		105,759		105,759		95,950		95,950
Rent and occupancy	233,550	20,309		253,859	140,239	12,195		152,434
Salaries	2,044,767	133,354	44,451	2,222,572	1,930,336	125,891	41,964	2,098,191
Student expenses	259,101			259,101	244,313			244,313
Textbooks and educational materials	118,324			118,324	137,697			137,697
Total expenses	\$ 4,063,163	\$ 410,521	\$ 66,236	\$ 4,539,920	\$ 3,781,620	\$ 389,254	\$ 59,998	\$ 4,230,872

See notes to financial statements.

LEGAL PREP CHARTER ACADEMIES

STATEMENTS OF CASH FLOWS

Years ended June 30,	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ 176,024	\$ 1,018,912
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	188,504	207,645
Forgiveness of debt - PPP loan		(569,655)
(Increase) decrease in operating assets:		
Accounts and pledges receivable	(147,132)	(32,420)
Prepaid expenses	(3,852)	16,663
Decrease in operating liabilities:		
Accounts payable and accrued expenses	(70,013)	(17,957)
Net cash provided by operating activities	143,531	623,188
Cash flows from investing activity:		
Purchases of property and equipment	(33,597)	(53,773)
Net cash used in investing activity	(33,597)	(53,773)
Cash flows from financing activities:		
Payments on long-term debt	(170,431)	(157,291)
Proceeds from advances and short-term loans from officers and related parties		15,000
Payments on advances and short-term loans from officers and related parties		(215,000)
Net cash used in financing activities	(170,431)	(357,291)

See notes to financial statements.

LEGAL PREP CHARTER ACADEMIES

STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended June 30,	2022	2021
Net change in cash	\$ (60,497)	\$ 212,124
Cash:		
Beginning of year	327,384	115,260
End of year	\$ 266,887	\$ 327,384
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 319,851	\$ 335,946
Supplemental disclosure of non-cash investing and financing activity:		
The School acquired land in exchange for the assumption of liabilities of the same amount.	\$ 50,420	

See notes to financial statements.

LEGAL PREP CHARTER ACADEMIES

NOTES TO FINANCIAL STATEMENTS

1. Organization and purpose

Legal Prep Charter Academies (the School), located in Chicago, Illinois, was incorporated on October 5, 2009, under the provisions of the General Not-For-Profit Act of the State of Illinois. The School was founded to create a legal themed charter high school in a high-need Chicago community. The School's mission is to prepare Chicago's youth to succeed in college and in life.

The School opened its facility to students in August 2012. The School served an average of 256 and 239 students for the years ended June 30, 2022 and 2021, respectively.

The School is supported primarily through funding from Chicago Public Schools and other contributions including funding from state and federal agencies, various community and corporate foundations and the general public. During the years ended June 30, 2022 and 2021, the School received approximately 89% and 80%, respectively, of its support from per pupil and related funding from Chicago Public Schools.

The School is subject to a Charter School Agreement with the Board of Education of the City of Chicago (Chicago Public Schools or CPS). The agreement is for a term of two years ending on June 30, 2024. In addition, the School has been certified as a charter school by the Illinois State Board of Education (ISBE).

The School is governed by a Board of Directors that is selected according to the School's Bylaws.

Under state law, Chicago Public Schools has oversight responsibility to verify that the School complies with the requirements and meets the expectations of a public educational system. The School is expected to satisfy regulations and compliance requirements of Chicago Public Schools.

LEGAL PREP CHARTER ACADEMIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies

The significant accounting policies of the School are summarized below:

Basis of accounting:

The School's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Recent accounting pronouncement:

During the year ended June 30, 2022, the School adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires not-for-profit entities to present contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a not-for-profit entity has received. Adoption of this standard did not have a significant impact on the School's financial statements.

Net assets:

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-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 restrictions.

Net assets with donor restrictions - Net assets subject to donor-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 the resources be maintained in perpetuity.

LEGAL PREP CHARTER ACADEMIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Revenue and revenue recognition:

The School has the following types of revenue:

Per pupil and other CPS funding, school lunch revenue, and federal revenue (including Title funding, Elementary and Secondary School Emergency Relief (ESSER) Fund, and E-Rate)

The School receives a student allocation from Chicago Public Schools as well as other state and local and federal entitlement funding to cover the cost of educational expenses. Per pupil tuition is calculated by ISBE as defined by statute, and varies year-to-year as the following fluctuate: CPS' expenditures, expenditure composition, categorical revenue, and student attendance. Per pupil tuition includes an allotment for instruction and operations, facility costs (for schools operating in independent facilities), and special education.

The revenue is recognized ratably over the school year. Other state and local entitlements, special education, and other CPS funding are allocated by CPS and recognized as revenue ratably over the school year. Federal entitlements such as Title and ESSER funding are also allocated by CPS and are recognized as revenue as allowable costs are incurred. E-Rate revenue is recognized when eligible program expenses are incurred and approved. School lunch revenue is recognized as revenue when meals are served to qualifying students. All of these revenue categories are accounted for as non-exchange transactions as the benefit to the resource provider is incidental to the public benefit received by the students served by the School.

Student activities

Student activities include annual school fees, sports fees, graduation fees, field trip fees, summer school fees and uniform fees. Since collection is not probable, student activities revenue is recognized when fees are collected and performance obligations are met.

Contributions and grants

The School recognizes contributions and grants when cash, securities or other assets, or an unconditional promise to give (pledge) is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

LEGAL PREP CHARTER ACADEMIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Revenue and revenue recognition: (continued)

Contributions and grants (continued)

Contributions received are recorded as without or with donor restrictions depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Contributions and grants received subject to donor restrictions and spent in fulfillment of those restrictions in the same fiscal year are reported as net assets without donor restrictions.

Contributed goods and services

Contributed goods and services are reflected as contributions at their fair value at the date of donation and are reported as contributions without donor restrictions unless explicit donor stipulations specify how donated assets must be used. The School recognizes the fair value of contributed services received if such services a) create or enhance nonfinancial assets or b) require specialized skills that are provided by individuals possessing those skills and would typically be purchased if not contributed. The School also receives services from a large number of volunteers who give significant amounts of their time to the School, but these services do not meet the criteria for financial statement recognition.

Contributed goods are not sold and goods and services are only utilized by the School. There were no donor restrictions for contributed goods and services during the years ended June 30, 2022 and 2021. Contributed goods and services during the year ended June 30, 2022 included in-kind services of \$6,102, representing professional fees valued at estimated fair value using standard industry pricing for similar services. Contributed goods and services of \$26,810 during the year ended June 30, 2021 included in-kind services of \$17,792, representing professional fees valued at estimated fair value using standard industry pricing for similar services, and non-food items of \$9,018, representing educational materials valued at estimated fair value using third-party estimates for costs of similar goods in like circumstances.

LEGAL PREP CHARTER ACADEMIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Revenue and revenue recognition: (continued)

Contributed goods and services (continued)

During the years ended June 30, 2022 and 2021, contributed goods and services were allocated as follows:

Year ended June 30, 2022	Program services	Management and general	Total
Professional fees		\$ 6,102	\$ 6,102

Year ended June 30, 2021	Program services	Management and general	Total
Professional fees		\$ 17,792	\$ 17,792
Student expenses	\$ 9,018		9,018
Total	\$ 9,018	\$ 17,792	\$ 26,810

Accounts and pledges receivable:

Accounts and pledges receivable consist of amounts due from Chicago Public Schools, other governmental agencies, and donors. The School estimates the allowance based on an analysis of specific account history and experience. It is the School's policy to charge off uncollectible accounts receivable when management determines that the receivable will not be collected. An allowance for doubtful accounts is considered unnecessary and is not provided as of June 30, 2022 and 2021. All accounts and pledges receivable at June 30, 2022 and 2021 are due within one year.

Property and equipment and related depreciation:

Property and equipment are stated at cost, if purchased, or at fair value at the date of donation, if donated. Acquisitions of property and equipment in excess of \$500 are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of depreciable assets.

LEGAL PREP CHARTER ACADEMIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. Summary of significant accounting policies (continued)

Property and equipment and related depreciation: (continued)

Management reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that 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. When considered impaired, an impairment loss is recognized to the extent the carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2022 and 2021.

Expense allocation:

The costs of program and supporting activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries, employee benefits and payroll taxes, depreciation, office supplies and expenses, and rent and occupancy are allocated on the basis of estimates of time and effort. All other costs directly attributable to a program or supporting function are charged directly to that function.

Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Accordingly, actual results could differ from those estimates.

Subsequent events:

Management of the School has reviewed and evaluated subsequent events through October 20, 2022, the date the financial statements were available to be issued.

LEGAL PREP CHARTER ACADEMIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Revenue from contracts with customers

Revenue from contracts with customers includes the portion of fundraising events revenue that relates to the exchange element, which is based upon the fair value of the direct benefits donors receive. Revenue is recognized at a point in time when the special event takes place. During the years ended June 30, 2022 and 2021, there were minimal amounts of exchange elements for fundraising events held during the year. In addition, there were no receivables from contracts with customers, contract assets, or contract liabilities as of June 30, 2022, 2021, and 2020.

4. Liquidity and availability

The School manages available cash to meet general expenditures following these principles:

- Meet operating needs and contractual commitments
- Maintain adequate liquid assets
- Maintain sufficient reserves to fund programs

The sources of liquidity available to the School are cash and receivables. The School strives to maintain sufficient cash to cover general expenditures. To facilitate this goal, management updates a rolling, 12-month projected cash flow statement on a monthly basis. Each month, management looks ahead to ensure that cash inflows and outflows are properly projected regarding the School's operations.

The table below presents financial assets available for general expenditures within one year at June 30, 2022 and 2021:

June 30,	2022	2021
Financial assets at year-end:		
Cash	\$ 266,887	\$ 327,384
Accounts and pledges receivable	287,474	140,342
Total financial assets	554,361	467,726
Less amount not available to be used within one year:		
Net assets with donor restrictions		17,500
Financial assets available to meet general expenditures within one year	\$ 554,361	\$ 450,226

LEGAL PREP CHARTER ACADEMIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Tax status

The School is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. In addition, the Internal Revenue Service has determined that the School is not a private foundation within the meaning of Section 509(a) of the Code. Management has determined that the School was not required to record a liability related to uncertain tax positions as of June 30, 2022 and 2021.

6. Cash

The School maintains its cash in bank accounts which, at times, may exceed federally-insured limits. At June 30, 2022 and 2021, cash in excess of these limits totaled approximately \$24,000 and \$77,000, respectively. Management believes that the School is not exposed to any significant credit risk on cash.

7. Property and equipment

The components of property and equipment are as follows:

June 30,	2022	2021
Building and building improvements	\$ 7,335,415	\$ 7,307,435
Classroom textbooks	109,796	109,796
Computer equipment	333,474	333,474
Furniture	261,079	255,462
Land	194,814	144,394
	8,234,578	8,150,561
Less accumulated depreciation	(2,107,694)	(1,919,190)
Property and equipment, net	\$ 6,126,884	\$ 6,231,371

LEGAL PREP CHARTER ACADEMIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Advances and short-term loans from officers and related parties

The School entered into a short-term loan with a board member of the School for working capital of \$15,000 during the year ended June 30, 2021. During the year ended June 30, 2021, the School repaid short-term loans of \$215,000 to related parties. There were no short-term loans with related parties as of June 30, 2022 and 2021.

Interest expense related to advances and short-term loans from officers and related parties was \$5,500 in 2021.

9. Notes payable

The School has the following loans with IFF:

\$2,928,000 with monthly principal and interest payments of \$19,770, and annual interest rate of 6.5%, and is due on December 28, 2041.

\$750,000 with monthly principal and interest payments of \$6,482, an annual interest rate of 6.375% for the first five years and at the greater of i) the sum of the yield to maturity (based on asked quotations) of United States Treasury obligations with a maturity equal to the maturity date plus 3.00% or ii) 6.00% for the succeeding 10 years, and is due on December 28, 2031. The annual interest rate and monthly principal and interest rate payments were adjusted to 6.00% and \$6,373, respectively, during the year ended June 30, 2022.

\$750,000 with monthly principal and interest payments of \$6,482, an annual interest rate of 6.375% for the first five years and at the greater of i) the sum of the yield to maturity (based on asked quotations) of United States Treasury obligations with a maturity equal to the maturity date plus 3.00% or ii) 6.00% for the succeeding 10 years, and is due on December 28, 2031. The annual interest rate and monthly principal and interest rate payments were adjusted to 6.00% and \$6,373, respectively, during the year ended June 30, 2022.

LEGAL PREP CHARTER ACADEMIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Notes payable (continued)

The School has three additional loans to finance capital improvement projects at the School:

\$702,398 Note A and \$237,602 Note B with IFF Capital 26, LLC, as part of a New Market Tax Credits financing transaction. Both of the loans require the School to make quarterly interest-only payments of 3.88%. The loans mature on June 28, 2026. It is expected that at the end of the seven-year NMTC compliance period, approximately in June 2026, the NMTC transaction will unwind and the remaining loan balances in Note A and Note B will be refinanced.

\$567,000 with IFF and with monthly interest-only payments through July 31, 2020, principal and interest payments of \$5,096 starting on August 1, 2020 at an annual interest rate of 7.00% through June 30, 2025, at which time the interest rate resets to the greater of i) the sum of the yield to maturity (based on asked quotations) of United States Treasury obligations with a maturity equal to the maturity date plus 4.00% or ii) 6.00% through the maturity date of July 1, 2035.

All of the above loans are collateralized by the facility.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act, was signed into law. One component of the CARES Act was the Paycheck Protection Program (PPP) which provides businesses with funding to maintain their payroll and cover applicable overhead. The PPP was implemented by the Small Business Administration (SBA) with support from the Department of the Treasury. The PPP provides funds to pay up to 24 weeks of payroll costs including benefits. Funds can also be used to pay interest on mortgages, rent, utilities and other allowable costs. The School applied for and received \$569,655. The School applied for loan forgiveness under the provisions of Section 1106 of the CARES Act and the loan forgiveness application was approved by the lender and the SBA in January 2021. The School has accounted for the PPP loan under the debt model and recognized forgiveness of debt revenue of \$569,655 during the year ended June 30, 2021 upon approval of the loan forgiveness application.

LEGAL PREP CHARTER ACADEMIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Notes payable (continued)

Future principal amounts due on the notes payable are as follows:

Year ending June 30:	Amount
2023	\$ 182,628
2024	194,523
2025	207,198
2026	1,160,700
2027	235,086
Thereafter	3,220,038
Total	\$ 5,200,173

10. Line of credit

The School has a revolving line of credit agreement with First American Bank which allows for maximum borrowings of up to \$100,000 with interest on borrowings at the Prime rate (4.75% and 3.25% as of June 30, 2022 and 2021, respectively) plus 1%, not to be less than 4.25%. During the year ended June 30, 2022, maximum borrowings allowed under the revolving line of credit were increased to \$250,000. The line of credit is collateralized by substantially all assets of the School. There were no amounts outstanding on the line of credit as of June 30, 2022 and 2021. The line of credit agreement requires the School to be in compliance with various covenants, which the School was in compliance with as of June 30, 2022.

11. Net assets with donor restrictions

As of June 30, 2021, net assets with donor restrictions of \$17,500 were restricted for time restrictions.

During the years ended June 30, 2022 and 2021, net assets of \$17,500 and \$30,000, respectively, were released from donor restrictions upon the expiration of time restrictions.

LEGAL PREP CHARTER ACADEMIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. Retirement fund commitments

The School participates in the Public School Teachers' Pension and Retirement Fund of Chicago (CTPF or the Fund), a defined-benefit plan. Participants of the Fund include all active nonannuitants who are employed by a Fund-covered employer and who hold an Illinois State Teacher Certification Board certification. The State of Illinois appropriates public contributions to the Chicago Public Schools who then remits those (employer) contributions to the Fund for the benefit of applicable Chicago schools.

Chicago Public Schools withholds the employer contribution related to pensionable salaries from the tuition that was paid to each school.

On a discretionary basis, the School has elected to pay a portion of its employees' required contributions to the Fund. The Fund does not maintain separate actuarial records for the School.

CTPF pension amounts are as follows for the years ended June 30, 2022 and 2021:

Years ended June 30,	2022	2021
Total pensionable salaries	\$ 1,140,787	\$ 1,239,868
Employees' contribution expense picked up by employer	\$ 72,305	\$ 55,212
Employer's contribution expense (11.16%)	\$ 127,055	\$ 138,369
Less: CPS deduction amount for employer's pension expense	(138,112)	(147,843)
Pension true-up amount	\$ (11,057)	\$ (9,474)

In addition, all School employees are eligible to participate in a Section 403(b) defined-contribution plan. The School may make discretionary matching contributions for employee contributions for employees who do not participate in CTPF. During the years ended June 30, 2022 and 2021, the School paid \$15,816 and \$12,053, respectively.

LEGAL PREP CHARTER ACADEMIES

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Commitments and contingencies

The School has received funds from state and federal grants during the years ended June 30, 2022 and 2021 which are subject to audits by the granting agencies. Management believes that any adjustments that might arise from these audits would be insignificant to the School's operations.

The School was named as the defendant in two lawsuits involving alleged misconduct by a former employee of the School. The lawsuits are in the discovery stage. Management believes that any potential loss will be covered by its insurance carrier and would not have a material effect on the School's financial position or change in net assets.

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Legal Prep Charter Academies

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 Legal Prep Charter Academies, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 20, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Legal Prep Charter Academies' internal control over financial reporting (internal control) as a basis for designing 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 Legal Prep Charter Academies' internal control. Accordingly, we do not express an opinion on the effectiveness of Legal Prep Charter Academies' 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Legal Prep Charter Academies' 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 financial statements. 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 Legal Prep Charter Academies' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Legal Prep Charter Academies' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ostrow Reisin Berk & Abrams, Ltd.

Chicago, IL
October 20, 2022

**Independent Accountants' Report on Compliance with
Requirements of Applicable Laws and Regulations
Prescribed by Administering Agency**

Board of Directors
Legal Prep Charter Academies

We have examined Legal Prep Charter Academies' compliance with the compliance requirements listed in Attachment A provided by its administering agency, Chicago Public Schools, during the year ended June 30, 2022. Management of Legal Prep Charter Academies is responsible for Legal Prep Charter Academies' compliance with the specified requirements. Our responsibility is to express an opinion on Legal Prep Charter Academies' compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the AICPA. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether Legal Prep Charter Academies complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether Legal Prep Charter Academies complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the examination engagement.

Our examination does not provide a legal determination on Legal Prep Charter Academies' compliance with specified requirements.

This report is intended solely for the information and use of the Board of Directors and management of Legal Prep Charter Academies and Chicago Public Schools and it is not suitable for any other purpose.

In our opinion, except for the material noncompliance disclosed on page 27, Legal Prep Charter Academies complied, in all material respects, with the specified requirements referred to in Attachment A during the year ended June 30, 2022.

Legal Prep Charter Academies' response to the finding identified in our examination is noted on page 27. We express no opinion on Legal Prep Charter Academies' response.

Ostrow Reisin Berk & Abrams, Ltd.

Chicago, IL
October 20, 2022

Attachment A

Chicago Public Schools provided the specified requirements in a memorandum dated May 16, 2022 and a Charter School Agreement dated July 1, 2017.

- Open Meetings Act (5 ILCS 120/1.01 *et seq.*)
- Fingerprint-based Criminal Background Investigations and Checks of the Statewide Sex Offender Database and Statewide Child Murderer and Violent Offender Against Youth Database (105 ILCS 5/10-21.9 and 105 ILCS 5/34-18.5)
- Illinois School Student Records Act (105 ILCS 10/1 *et seq.*)
- Administering Medication (105 ILCS 5/10-22.21b)
- Hazardous Materials Training (105 ILCS 5/10-20.17a)
- School Safety Drill Act (105 ILCS 128/1 *et seq.*)
- Abused and Neglected Child Reporting Act (325 ILCS 5/1 *et seq.*)
- Eye Protection in School Act (105 ILCS 115/0.01 *et seq.*)
- Toxic Art Supplies in Schools Act (105 ILCS 135/1 *et seq.*)
- Infectious Disease Policies and Rules (105 ILCS 5/10-21.11)
- Physical Fitness Facility Medical Emergency Preparedness Act (210 ILCS 74/1 *et seq.*)
- Open Enrollment Process and Lottery (105 ILCS 5/27A-4(d), (h))
- Board of Directors Requirements (105 ILCS 5/27A-5(c))
- Conformance with the following sections of the Charter School Agreement:
 - Governance and Operation
 - Maintenance of Corporate Status and Good Standing
 - Pension Payments
 - Management and Financial Controls
 - Enrollment/Attendance
 - Facility
 - Insurance

LEGAL PREP CHARTER ACADEMIES

SCHEDULE OF CURRENT YEAR FINDINGS

YEAR ENDED JUNE 30, 2022

Finding 2022-001 Conformance with Charter School Agreement

Criteria Requirement

The School is required to prepare and submit an annual budget each fiscal year to Chicago Public Schools no later than July 1 of such fiscal year unless a later date is agreed to in writing.

Condition

The due date for the submission of the 2022-2023 fiscal year budget was extended to July 29, 2022. The School submitted the 2022-2023 fiscal year budget on August 2, 2022.

Effect

The School is not in compliance with this compliance requirement.

Recommendation

We recommend that the School submit an annual budget by the required due date.

Management Response

In the future, the School will submit an annual budget by the required due date.

LEGAL PREP CHARTER ACADEMIES

SCHEDULE OF PRIOR YEAR FINDINGS

YEAR ENDED JUNE 30, 2022

There were no findings during the year ended June 30, 2021.