

**PERSISTENCE PREPARATORY ACADEMY
CHARTER SCHOOL**

FINANCIAL STATEMENTS

JUNE 30, 2022

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Persistence Preparatory Academy Charter School

Opinion

We have audited the accompanying balance sheets of Persistence Preparatory Academy Charter School (the School) 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 accompanying financial statements present fairly, in all material respects, the financial position of the School as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School, 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 these financial statements in accordance with GAAP 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 the School's ability to continue as a going concern for one year after the date the financial statements are 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 GAAS 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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS 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 the School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2022 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 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.



Lynda & McCormick, LLP

October 24, 2022

PERSISTENCE PREPARATORY ACADEMY CHARTER SCHOOL

Balance Sheets

June 30,	2022	2021
Assets		
Current assets:		
Cash	\$ 1,054,365	\$ 832,297
Receivables (Note 2)	193,996	239,423
Prepaid expenses	11,448	37,837
	<u>1,259,809</u>	<u>1,109,557</u>
Property and equipment, net (Note 3)	8,661,228	6,975,813
Restricted cash	470,745	470,681
Other	11,065	2,145
	<u>\$ 10,402,847</u>	<u>\$ 8,558,196</u>
Liabilities and Net Assets		
Current liabilities:		
Short-term borrowings (Note 4)	\$ -	\$ 400,000
Current portion of long-term debt (Note 5)	121,070	11,168
Accounts payable	130,417	1,154,562
Accrued expenses	103,795	74,761
	<u>355,282</u>	<u>1,640,491</u>
Long-term debt (Note 5)	7,340,329	4,512,840
Net assets:		
Without donor restrictions	2,707,236	2,394,765
With donor restrictions (Note 6)	-	10,100
	<u>2,707,236</u>	<u>2,404,865</u>
	<u>\$ 10,402,847</u>	<u>\$ 8,558,196</u>

See accompanying notes.

PERSISTENCE PREPARATORY ACADEMY CHARTER SCHOOL

Statements of Activities

For the years ended June 30,	2022	2021
Change in net assets with donor restrictions:		
Support and revenue:		
Enrollment fees:		
Resident students	\$ 3,565,311	\$ 2,952,431
Students with disabilities	192,595	106,155
Contributions:		
Federal, state, and local awards	567,525	680,855
Paycheck Protection Program (Note 10)	-	254,452
Other income	38,971	10,430
Net assets released from restrictions	10,100	94,719
Total support and revenue	<u>4,374,502</u>	<u>4,099,042</u>
Expenses:		
Program expenses:		
Regular education	2,590,023	1,785,071
Special education	286,059	213,348
Other program	366,315	272,574
Supporting services:		
Management and general	819,634	604,746
Total expenses	<u>4,062,031</u>	<u>2,875,739</u>
Change in net assets without donor restrictions	<u>312,471</u>	<u>1,223,303</u>
Net assets with donor restrictions:		
Contributions	-	10,100
Net assets released from restrictions	<u>(10,100)</u>	<u>(94,719)</u>
Change in net assets with donor restrictions	<u>(10,100)</u>	<u>(84,619)</u>
Change in net assets	302,371	1,138,684
Net assets - beginning	<u>2,404,865</u>	<u>1,266,181</u>
Net assets - ending	<u>\$ 2,707,236</u>	<u>\$ 2,404,865</u>

See accompanying notes.

PERSISTENCE PREPARATORY ACADEMY CHARTER SCHOOL

Statement of Functional Expenses

For the year ended June 30, 2022

	Number of Positions	Regular Education	Special Education	Other Program	Management and General	Total
Administrative personnel	4.4	\$ -	\$ -	\$ -	\$ 318,752	\$ 318,752
Instructional personnel	27.0	1,314,999	134,998	-	-	1,449,997
Non-instructional personnel	2.0	-	-	154,429	-	154,429
	33.4	\$ 1,314,999	\$ 134,998	\$ 154,429	\$ 318,752	\$ 1,923,178
Salaries		\$ 1,314,999	\$ 134,998	\$ 154,429	\$ 318,752	\$ 1,923,178
Employee benefits and payroll taxes		308,678	31,689	36,250	74,823	451,440
Afterschool program		-	-	50,000	-	50,000
Classroom supplies and materials		113,684	-	-	-	113,684
Consultants and professional fees		27,350	75,836	-	149,175	252,361
Insurance		-	-	-	79,002	79,002
Interest		145,442	9,091	9,091	18,180	181,804
Occupancy		132,424	8,277	8,277	16,553	165,531
Office expense		-	-	-	38,218	38,218
Other expenses		-	-	-	37,341	37,341
Recruitment		-	-	-	9,253	9,253
Repairs and maintenance		151,016	9,438	9,438	18,876	188,768
Staff development		49,215	-	-	-	49,215
Student services		-	-	82,100	-	82,100
Technology		79,523	-	-	-	79,523
Telephone		27,795	1,737	1,737	3,474	34,743
Bad debts		-	-	-	26,000	26,000
		2,350,126	271,066	351,322	789,647	3,762,161
Depreciation		239,897	14,993	14,993	29,987	299,870
Total		\$ 2,590,023	\$ 286,059	\$ 366,315	\$ 819,634	\$ 4,062,031

PERSISTENCE PREPARATORY ACADEMY CHARTER SCHOOL

Statement of Functional Expenses

For the year ended June 30, 2021

	Number of Positions	Regular Education	Special Education	Other Program	Management and General	Total
Administrative personnel	3.0	\$ -	\$ -	\$ -	\$ 260,095	\$ 260,095
Instructional personnel	23.0	959,185	93,317	-	-	1,052,502
Non-instructional personnel	1.6	-	-	143,460	-	143,460
	27.6	\$ 959,185	\$ 93,317	\$ 143,460	\$ 260,095	\$ 1,456,057
Salaries		\$ 959,185	\$ 93,317	\$ 143,460	\$ 260,095	\$ 1,456,057
Employee benefits and payroll taxes		251,670	22,538	33,806	67,613	375,627
Afterschool program		-	-	67,500	-	67,500
Classroom supplies and materials		38,572	-	-	-	38,572
Consultants and professional fees		25,000	82,670	-	126,617	234,287
Insurance		-	-	-	47,849	47,849
Interest		-	-	-	8,879	8,879
Occupancy		150,342	9,396	9,396	18,793	187,927
Office expense		-	-	-	26,232	26,232
Other expenses		-	-	-	13,481	13,481
Recruitment		-	-	-	12,931	12,931
Repairs and maintenance		55,529	3,470	3,470	6,942	69,411
Staff development		126,674	-	-	-	126,674
Student services		23,180	-	12,985	-	36,165
Technology		87,459	-	-	-	87,459
Telephone		12,921	808	808	1,615	16,152
		1,730,532	212,199	271,425	591,047	2,805,203
Depreciation		54,539	1,149	1,149	13,699	70,536
Total		\$ 1,785,071	\$ 213,348	\$ 272,574	\$ 604,746	\$ 2,875,739

PERSISTENCE PREPARATORY ACADEMY CHARTER SCHOOL

Statements of Cash Flows

For the years ended June 30,	2022	2021
Operating activities:		
Cash received from enrollment fees	\$ 3,803,156	\$ 3,084,396
Cash received from contributions - federal, state, and local awards	568,881	636,415
Cash received from other sources	38,971	10,430
Payments to employees for services and benefits	(2,346,763)	(1,797,499)
Payments to vendors and suppliers	(1,097,111)	(1,012,598)
Interest paid	(181,804)	(8,879)
Net operating activities	785,330	912,265
Investing activities:		
Property and equipment expenditures	(3,100,589)	(5,515,339)
Financing activities:		
Net proceeds from (payments on) short-term borrowings	(400,000)	400,000
Proceeds from long-term debt, net	2,964,234	4,518,486
Principal payments on long-term debt	(26,843)	(8,349)
Net financing activities	2,537,391	4,910,137
Net change in cash and restricted cash	222,132	307,063
Cash and restricted cash - beginning	1,302,978	995,915
Cash and restricted cash - ending	\$ 1,525,110	\$ 1,302,978

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) pursuant to its charter agreement with the Board of Regents of the University of the State of New York. The School offered classes from kindergarten through fourth grade in 2022 and plans to add one grade per year until a full kindergarten through eighth grade school. The School is chartered through June 2023 and continued operations are contingent upon approval of its charter renewal, which management expects to receive in 2023.

Subsequent Events:

Management has evaluated events and transactions for potential recognition or disclosure through October 24, 2022, 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 \$75,000 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, 2022 and 2021.

At June 30, 2022, the School maintains \$395,745 (\$395,681 at June 30, 2021) in cash restricted by various debt agreements.

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 where 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 City School District.

Contributions

Contributions 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 City School 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, benefits, and payroll taxes, which are allocated based on estimates of time and effort, and occupancy, depreciation, and interest which are allocated based on management's estimate of program benefit.

Reclassifications:

The 2021 financial statements have been reclassified to conform with the presentation adopted in 2022.

2. Receivables:

	2022	2021
Enrollment fees	\$ 16,098	\$ 61,348
Contributions	176,548	177,904
Other	1,350	171
	<u>\$ 193,996</u>	<u>\$ 239,423</u>

3. Property and Equipment:

	2022	2021
Land	\$ 31,500	\$ 31,500
Building improvements	11,470	237,606
Building	8,619,684	309,835
Instructional and office equipment	403,113	282,302
Construction in progress	-	6,456,845
	<u>9,065,767</u>	<u>7,318,088</u>
Less accumulated depreciation	404,539	342,275
	<u>\$ 8,661,228</u>	<u>\$ 6,975,813</u>

Construction in progress at June 30, 2021 consisted of costs incurred in connection with renovation of a building that serves as the new location for the School. The \$8.3 million project, which was completed in October 2021, was primarily financed with a bank loan (Note 5).

Interest totaling \$156,023 was capitalized during the year ended June 30, 2022.

4. Short-Term Borrowings:

The School has available a \$400,000 bank demand line of credit for working capital secured by essentially all assets of the School with interest payable at prime plus 0.5%. The line is subject to the usual terms and conditions applied by the bank for working capital financing and is annually reviewed and renewed. Borrowings on the line of credit at June 30, 2021 totaled \$400,000; there were no amounts outstanding at June 30, 2022.

5. Long-Term Debt:

	2022	2021
Bank promissory note, interest only payments through March 2022, monthly installments of \$43,479 including interest at 4.7%, estimated balloon payment of \$6,998,000 due December 2025, secured by School property and equipment.	\$ 7,624,467	\$ 4,700,767
Equipment loans, varying monthly installments and interest rates, secured by related equipment, due through June 2024.	3,362	5,522
	<u>7,627,829</u>	<u>4,706,289</u>
Less unamortized debt issuance costs	166,430	182,281
	<u>7,461,399</u>	<u>4,524,008</u>
Less current portion	121,070	11,168
	<u>\$ 7,340,329</u>	<u>\$ 4,512,840</u>

Debt issuance costs are amortized as interest expense over the term of the bank construction loan.

Aggregate maturities of net long-term debt balances subsequent to June 30, 2022 are:

2023	\$ 121,070
2024	129,146
2025	135,840
2026	<u>7,075,343</u>
	<u>\$ 7,461,399</u>

The bank debt agreements contain restrictive covenants relative to debt service coverage, liquid assets levels, and net assets levels.

6. Net Assets With Donor Restrictions:

Net assets with donor restrictions at June 30, 2021 were available for use by the School to provide additional financial support for specific student purposes stipulated by the donor.

7. 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 \$77,608 and \$74,803 for the years ended June 30, 2022 and 2021.

As of August 2022, the School also participates in the New York State Teachers' Retirement System (TRS) which is a cost-sharing multiple employer public employee retirement system.

8. Cash Flows Information:

Property and equipment expenditures included in accounts payable totaling \$1,115,304 are excluded from the 2021 statement of cash flows.

9. 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 \$400,000 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, 2022 and 2021:

	<u>2022</u>	2021
Cash available for operations	\$ 1,054,365	\$ 832,297
Receivables	<u>225,578</u>	<u>239,423</u>
	<u>\$ 1,279,943</u>	<u>\$ 1,071,720</u>

10. 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 2020, the School received a loan totaling \$254,452 from the Small Business Administration (SBA) under the Paycheck Protection Program of the Coronavirus Aid, Relief and Economic Security (CARES) Act, in response to the pandemic. The School received SBA forgiveness on the loan in 2021 and the proceeds have been recognized as contributions revenue in the accompanying 2021 statement of activities.

The full 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, 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 24, 2022.

Report on 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) as a basis for designing 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.

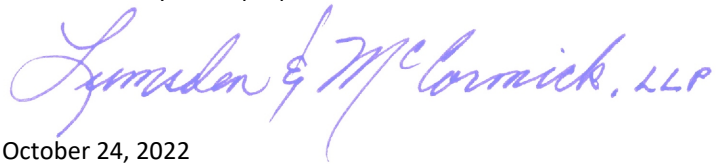
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on 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 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 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.

Lyndon & McCormick, LLP

October 24, 2022