

**LEGAL PREP CHARTER ACADEMIES**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

# **LEGAL PREP CHARTER ACADEMIES**

YEARS ENDED JUNE 30, 2020 AND 2019

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## **Independent Auditors' Report**

Board of Directors  
Legal Prep Charter Academies

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

We have audited the accompanying financial statements of Legal Prep Charter Academies (the School), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years 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.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. 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. 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 Legal Prep Charter Academies as of June 30, 2020 and 2019, 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2020, on our consideration of the 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 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 the School's 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 the School's internal control over financial reporting and compliance.

*Ostron Reisin Berk & Abrams, Ltd.*

October 29, 2020

# LEGAL PREP CHARTER ACADEMIES

## STATEMENTS OF FINANCIAL POSITION

June 30,	2020	2019
<b>ASSETS</b>		
Current assets:		
Cash	\$ 115,260	\$ 52,731
Accounts and pledges receivable	107,922	189,746
Prepaid expenses	32,008	2,796
Total current assets	255,190	245,273
Property and equipment, net	6,385,243	5,277,122
Deposits	1,000	1,000
Restricted cash - construction escrow account		1,290,033
Total assets	\$ 6,641,433	\$ 6,813,428
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>		
Current liabilities:		
Current maturities of notes payable	\$ 157,292	\$ 128,517
Line of credit		250,000
Advances and short-term loans from officers and related parties	200,000	295,000
Accounts payable and accrued expenses	262,176	651,798
Total current liabilities	619,468	1,325,315
Long-term liability:		
Notes payable, less current maturities	5,940,258	5,527,896
Total liabilities	6,559,726	6,853,211
Net assets (deficit):		
Without donor restrictions	69,207	(88,816)
With donor restrictions	12,500	49,033
Total net assets (deficit)	81,707	(39,783)
Total liabilities and net assets (deficit)	\$ 6,641,433	\$ 6,813,428

See notes to financial statements.

## LEGAL PREP CHARTER ACADEMIES

### STATEMENTS OF ACTIVITIES

Years ended June 30,	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenue:						
Chicago Public Schools:						
Per pupil and related funding	\$ 4,401,253		\$ 4,401,253	\$ 4,212,929		\$ 4,212,929
E-Rate	17,991		17,991	35,923		35,923
Contributions and grants	155,318	\$ 25,000	180,318	195,696	\$ 75,000	270,696
Contributed goods and services	26,279		26,279	16,381		16,381
Fundraising events, net of cost of direct benefits to donors of \$96,195 in 2019	149,542		149,542	47,245		47,245
School lunch revenue	80,045		80,045	99,522		99,522
Student activities	40,740		40,740	46,939		46,939
Net assets released from restrictions	61,533	(61,533)		61,267	(61,267)	
<b>Total revenue</b>	<b>4,932,701</b>	<b>(36,533)</b>	<b>4,896,168</b>	<b>4,715,902</b>	<b>13,733</b>	<b>4,729,635</b>
Expenses:						
Program services	4,254,111		4,254,111	4,539,492		4,539,492
Supporting services:						
Management and general	427,917		427,917	352,581		352,581
Fundraising	92,650		92,650	90,705		90,705
<b>Total expenses</b>	<b>4,774,678</b>		<b>4,774,678</b>	<b>4,982,778</b>		<b>4,982,778</b>
<b>Change in net assets</b>	<b>158,023</b>	<b>(36,533)</b>	<b>121,490</b>	<b>(266,876)</b>	<b>13,733</b>	<b>(253,143)</b>
Net assets (deficit):						
Beginning of year	(88,816)	49,033	(39,783)	178,060	35,300	213,360
<b>End of year</b>	<b>\$ 69,207</b>	<b>\$ 12,500</b>	<b>\$ 81,707</b>	<b>\$ (88,816)</b>	<b>\$ 49,033</b>	<b>\$ (39,783)</b>

*See notes to financial statements.*

**LEGAL PREP CHARTER ACADEMIES**

**STATEMENTS FUNCTIONAL EXPENSES**

Years ended June 30,	2020				2019			
	Program services	Supporting Services		Total	Program services	Supporting Services		Total
		Management and general	Fundraising			Management and general	Fundraising	
Advertising and recruitment	\$ 9,409		\$ 3,136	\$ 12,545	\$ 6,387		\$ 2,130	\$ 8,517
Contracted services	98,494			98,494	127,006			127,006
CPS administrative fee		\$ 105,893		105,893		\$ 91,553		91,553
Depreciation	181,878	15,816		197,694	145,731	7,279	3,859	156,869
Employee benefits and payroll taxes	598,450	39,029	13,010	650,489	659,900	43,037	14,346	717,283
Food service	71,242			71,242	101,292			101,292
Insurance	40,266			40,266	27,922	1,782		29,704
Interest expense	316,603	27,532		344,135	282,409	18,026		300,435
Office supplies and expenses	59,689	3,893	1,297	64,879	67,140	3,353	1,778	72,271
Professional fees		75,061	27,334	102,395		58,220		58,220
Rent and occupancy	196,347	17,074		213,421	223,659	11,171	5,922	240,752
Salaries	2,202,161	143,619	47,873	2,393,653	2,365,519	118,160	62,670	2,546,349
Student expenses	362,502			362,502	402,417			402,417
Textbooks and educational materials	117,070			117,070	130,110			130,110
<b>Total expenses</b>	<b>\$ 4,254,111</b>	<b>\$ 427,917</b>	<b>\$ 92,650</b>	<b>\$ 4,774,678</b>	<b>\$ 4,539,492</b>	<b>\$ 352,581</b>	<b>\$ 90,705</b>	<b>\$ 4,982,778</b>

*See notes to financial statements.*

# LEGAL PREP CHARTER ACADEMIES

## STATEMENTS OF CASH FLOWS

Years ended June 30,	2020	2019 (As restated)
Cash flows from operating activities:		
Change in net assets	\$ 121,490	\$ (253,143)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	197,694	156,869
(Increase) decrease in operating assets:		
Accounts and pledges receivable	81,824	12,532
Prepaid expenses	(29,212)	9,304
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(339,203)	139,736
Deferred revenue		(3,610)
Net cash provided by operating activities	32,593	61,688
Cash flows from investing activity:		
Purchases of property and equipment	(1,356,234)	(284,982)
Net cash used in investing activity	(1,356,234)	(284,982)
Cash flows from financing activities:		
Payments on line of credit	(250,000)	
Proceeds from long-term debt	569,654	1,290,033
Payments on long-term debt	(128,517)	(120,534)
Proceeds from advances and short-term loans from officers and related parties	410,500	418,000
Payments on advances and short-term loans from officers and related parties	(505,500)	(123,000)
Proceeds from short-term loans from others	45,000	
Payments on short-term loans from others	(45,000)	
Net cash provided by financing activities	96,137	1,464,499

*See notes to financial statements.*



# LEGAL PREP CHARTER ACADEMIES

## STATEMENTS OF CASH FLOWS (CONTINUED)

Years ended June 30,	2020	2019 (As restated)
Net change in cash and restricted cash	\$ (1,227,504)	\$ 1,241,205
Cash and restricted cash:		
Beginning of year	1,342,764	101,559
End of year	\$ 115,260	\$ 1,342,764
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 376,977	\$ 300,435
Supplemental disclosure of non-cash investing and financing activity:		
Property and equipment additions financed with notes payable		\$ 216,967
Reconciliation of cash and restricted cash reported in the statements of financial position that sum to the total of the same accounts shown in the statements of cash flows:		
Cash	\$ 115,260	\$ 52,731
Restricted cash - construction escrow account		1,290,033
Total cash and restricted cash shown in the statement of cash flows	\$ 115,260	\$ 1,342,764

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 286 and 321 students for the years ended June 30, 2020 and 2019, respectively.

The School is supported primarily through tuition payments 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, 2020 and 2019, the School received approximately 90% and 89%, 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 five years ending on June 30, 2022. 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 have 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 pronouncements:**

Effective July 1, 2019, the School adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. The change in accounting principle was adopted on a modified prospective basis in 2020. The adoption of this standard did not materially impact the financial statements of the School.

Effective July 1, 2019, the School adopted ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This guidance requires a statement of cash flows to explain the change during the period in the total of cash and restricted cash. Internal transfers between cash and restricted cash are no longer presented in the statements of cash flows. The adoption of this standard has been applied retrospectively to all periods presented. The School has adjusted the presentation in the statements of cash flows accordingly.

#### **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 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:**

Revenue is recognized when earned. The School has the following types of revenue.

#### Per pupil and related funding

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-capita tuition is calculated by CPS and determined by ISBE as defined by statute, and vary year-to-year as the following fluctuate: CPS' expenditures, expenditure composition, categorical revenue including appropriations authorized by the Illinois General Assembly and subsequent approval by CPS of its budget on an annual basis, and student attendance. Per-capita tuition includes an allotment for instruction and operations, facility costs (for schools operating in independent facilities), and special education. This revenue is recognized ratably over the school year. Other state and local entitlements, special education, supplemental general state aid, and other CPS funding are allocated by CPS and recognized as revenue ratably over the school year. Federal entitlements such as Title funding are also allocated by CPS and are recognized as revenue as allowable costs are incurred.

#### 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. Funds received subject to donor restriction and spent in fulfillment of that restriction in the same fiscal year are reported as net assets without donor restrictions.

#### Contributed goods and services

Contributed goods and services are reported at fair value in the financial statements when the services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and are services which would be typically purchased if not provided by donation.

#### E-Rate and school lunch revenue

Revenue from the E-Rate and food programs are recognized as revenue as allowable costs are incurred.

# **LEGAL PREP CHARTER ACADEMIES**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### **2. Summary of significant accounting policies (continued)**

#### **Revenue and revenue recognition: (continued)**

##### Student activities

Revenue from student activities is recognized when the activity is held.

#### **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, 2020 and 2019. All accounts and pledges receivable at June 30, 2020 and 2019 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.

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, 2020 and 2019.

#### **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.

# **LEGAL PREP CHARTER ACADEMIES**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### **2. Summary of significant accounting policies (continued)**

#### **Expense allocation: (continued)**

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 and employee benefits and payroll taxes are allocated on the basis of estimates of time and effort. Depreciation, interest, office supplies and expenses, and rent are allocated using the allocation percentages of salaries. 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 29, 2020, the date the financial statements were available to be issued.

### **3. COVID-19 impact**

On March 11, 2020, the World Health Organization recognized COVID-19 as a global pandemic, prompting many national, regional, and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy. During the COVID-19 pandemic, the School's services have generally been considered essential in nature and although the teaching has changed from in-person to a remote learning model, the functions of the School have not been materially interrupted. As the situation continues to evolve, the School is closely monitoring the impact of the COVID-19 pandemic on all aspects of the School's operations, including how it impacts the School's students, employees, funders, suppliers, and vendors, in addition to how the COVID-19 pandemic impacts the School's ability to provide educational services to students. The School believes that the ultimate impact of the COVID-19 pandemic on its operating results, cash flows, and financial condition is likely to be determined by factors which are uncertain, unpredictable, and outside of the School's control. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could adversely impact the School.

# LEGAL PREP CHARTER ACADEMIES

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 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, 2020:

June 30,	2020	2019
Financial assets at year-end:		
Cash	\$ 115,260	\$ 52,731
Accounts and pledges receivable	107,922	189,746
	<hr/>	<hr/>
Total financial assets	223,182	242,477
Less amount not available to be used within one year:		
Net assets with donor restrictions	12,500	49,033
	<hr/>	<hr/>
Financial assets available to meet general expenditures within one year	\$ 210,682	\$ 193,444

### 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, 2020 and 2019.

# LEGAL PREP CHARTER ACADEMIES

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 6. Cash

The School maintains its cash in bank accounts which, at times, may exceed federally-insured limits.

### 7. Property and equipment

The components of property and equipment are as follows:

June 30,	2020	2019
Building and building improvements	\$ 7,258,320	\$ 5,680,420
Classroom textbooks	109,796	104,197
Computer equipment	331,776	326,370
Furniture	252,502	250,419
Land	144,394	194,813
	<b>8,096,788</b>	6,556,219
Less accumulated depreciation	<b>(1,711,545)</b>	(1,513,851)
	<b>6,385,243</b>	5,042,368
Construction in progress		234,754
Property and equipment, net	\$ <b>6,385,243</b>	\$ 5,277,122

During the year ended June 30, 2020, land in the amount of \$50,419 was foreclosed and a liability for unpaid real estate taxes of the same amount was relieved at the same time. There was no impact on the School's change in net assets for the year ended June 30, 2020.

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

The School entered into several short-term loans with family members and friends of officers and management of the School for working capital in the aggregate amount of \$318,000 during the year ended June 30, 2019. As of June 30, 2019, \$195,000 remained unpaid. As of June 30, 2020, all of these related short-term loans were paid in full with interest.



# **LEGAL PREP CHARTER ACADEMIES**

## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

### **8. Advances and short-term loans from officers and related parties (continued)**

The School entered into several short-term loans with family members and friends of officers and management of the School for working capital of \$299,000 during the year ended June 30, 2020. As of June 30, 2020, \$100,000 remained unpaid, are due through August 1, 2020 and have stated interest amounts of \$-0- to \$2,500. Subsequent to June 30, 2020, the loans were paid in full with interest.

The School entered into a short-term loan with a board member of the School for working capital of \$100,000 during the year ended June 30, 2019. As of June 30, 2020 and 2019, \$100,000 remained unpaid, and due on August 1, 2020 with 0% interest. Subsequent to June 30, 2020, the due date has been extended to February 1, 2021.

The School entered into several short-term loan with board members of the School for working capital of \$111,500 during the year ended June 30, 2020. As of June 30, 2020, all of these short-term loans were paid in full with interest.

Interest expense related to advances and short-term loans from officers and related parties was \$43,500 in 2020 and \$8,500 in 2019.

### **9. Notes payable and line of credit**

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% and ii) 6.00% for the succeeding 10 years, and is due on December 28, 2031.

\$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% and ii) 6.00% for the succeeding 10 years, and is due on December 28, 2031.

# LEGAL PREP CHARTER ACADEMIES

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 9. Notes payable and line of credit (continued)

On June 28, 2019, the School entered into 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 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% and ii) 6.00% through the maturity date of July 1, 2035.

All of the above loans are collateralized by the facility.

Restricted cash consisted of funds from the financing transaction described above that were restricted for use in construction projects.

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 is 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, and utilities. The School applied for and received \$569,655. The loan is a two-year loan with a maturity date of April 17, 2022. The loan bears an annual interest rate of 1%. It is the School's intent to apply for loan forgiveness under the provisions of Section 1106 of the CARES Act. Loan forgiveness is subject to the approval of the lender and the SBA. The School is eligible for loan forgiveness in an amount equal to payments made during the 24-week period beginning on the loan disbursement date, with the exception that no more than 40% of the amount of loan forgiveness may be for expenses other than payroll expenses.

# LEGAL PREP CHARTER ACADEMIES

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 9. Notes payable and line of credit (continued)

The School has accounted for the PPP loan under the debt model in which the loan will remain a liability of the School until such time that the School's application for forgiveness is approved by the SBA. At the time the application for forgiveness is approved, the School will recognize revenue to the extent of the amount forgiven. The School has up to 10 months after the end of the 24-week period following the loan disbursement date to apply for loan forgiveness. To the extent that all or part of the PPP loan is not forgiven, principal and interest payments are deferred until such time that the SBA remits the loan forgiveness amount to the lender or, if the application for loan forgiveness is not submitted within 10 months after the end of the 24-week period following disbursement date, then payments are to begin at that time. The two-year maturity date could be extended to five years if approved by the lender. If the School were to not submit an application for forgiveness by 10 months after the end of the 24-week covered period and assuming no change in the two-year maturity date, principal payments due on the PPP loan would be \$-0- for the year ending June 30, 2021 and \$569,655 for the year ending June 30, 2022 and are included in the table below.

Principal amounts due on the notes payable are as follows:

Year ending June 30:	Amount
2021	\$ 157,292
2022	739,393
2023	181,124
2024	193,272
2025	206,238
Thereafter	4,620,231
Total	\$ 6,097,550

The School had a revolving line of credit agreement with First American Bank. to borrow up to \$250,000 and a maturity date of December 1, 2019. This line of credit was not renewed.

During the year ended June 30, 2020, the School entered into a short-term loan with an individual independent of the School for working capital of \$45,000. As of June 30, 2020, the loan was paid in full with interest.

# LEGAL PREP CHARTER ACADEMIES

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 10. Leases

The School leases an adjacent building that provides gymnasium space under an operating lease expiring on June 15, 2023. The School also leases computers and certain operating equipment with leases that expire through September 2021.

Total lease expense under the above leases for the years ended June 30, 2020 and 2019 was approximately \$112,000 and \$136,000, respectively.

Future minimum lease payments are as follows:

Year ending June 30:	Amount
2021	\$ 53,890
2022	39,332
2023	34,479
Total	\$ 127,701

### 11. Net assets with donor restrictions

As of June 30, 2020 and 2019, net assets with donor restrictions are restricted for the following purpose or time restrictions:

June 30,	2020	2019
Purpose restrictions:		
ESSA Empowered grant		\$ 36,533
Time restrictions	\$ 12,500	12,500
Total net assets with donor restrictions	\$ 12,500	\$ 49,033

# LEGAL PREP CHARTER ACADEMIES

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 11. Net assets with donor restrictions (continued)

Net assets were released from donor restrictions by incurring expenses satisfying the following purpose or time restrictions as follows:

<u>Years ended June 30,</u>	<u>2020</u>	<u>2019</u>
Purpose restrictions:		
NSLP equipment grant		\$ 22,800
ESSA Empowered grant	\$ 36,533	13,467
Time restrictions	25,000	25,000
Total net assets released from restrictions	\$ 61,533	\$ 61,267

### 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.

# LEGAL PREP CHARTER ACADEMIES

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### 12. Retirement fund commitments (continued)

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, 2020 and 2019:

Years ended June 30,	2020	2019
Total pensionable salaries	\$ 1,419,079	\$ 1,416,471
Employees' contribution expense picked up by employer	\$ 66,923	\$ 66,551
Employer's contribution expense (11.16%)	\$ 158,369	\$ 158,078
Less: CPS deduction amount for employer's pension expense	(163,442)	(166,546)
Pension true-up amount	\$ (5,073)	\$ (8,468)

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 the Public School Teachers' Pension and Retirement Fund of Chicago. During the years ended June 30, 2020 and 2019, the School paid \$13,066 and \$20,822, respectively.

### 13. Commitments and contingencies

The School has received funds from state and federal grants in the current year 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 standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Legal Prep Charter Academies (the School), which comprise the statement of financial position as of June 30, 2020, 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 29, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

## **Purpose of this Report**

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

*Ostrow Reisin Berk & Abrams, Ltd.*

Chicago, IL  
October 29, 2020



**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' (the School) compliance with the compliance requirements listed in Attachment A provided by its administering agency, Chicago Public Schools, during the year ended June 30, 2020. Management of the School is responsible for the School's compliance with the specified requirements. Our responsibility is to express an opinion on the School's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the School complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the School 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.

Our examination does not provide a legal determination on the School's compliance with specified requirements.

In our opinion, the School complied, in all material respects, with the specified requirements referred to in Attachment A during the year ended June 30, 2020.

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 is not intended to be, and should not be, used by anyone other than the specified parties.

*Ostrow Reisin Berk & Abrams, Ltd.*

Chicago, IL  
October 29, 2020

## Attachment A

Chicago Public Schools provided the specified requirements in a memorandum dated June 11, 2020 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))
- Conformance with the following sections of the Charter School Agreement:
  - Section 5: Governance and Operation
  - Section 5: Maintenance of Corporate Status and Good Standing
  - Section 6: Pension Payments
  - Section 6: Management and Financial Controls
  - Section 6: Attendance
  - Section 7: Facility
  - Section 9: Insurance

**LEGAL PREP CHARTER ACADEMIES**

**SCHEDULE OF CURRENT YEAR FINDINGS AND PRIOR YEAR FINDINGS**

**YEAR ENDED JUNE 30, 2020**

There were no findings during the years ended June 30, 2020 and 2019.