

PERSISTENCE PREPARATORY ACADEMY CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2021

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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, 2021 and 2020, 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.

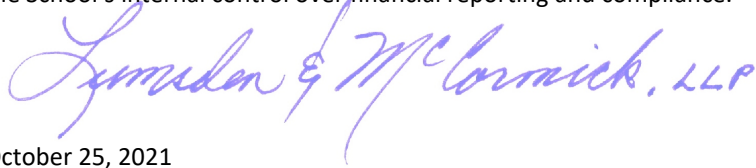
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2021 and 2020, 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 25, 2021, 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.

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October 25, 2021

PERSISTENCE PREPARATORY ACADEMY CHARTER SCHOOL

Balance Sheets

June 30,	2021	2020
Assets		
Current assets:		
Cash	\$ 907,297	\$ 995,915
Receivables (Note 2)	239,423	229,815
Prepaid expenses	37,837	24,803
	<u>1,184,557</u>	<u>1,250,533</u>
Property and equipment, net (Note 3)	6,975,813	415,706
Cash restricted by debt agreements	395,681	-
Other	2,145	-
	<u>\$ 8,558,196</u>	<u>\$ 1,666,239</u>
Liabilities and Net Assets		
Current liabilities:		
Short-term borrowings (Note 4)	\$ 400,000	\$ -
Current portion of long-term debt (Note 5)	11,168	8,349
Accounts payable	1,154,562	72,037
Accrued expenses	74,761	59,698
	<u>1,640,491</u>	<u>140,084</u>
Long-term debt (Note 5)	4,512,840	5,522
Paycheck Protection Program loan (Note 6)	-	254,452
Net assets:		
Without donor restrictions	2,394,765	1,171,462
With donor restrictions (Note 7)	10,100	94,719
	<u>2,404,865</u>	<u>1,266,181</u>
	<u>\$ 8,558,196</u>	<u>\$ 1,666,239</u>

See accompanying notes.

PERSISTENCE PREPARATORY ACADEMY CHARTER SCHOOL

Statements of Activities

For the years ended June 30,	2021	2020
Change in net assets with donor restrictions:		
Support and revenue:		
Enrollment fees:		
Resident students	\$ 2,952,431	\$ 2,266,369
Students with disabilities	106,155	87,215
Contributions:		
Federal, state, and local awards	680,855	608,768
Paycheck Protection Program (Note 6)	254,452	-
Other income	10,430	15,703
Net assets released from restrictions	94,719	-
Total support and revenue	<u>4,099,042</u>	<u>2,978,055</u>
Expenses:		
Program expenses:		
Regular education	1,729,542	1,690,009
Special education	209,878	166,272
Other program	269,104	144,226
Supporting services:		
Management and general	667,215	556,037
Total expenses	<u>2,875,739</u>	<u>2,556,544</u>
Change in net assets without donor restrictions	<u>1,223,303</u>	421,511
Net assets with donor restrictions:		
Contributions	10,100	94,719
Net assets released from restriction	(94,719)	-
Change in net assets with donor restrictions	<u>(84,619)</u>	94,719
Change in net assets	1,138,684	516,230
Net assets - beginning	<u>1,266,181</u>	<u>749,951</u>
Net assets - ending	<u>\$ 2,404,865</u>	<u>\$ 1,266,181</u>

See accompanying notes.

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		-	-	-	69,411	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
		1,675,003	208,729	267,955	653,516	2,805,203
Depreciation		54,539	1,149	1,149	13,699	70,536
Total		\$ 1,729,542	\$ 209,878	\$ 269,104	\$ 667,215	\$ 2,875,739

PERSISTENCE PREPARATORY ACADEMY CHARTER SCHOOL

Statement of Functional Expenses

For the year 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

Statements of Cash Flows

For the years ended June 30,	2021	2020
Operating activities:		
Cash received from enrollment fees	\$ 3,084,396	\$ 2,316,872
Cash received from contributions - federal, state, and local awards	636,415	521,128
Cash received from other sources	10,430	15,703
Payments to employees for services and benefits	(1,797,499)	(1,609,418)
Payments to vendors and suppliers	(1,012,598)	(777,599)
Interest paid	(8,879)	(595)
Net operating activities	912,265	466,091
Investing activities:		
Property and equipment expenditures	(5,515,339)	(317,120)
Financing activities:		
Net proceeds from short-term borrowings	400,000	-
Proceeds from long-term debt, net	4,518,486	-
Principal payments on long-term debt	(8,349)	(8,092)
Proceeds from Paycheck Protection Program loan	-	254,452
Net financing activities	4,910,137	246,360
Net change in cash and restricted cash	307,063	395,331
Cash and restricted cash - beginning	995,915	600,584
Cash and restricted cash - ending	\$ 1,302,978	\$ 995,915

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 third grade in 2021. The School is chartered through June 2023 and continued operations are contingent upon approval of its charter renewal.

Subsequent Events:

The School has evaluated events and transactions for potential recognition or disclosure through October 25, 2021, 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 maintains a minimum \$75,000 (\$50,000 in 2020) in cash reserve funds to pay dissolution costs should it occur.

Restricted Cash:

The School maintains \$395,681 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 district where a 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 student 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 bi-monthly 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 Buffalo Board of Education (the 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. When applicable, 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:

	2021	2020
Enrollment fees	\$ 61,348	\$ 87,158
Contributions	177,904	123,364
Other	171	19,293
	<u>\$ 239,423</u>	<u>\$ 229,815</u>

3. Property and Equipment:

	2021	2020
Land	\$ 31,500	\$ -
Land improvements	237,606	237,606
Building	309,835	-
Instructional and office equipment	282,302	245,338
Construction in progress	6,456,845	204,501
	<u>7,318,088</u>	<u>687,445</u>
Less accumulated depreciation	342,275	271,739
	<u>\$ 6,975,813</u>	<u>\$ 415,706</u>

Construction in progress at June 30, 2021 and 2020 consists of costs incurred in connection with renovation of a building which will serve as a new location for the School. The estimated \$7.5 million project, which was completed in October 2021, was primarily financed with a bank loan (Note 5).

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, 2020.

5. Long-Term Debt:

	2021	2020
Bank construction loan of up to \$7,665,000, interest only payments through an expected conversion date of March 2022, anticipated monthly installments of \$43,479 including interest at 4.7% beginning April 2022, estimated balloon payment of \$6,998,000 due December 2025, secured by School property and equipment.	\$ 4,700,767	\$ -
Equipment loans, varying monthly installments and interest rates, secured by related equipment, due through June 2024.	5,522	13,871
	<u>4,706,289</u>	<u>13,871</u>
Less unamortized debt issuance costs	182,281	-
	<u>4,524,008</u>	<u>13,871</u>
Less current portion	11,168	8,349
	<u>\$ 4,512,840</u>	<u>\$ 5,522</u>

Debt issuance costs will be amortized as interest expense over the term of the permanent financing.

Aggregate maturities of long-term debt balances subsequent to June 30, 2021 are:

	Principal	Debt Issuance Costs
2022	\$ 27,019	\$ (15,851)
2023	77,998	(47,551)
2024	107,775	(47,551)
2025	111,158	(47,551)
2026	116,497	(23,777)
Thereafter	4,265,842	-
	\$ 4,706,289	\$ (182,281)

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

6. Paycheck Protection Program Loan:

During 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 described in Note 12. The School has met the required conditions established by the SBA for loan forgiveness as of June 30, 2021 and the proceeds have been recognized as contributions revenue in the accompanying 2021 statement of activities.

7. Net Assets With Donor Restrictions:

Net assets with donor restrictions are available for use by the School to provide additional financial support for specific student purposes stipulated by the donor.

8. Operating Lease:

The School leases property under the terms of a noncancelable operating lease through July 2021. Rental expense under this lease was \$141,328 and \$141,584 for the years ended June 30, 2021 and 2020. Future minimum annual rentals total \$11,970 for the year ending June 30, 2022.

9. 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 \$74,803 and \$68,620 for the years ended June 30, 2021 and 2020.

10. Cash Flows Information:

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

11. 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. 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, 2021 and 2020:

	2021	2020
Cash available for operations	\$ 832,297	\$ 945,915
Receivables	239,423	229,815
	\$ 1,071,720	\$ 1,175,730

12. 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. During the 2020-21 school year, the Organization provided a hybrid in-person and remote instruction model in compliance with all government safety mandates. Consequently, enrollment fees and revenue for the years ended June 30, 2021 and 2020 were not reduced.

The full extent of the impact of COVID-19 on the Organization'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, 2021, 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 25, 2021.

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 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 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 25, 2021