

PERSISTENCE PREPARATORY ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2020

Table of Contents

June 30, 2020

Financial Statements

Independent Auditors' Report

Financial Statements

Notes to Financial Statements

Reporting Required by *Government Auditing Standards*

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*

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Persistence Preparatory Academy Charter School

We have audited the accompanying balance sheets of Persistence Preparatory Academy Charter School (the School) 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 auditors' 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 the School as of June 30, 2020 and 2019, and the changes in its net assets and 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 23, 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, 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 the School's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Lumsden & McCormick, LLP". The signature is written in a cursive, flowing style.

October 23, 2020

PERSISTENCE PREPARATORY ACADEMY CHARTER SCHOOL

Balance Sheets

June 30,	2020	2019
Assets		
Current assets:		
Cash	\$ 945,915	\$ 575,584
Receivables (Note 2)	229,815	67,645
Prepaid expenses	24,803	14,265
	<u>1,200,533</u>	<u>657,494</u>
Property and equipment, net (Note 3)	415,706	243,707
Restricted cash	50,000	25,000
	<u>\$ 1,666,239</u>	<u>\$ 926,201</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 8,349	\$ 6,581
Accounts payable	72,037	31,351
Accrued expenses	59,698	54,742
Deferred revenue	-	76,194
	<u>140,084</u>	<u>168,868</u>
Long-term debt	5,522	7,382
Paycheck Protection Program loan (Note 5)	254,452	-
Net assets:		
Without donor restrictions	1,171,462	749,951
With donor restrictions (Note 6)	94,719	-
	<u>1,266,181</u>	<u>749,951</u>
	<u>\$ 1,666,239</u>	<u>\$ 926,201</u>

See accompanying notes.

PERSISTENCE PREPARATORY ACADEMY CHARTER SCHOOL

Statements of Activities

For the years ended June 30,	2020	2019
Change in net assets with donor restrictions:		
Support and revenue:		
Enrollment fees:		
Resident students	\$ 2,266,369	\$ 1,331,199
Students with disabilities	87,215	80,671
Additional state aid	-	26,000
Contributions - federal, state, and local awards	608,768	440,891
Other income	15,703	6,201
Total support and revenue	<u>2,978,055</u>	<u>1,884,962</u>
Expenses:		
Program expenses:		
Regular education	1,690,009	1,086,867
Special education	166,272	165,588
Other program	144,226	100,073
Supporting services:		
Management and general	556,037	406,677
Total expenses	<u>2,556,544</u>	<u>1,759,205</u>
Change in net assets without donor restrictions	<u>421,511</u>	<u>125,757</u>
Change in net assets with donor restrictions:		
Contributions	<u>94,719</u>	-
Change in net assets	516,230	125,757
Net assets - beginning	<u>749,951</u>	<u>624,194</u>
Net assets - ending	<u>\$ 1,266,181</u>	<u>\$ 749,951</u>

See accompanying notes.

PERSISTENCE PREPARATORY ACADEMY CHARTER SCHOOL

Statements of Functional Expenses

For the years ended June 30,

	2020					
	Number of Positions	Regular Education	Special Education	Other Program	Management and General	Total
Administrative personnel	2.0	\$ -	\$ -	\$ -	\$ 224,961	\$ 224,961
Instructional personnel	23.0	922,166	72,967	-	-	995,133
Non-instructional personnel	1.0	-	-	51,998	-	51,998
Total salaries	26.0	\$ 922,166	\$ 72,967	\$ 51,998	\$ 224,961	\$ 1,272,092
Salaries		\$ 922,166	\$ 72,967	\$ 51,998	\$ 224,961	\$ 1,272,092
Employee benefits and payroll taxes		235,782	19,379	9,690	58,138	322,989
Afterschool program		-	-	46,934	-	46,934
Classroom supplies and materials		74,917	-	-	-	74,917
Consultants and professional fees		42,761	59,528	-	98,738	201,027
Insurance		-	-	-	28,325	28,325
Interest		-	-	-	595	595
Occupancy		123,913	7,745	7,745	15,489	154,892
Office expense		-	-	-	30,889	30,889
Other expenses		-	-	-	13,861	13,861
Recruitment		-	-	-	22,977	22,977
Repairs and maintenance		-	-	-	38,540	38,540
Staff development		51,211	-	-	-	51,211
Student services		46,598	-	21,206	-	67,804
Technology		62,117	-	-	-	62,117
Telephone		11,402	713	713	1,425	14,253
		1,570,867	160,332	138,286	533,938	2,403,423
Depreciation		119,142	5,940	5,940	22,099	153,121
Total		\$ 1,690,009	\$ 166,272	\$ 144,226	\$ 556,037	\$ 2,556,544

See accompanying notes.

2019						
Number of Positions	Regular Education	Special Education	Other Program	Management and General	Total	
3.0	\$ -	\$ -	\$ -	\$ 154,046	\$	154,046
12.0	542,834	87,484	-	-		630,318
0.5	-	-	29,035	-		29,035
15.5	\$ 542,834	\$ 87,484	\$ 29,035	\$ 154,046	\$	813,399
	\$ 542,834	\$ 87,484	\$ 29,035	\$ 154,046	\$	813,399
	124,082	20,372	5,556	35,187		185,197
	-	-	14,302	-		14,302
	58,847	-	-	-		58,847
	13,500	51,275	-	69,191		133,966
	-	-	-	22,760		22,760
	-	-	-	525		525
	95,868	5,992	5,992	11,983		119,835
	-	-	-	23,393		23,393
	-	-	-	9,642		9,642
	-	-	-	25,461		25,461
	-	-	-	36,767		36,767
	31,067	-	-	-		31,067
	50,883	-	44,723	-		95,606
	60,512	-	-	-		60,512
	7,447	465	465	931		9,308
	985,040	165,588	100,073	389,886		1,640,587
	101,827	-	-	16,791		118,618
	\$ 1,086,867	\$ 165,588	\$ 100,073	\$ 406,677	\$	1,759,205

PERSISTENCE PREPARATORY ACADEMY CHARTER SCHOOL

Statements of Cash Flows

For the years ended June 30,	2020	2019
Operating activities:		
Cash received from enrollment fees	\$ 2,316,872	\$ 1,387,424
Cash received from contributions - federal, state, and local awards	521,128	791,663
Cash received from other sources	15,703	6,201
Payments to employees for services and benefits	(1,609,418)	(943,854)
Payments to vendors and suppliers	(777,599)	(706,795)
Interest paid	(595)	(525)
Net operating activities	466,091	534,114
Investing activities:		
Property and equipment expenditures	(317,120)	(197,176)
Financing activities:		
Principal payments on long-term debt	(8,092)	(5,843)
Proceeds from Paycheck Protection Program loan	254,452	-
Net financing activities	246,360	(5,843)
Net change in cash and restricted cash	395,331	331,095
Cash and restricted cash - beginning	600,584	269,489
Cash and restricted cash - ending	\$ 995,915	\$ 600,584

See accompanying notes.

Notes to Financial Statements

1. Summary of Significant Accounting Policies:

Organization and Purpose:

Persistence Preparatory Academy Charter School (the School) operates a charter school in the City of Buffalo, New York (the City) authorized by the Board of Regents of the University of the State of New York. Pursuant to its charter application, the School began operations in the fiscal year ended June 30, 2019 offering classes from kindergarten through first grade and plans to add one grade per year until a full kindergarten through eighth grade school. The School offered classes from kindergarten through second grade in 2020. The School is chartered through June 2023 and continued operations are contingent upon approval of its charter renewal.

New Accounting Standards Adopted:

During the year ended June 30, 2020, the School adopted two new comprehensive revenue recognition models under Financial Accounting Standards Board (FASB) Accounting Standard Updates (ASU).

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, addresses the differences between contributions and exchange transactions including guidance on timing and revenue recognition. ASU 2018-08 was adopted using the modified prospective method.

ASU 2014-09, *Revenue from Contracts with Customers*, requires an organization to recognize revenue from exchange transactions to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 was adopted using the full retrospective method.

The adoption of these standards did not impact the School's recognition of revenue and related accounts.

Subsequent Events:

The School has evaluated events and transactions for potential recognition or disclosure through October 23, 2020, the date the financial statements were available to be issued.

Cash:

Cash in financial institutions potentially subjects the School to concentrations of credit risk, since it may exceed insured limits at various times throughout the year. The School complies with a requirement to hold no less than \$50,000 (\$25,000 for 2019) in an escrow account to pay legal and audit expenses that would be associated with dissolution should it occur. This is included as restricted cash on the balance sheets as of June 30, 2020 and 2019.

Property and Equipment:

Property and equipment is stated at cost net of accumulated depreciation. Depreciation is provided over estimated asset service lives using the straight-line method. Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

Revenue Recognition:

Enrollment Fees

Enrollment fees are received from the public-school districts in which the student resides. The amount received each year from the resident district is generally the product of the approved operating expense per pupil and the full time equivalent enrollment of the students in the School residing in that district. The respective districts also reimburse the School for special education service based on approved applicable rates for the services provided. Revenues are recognized over the period the services are provided. The School generally invoices the resident district bimonthly and payment is due in 30 days. Enrollment fees received in advance are deferred and recognized when earned. The School's enrollment fees are received primarily from the Board of Education for the City School District (the District).

In June 2019, all New York State charter schools serving students in the fiscal 2019 school year received additional state aid. The additional aid was based on the number of students served during fiscal 2019 and was paid directly from the New York State Education Department. No additional state aid was received for the year ended June 30, 2020.

Contributions

Contributions, which include government awards, are reported at fair value at the date the pledge or award is received. Contributions are recorded as restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same reporting period are shown as support without donor restrictions.

Conditional contributions, primarily government awards, are recorded as revenue when the School meets requirements in compliance with specific agreements. Amounts received before the required conditions are met are reported as refundable advances on the accompanying balance sheets. These conditional contributions are subject to compliance and financial audits by the funding sources. Management believes no significant adjustments are necessary to recognized amounts.

Receivables

Receivables are stated at the amounts management expects to collect from outstanding balances. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to uncollectible receivables and a credit to accounts receivable. An allowance for doubtful accounts is considered unnecessary by management because all significant amounts deemed uncollectible are written off each year.

Income Taxes:

The School is a 501(c)(3) organization exempt from taxation under Section 501(a) of the Internal Revenue Code.

Transportation and Food Services:

The District provides the School with certain transportation and food services at no charge. The value of these services has not been recorded in the accompanying financial statements.

Use of Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Functional Expense Allocation:

The School's costs of providing its various programs and activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. These costs include salaries and benefits, which are allocated based on estimates of time and effort, and occupancy, depreciation, and telephone which are allocated based on management's estimate of program benefit.

2. Receivables:

	2020	2019
Enrollment fees	\$ 87,158	\$ 50,446
Contributions	123,364	17,199
Other	19,293	-
	<u>\$ 229,815</u>	<u>\$ 67,645</u>

3. Property and Equipment:

	2020	2019
Leasehold improvements	\$ 237,606	\$ 229,977
Instructional and office equipment	245,338	132,348
Construction in progress	204,501	-
	<u>687,445</u>	<u>362,325</u>
Less accumulated depreciation	271,739	118,618
	<u>\$ 415,706</u>	<u>\$ 243,707</u>

The School purchased a building in July 2020 for \$315,000. Construction in progress at June 30, 2020 primarily relates to design services to renovate the new building. Financing for the renovations has not yet been obtained.

4. Short-Term Borrowings:

The School has available a \$250,000 bank demand line of credit for working capital secured by essentially all assets of the School with interest payable at prime plus 1%. The line is subject to the usual terms and conditions applied by the bank for working capital financing and is annually reviewed and renewed. There were no borrowings on the line of credit at June 30, 2020 and 2019.

5. Paycheck Protection Program Loan:

During 2020, the School received a loan totaling \$254,452 from the Small Business Administration under the Paycheck Protection Program of the Coronavirus Aid, Relief and Economic Security (CARES) Act, in response to the pandemic described in Note 11. Some or all of the loan may be forgiven if certain criteria is met. Otherwise, the loan is unsecured, bears interest at 1%, and is payable over a negotiable period of time.

6. Net Assets With Donor Restrictions:

Net assets with donor restrictions include contributions received from a local foundation that are restricted for operating purposes related to fiscal 2021.

7. Operating Lease:

In August 2018, the School began to lease property under the terms of a noncancelable operating lease. Rental expense under this lease was \$141,584 and \$109,405 for the years ended June 30, 2020 and 2019.

Future minimum annual rentals due are \$141,328 in 2021 and \$11,970 in 2022.

8. Retirement Plan:

The School participates in a multiple employer 401(k) pension plan covering essentially all employees. The School contributes 6% of employees' salaries to the plan, subject to certain limitations. The School's pension expense was \$68,620 and \$46,443 for the years ended June 30, 2020 and 2019.

9. Cash Flows Information:

Noncash investing and financing activities excluded from the 2020 and 2019 statements of cash flows include \$8,000 and \$19,806 of equipment acquired through term financing arrangements.

10. Financial Assets Available for Operating Purposes:

The School obtains financial assets generally through enrollment fees and contributions. The financial assets are acquired throughout the year to help meet the School's cash needs for general expenditures. If necessary, the School also has access to a \$250,000 bank demand line of credit (Note 4).

The School's financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consist of the following at June 30, 2020 and 2019:

	2020	2019
Cash available for operations	\$ 945,915	\$ 575,584
Receivables	229,815	67,645
	<u>\$ 1,175,730</u>	<u>\$ 643,229</u>

11. Risks and Uncertainties due to COVID-19:

On January 31, 2020, the United States Secretary of Health and Human Services (HHS) declared a public health emergency related to the global spread of coronavirus COVID-19, and a pandemic was declared by the World Health Organization in February 2020. Efforts to fight the widespread disease included limiting or closing many businesses and all schools and resulted in a severe disruption of operations for many organizations.

In March 2020, the School transitioned to remote instruction for the remainder of the 2019-20 School year. Consequently, enrollment fees and revenue for the year ended June 30, 2020 were not reduced. The School's restart plan for the 2020-21 School year includes remote instruction in compliance with all government safety mandates.

The extent of the impact of COVID-19 on the School's operational and financial performance will depend on further developments, including the duration and spread of the outbreak, and its impact on schools, including its students and families, employees, and vendors, none of which can be predicted.

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*

The Board of Trustees
Persistence Preparatory Academy Charter School

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 Persistence Preparatory Academy Charter School (the School), which comprise the balance sheet 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 23, 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.

A handwritten signature in blue ink that reads "Lunden & McCormick, LLP". The signature is written in a cursive, flowing style.

October 23, 2020