

**Challenge Preparatory Charter School**

Financial Statements

June 30, 2020 and 2019

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## Independent Auditors' Report

**Board of Trustees  
Challenge Preparatory Charter School**

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

We have audited the accompanying financial statements of Challenge Preparatory Charter School (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 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.

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**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 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 – September 30, 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.

*PKF O'Connor Davies, LLP*

Harrison, New York  
September 30, 2020

## Challenge Preparatory Charter School

### Statements of Financial Position

	June 30,	
	2020	2019
<b>ASSETS</b>		
Current Assets		
Cash	\$ 4,810,225	\$ 2,332,264
Grants and contracts receivable	452,240	547,628
Prepaid expenses and other current assets	374,481	195,761
Total Current Assets	5,636,946	3,075,653
Property and equipment, net	893,394	834,601
Restricted cash - escrow	70,000	70,000
Security deposits	932,999	333,576
	\$ 7,533,339	\$ 4,313,830
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 220,880	\$ 272,931
Accrued payroll and payroll taxes	1,027,251	986,464
Deferred rent, current portion	172,454	238,992
Total Current Liabilities	1,420,585	1,498,387
Paycheck Protection Program loan payable	1,792,512	-
Deferred rent	2,315,256	2,009,726
Total Liabilities	5,528,353	3,508,113
Net assets, without donor restrictions	2,004,986	805,717
	\$ 7,533,339	\$ 4,313,830

See notes to financial statements



## Challenge Preparatory Charter School

### Statements of Activities

	Year Ended June 30,	
	2020	2019
<b>REVENUE AND SUPPORT</b>		
State and local per pupil operating revenue	\$ 14,318,940	\$ 13,357,655
State and local per pupil facilities funding	1,415,761	545,977
Federal grants	380,354	390,912
State grants	54,291	60,047
Contributions, grants and other income	640	357,749
Rental income	<u>126,096</u>	<u>94,080</u>
Total Revenue and Support	<u>16,296,082</u>	<u>14,806,420</u>
 <b>EXPENSES</b>		
Program Services		
Regular education	10,655,297	10,484,175
Supporting services	<u>2,741,774</u>	<u>2,805,007</u>
Total Program Services	13,397,071	13,289,182
Supporting Services		
Management and general	1,626,830	1,900,807
Fundraising	<u>72,912</u>	<u>65,604</u>
Total Expenses	<u>15,096,813</u>	<u>15,255,593</u>
Change in Net Assets	1,199,269	(449,173)
 <b>NET ASSETS</b>		
Beginning of year	<u>805,717</u>	<u>1,254,890</u>
End of year	<u>\$ 2,004,986</u>	<u>\$ 805,717</u>

See notes to financial statements

**Challenge Preparatory Charter School**

Statement of Functional Expenses  
Year Ended June 30, 2020

	Program Services			Management and General	Fundraising	Total
	Regular Education	Special Education	Total			
Salaries	\$ 5,609,716	\$ 1,460,009	\$ 7,069,725	\$ 1,009,567	\$ 13,241	\$ 8,092,533
Payroll taxes and employee benefits	1,213,737	341,898	1,555,635	136,759	17,095	1,709,489
Professional development	139,153	21,065	160,218	31,214	-	191,432
Audit and accounting fees	-	-	-	26,250	-	26,250
Legal fees	-	-	-	5,019	-	5,019
Financial management fees	-	-	-	69,909	-	69,909
Consulting fees	503,141	125,560	628,701	42,710	5,339	676,750
Contractual services	48,142	7,288	55,430	-	-	55,430
Teacher and student recruitment	115,449	17,477	132,926	-	-	132,926
Student services and staff team building	46,586	7,052	53,638	4,890	-	58,528
Curriculum and classroom materials	336,943	51,008	387,951	-	-	387,951
Occupancy	1,970,339	555,025	2,525,364	222,010	27,751	2,775,125
Utilities	116,984	32,953	149,937	13,181	1,648	164,766
Office supplies	76,130	21,445	97,575	8,748	1,072	107,395
Postage and delivery	1,838	518	2,356	207	26	2,589
Telephone and internet services	71,838	12,292	84,130	7,452	1,565	93,147
Information technology	74,637	19,164	93,801	10,604	694	105,099
Insurance	75,029	21,135	96,164	8,454	1,057	105,675
Fundraising expense	-	-	-	-	2,040	2,040
Dues and subscriptions	20,297	3,073	23,370	-	-	23,370
Depreciation and amortization	137,089	17,136	154,225	17,136	-	171,361
Maintenance and repairs	98,249	27,676	125,925	11,070	1,384	138,379
Miscellaneous	-	-	-	1,650	-	1,650
<b>Total Expenses</b>	<b>\$ 10,655,297</b>	<b>\$ 2,741,774</b>	<b>\$ 13,397,071</b>	<b>\$ 1,626,830</b>	<b>\$ 72,912</b>	<b>\$ 15,096,813</b>

See notes to financial statements

**Challenge Preparatory Charter School**

Statement of Functional Expenses  
Year Ended June 30, 2019

	Program Services			Management and General	Fundraising	Total
	Regular Education	Special Education	Total			
Salaries	\$ 5,330,510	\$ 1,501,526	\$ 6,832,036	\$ 946,891	\$ 3,314	\$ 7,782,241
Payroll taxes and employee benefits	1,049,829	293,335	1,343,164	185,265	15,439	1,543,868
Professional development	164,212	27,949	192,161	31,350	-	223,511
Audit and accounting fees	-	-	-	29,000	-	29,000
Legal fees	-	-	-	2,539	-	2,539
Financial management fees	-	-	-	142,453	-	142,453
Consulting fees	559,898	150,350	710,248	88,963	7,413	806,624
Contractual services	209,984	35,740	245,724	-	-	245,724
Teacher and student recruitment	74,097	12,612	86,709	-	-	86,709
Student services and staff team building	67,489	11,486	78,975	3,246	-	82,221
Curriculum and classroom materials	397,036	67,576	464,612	-	-	464,612
Occupancy	1,933,734	540,308	2,474,042	341,246	28,437	2,843,725
Utilities	119,627	33,425	153,052	21,112	1,759	175,923
Office supplies	82,181	22,962	105,143	22,780	1,209	129,132
Postage and delivery	2,196	614	2,810	388	32	3,230
Telephone and internet services	48,452	8,627	57,079	6,118	1,040	64,237
Information technology	70,368	17,199	87,567	11,202	828	99,597
Insurance	72,386	20,225	92,611	12,774	1,064	106,449
Fundraising expense	-	-	-	-	2,880	2,880
Dues and subscriptions	6,941	1,181	8,122	-	-	8,122
Depreciation and amortization	146,358	18,294	164,652	18,294	-	182,946
Maintenance and repairs	148,877	41,598	190,475	26,273	2,189	218,937
Miscellaneous	-	-	-	10,913	-	10,913
<b>Total Expenses</b>	<b>\$ 10,484,175</b>	<b>\$ 2,805,007</b>	<b>\$ 13,289,182</b>	<b>\$ 1,900,807</b>	<b>\$ 65,604</b>	<b>\$ 15,255,593</b>

See notes to financial statements

## Challenge Preparatory Charter School

### Statements of Cash Flows

	Year Ended June 30,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,199,269	\$ (449,173)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	171,361	182,946
Deferred rent	238,992	274,995
Changes in operating assets and liabilities		
Grants and contracts receivable	95,388	45,987
Prepaid expenses and other current assets	(178,720)	17,393
Security deposits	(599,423)	(50,984)
Accounts payable and accrued expenses	(52,051)	(48,680)
Accrued payroll and payroll taxes	40,787	357,894
Net Cash from Operating Activities	915,603	330,378
 <b>CASH FLOWS FROM INVESTING ACTIVITY</b>		
Purchases of property and equipment	(230,154)	(185,380)
 <b>CASH FLOWS FROM FINANCING ACTIVITY</b>		
Proceeds from Paycheck Protection Program loan	1,792,512	-
Net Change in Cash and Restricted Cash	2,477,961	144,998
 <b>CASH AND RESTRICTED CASH</b>		
Beginning of year	2,402,264	2,257,266
End of year	\$ 4,880,225	\$ 2,402,264
The following table provides a reconciliation of cash and restricted cash within the statements of financial position:		
Cash	\$ 4,810,225	\$ 2,332,264
Restricted cash	70,000	70,000
	\$ 4,880,225	\$ 2,402,264

See notes to financial statements



# Challenge Preparatory Charter School

Notes to Financial Statements  
June 30, 2020 and 2019

## 1. Organization and Tax Status

Challenge Preparatory Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on February 9, 2010 to operate a Charter School pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on February 9, 2010 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. During 2019, the Board of Regents extended the School's charter through June 30, 2024. The School's educational philosophy promotes high levels of academic achievement and tailoring instruction to ensure that academic needs of all students are met. The School's founders believe that good instruction recognizes the interrelation of content knowledge and higher order thinking and that, accordingly, good instruction should reflect a balanced approach to learning. Classes commenced in Far Rockaway, New York in August 2011 and the School provided education to approximately 802 students in kindergarten through eighth grade during the 2019-2020 academic year. The most recent charter renewal allows the School to serve grades 9-12.

The New York City Department of Education provides free lunches and transportation directly to some of the School's students. Such costs are not included in these financial statements. The School covers a portion of the cost of lunches for children not entitled to the free lunches.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

## 2. Summary of Significant Accounting Policies

### *Basis of Presentation and Use of Estimates*

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

### *Recognition of Contributions*

Effective July 1, 2019, the School adopted Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance provides a framework for evaluating whether contributions and grants should be accounted for as exchange transactions or as nonexchange transactions. Analysis of various provisions of this standard resulted in no significant changes in the way the School recognizes contributions and grants, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.



## Challenge Preparatory Charter School

Notes to Financial Statements  
June 30, 2020 and 2019

### 2. Summary of Significant Accounting Policies (*continued*)

#### ***Adoption of New Accounting Policies (continued)***

##### *Restricted Cash*

In November 2016, the Financial Accounting Standards Board issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. ASU 2016-18 requires significant changes regarding how restricted cash is classified and presented on the statement of cash flows. On July 1, 2019, the School adopted the new guidance regarding the presentation and classification of restricted cash. The guidance requires the School to 1) include restricted cash and restricted cash equivalents in the cash and cash equivalents balances on the statements of cash flows, 2) provide a reconciliation between the statements of financial position and the statements of cash flows, 3) eliminate the presentation of transfers between restricted cash and cash, and 4) include disclosures about the nature of the restrictions for material balances. Adoption of the ASU resulted in a change in the accounting for restricted cash on the statements of cash flows.

##### ***Net Asset Presentation***

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

*Net assets without donor restrictions* - consist of resources available for the general support of the School's operations. Net assets without donor restrictions may be used at the discretion of the School's management and/or the Board of Trustees.

*Net assets with donor restrictions* – represents amounts restricted by donors for specific activities of the School or to be used at a future date. The School records contributions as net assets with donor restrictions if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are classified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. The School had no net assets with donor restrictions as of June 30, 2020 and 2019.

##### ***Restricted Cash***

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution, should it occur.

## Challenge Preparatory Charter School

Notes to Financial Statements  
June 30, 2020 and 2019

### 2. Summary of Significant Accounting Policies (*continued*)

#### ***Property and Equipment***

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$3,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset which is up to twenty years. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, in which case it is expensed as incurred.

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Computers and equipment	3 to 5 years
Furniture and fixtures	5 years
Software	3 years
Standby generator	15 years
Website development	15 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to its fair value. There were no asset impairments for the years ended June 30, 2020 and 2019.

#### ***Deferred Rent***

The School records its rent in accordance with U.S. GAAP whereby all rental payments, including fixed rent increases, are recognized on a straight-line basis as an offset to rent expense. The difference between the straight-line rent expense and the required lease payments is reflected in deferred rent in the accompanying statements of financial position.

#### ***Revenue and Support***

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as net assets with donor restrictions if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as net assets without donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.



## Challenge Preparatory Charter School

Notes to Financial Statements  
June 30, 2020 and 2019

### 2. Summary of Significant Accounting Policies *(continued)*

#### ***Functional Expense Allocation***

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

#### ***Accounting for Uncertainty in Income Taxes***

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2017.

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is September 30, 2020.

### 3. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state, city entitlements and grants, and a private grant. The School expects to collect these receivables within one year and has not provided an allowance for doubtful accounts.

### 4. Property and Equipment

Property and equipment consisted of the following at June 30:

	2020	2019
Computers and equipment	\$ 554,136	\$ 464,494
Furniture and fixtures	411,524	402,273
Software and website development	55,217	28,289
Standby generator	127,589	127,589
Leasehold improvements	596,398	492,065
Construction in progress	300,000	300,000
	<u>2,044,864</u>	<u>1,814,710</u>
Accumulated depreciation and amortization	<u>(1,151,470)</u>	<u>(980,109)</u>
	<u>\$ 893,394</u>	<u>\$ 834,601</u>

Construction in progress at June 30, 2020 and 2019 consists of soft costs associated with the new facilities at 15-20 Central Avenue, Queens, New York (see Note 9).

## Challenge Preparatory Charter School

Notes to Financial Statements  
June 30, 2020 and 2019

### 5. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the statement of financial position date, are comprised of the following at June 30:

	<u>2020</u>	<u>2019</u>
Cash	\$ 4,810,225	\$ 2,332,264
Grants and contracts receivable	452,240	547,628
	<u>\$ 5,262,465</u>	<u>\$ 2,879,892</u>

As part of the School's liquidity management plan, the status of grants and contracts receivable is monitored regularly and any excess cash is held in liquid instruments until it is required for operational use. To help manage unanticipated liquidity needs, the School has a line of credit in the amount of \$50,000, which it could draw upon as further disclosed in Note 10.

### 6. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 3% of annual compensation. Employer match for the years ended June 30, 2020 and 2019 amounted to \$167,140 and \$154,572.

### 7. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2020 and 2019, approximately \$4,560,000 and \$2,081,000 of cash was maintained with an institution in excess of FDIC limits.

### 8. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the years ended June 30, 2020 and 2019, the School received approximately 97% and 94% of total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.



## Challenge Preparatory Charter School

Notes to Financial Statements  
June 30, 2020 and 2019

### 9. Commitments

On December 10, 2010, the School entered into a non-cancelable operating lease for office and classroom space at 710 Hartman Lane, Far Rockaway, New York, expiring on May 31, 2032. The lease includes a yearly rent escalation of 3%, and requires the School to pay for utilities and other office costs. The School moved into this facility on April 16, 2012, and it currently houses grades K-5.

On December 5, 2014, the School entered into an agreement to lease additional property at 15-26 Central Avenue, Queens, New York, expiring on May 31, 2026. The lease commenced on September 19, 2015 and includes a yearly rent escalation of 3%, and requires the School to pay for utilities and other office costs. This location was the home of Challenge Preparatory Middle School from the 2015-2016 through the 2017-2018 academic years and is currently being used as office space.

On September 29, 2015, the School entered into an agreement to lease additional property at 15-20 Central Avenue, Queens, New York, expiring on August 31, 2040. The lease is projected to commence in October 2020 and includes a yearly rent escalation of 3%, and requires the School to pay for utilities and other office costs. This location will be used to house grades 9-12 when the School first occupies the facility.

On September 1, 2018, the School entered into an agreement to lease additional property at 12-79 Redfern Avenue, Queens, New York, expiring on August 31, 2034. The lease commenced on September 1, 2018 and includes a yearly rent escalation of 3%, and requires the School to pay for utilities and other office costs. This location became the home of Challenge Preparatory Middle School starting with the 2018-2019 academic year.

The future minimum lease payments for the four facility leases are as follows for years ending June 30:

2021	\$ 3,839,613
2022	4,473,176
2023	4,607,371
2024	4,745,593
2025	4,887,960
Thereafter	<u>62,532,065</u>
	<u>\$ 85,085,778</u>

The School recognizes rent expense on a straight-line basis over the term of the leases. Rent expense in excess of payments is recorded as deferred rent in the accompanying statements of financial position. Occupancy expense under the leases for the years ended June 30, 2020 and 2019 amounted to \$2,775,125 and \$2,843,725.

### 10. Line of Credit

On December 6, 2010, the School established a \$50,000 line of credit with a local financial institution. The line of credit is payable on demand and bears interest at prime rate plus 2.75%. The line of credit is secured by substantially all assets of the School. There was no outstanding balance as of June 30, 2020 and 2019.



## Challenge Preparatory Charter School

Notes to Financial Statements  
June 30, 2020 and 2019

### 11. Paycheck Protection Act Loan Payable

On May 4, 2020, the School qualified for and received a loan pursuant to the Paycheck Protection Program ("PPP"), a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified PPP lender, for an aggregate principal amount of \$1,792,512 (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of five years, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal amount of the PPP Loan is subject to forgiveness under the PPP upon the School's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the School. The School intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. The School believes that most, if not all, of the PPP Loan will meet the requirements for debt forgiveness. To the extent that all or part of the PPP Loan is not forgiven, the School will be required to pay interest on the PPP Loan through the date principal is repaid in full or maturity date.

### 12. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

### 13. Risks and Uncertainties

The School's operations and financial performance may be affected by the recent COVID-19 outbreak which has spread globally and is expected to adversely affect economic conditions throughout the world. If the outbreak continues and conditions worsen, the School may experience a disruption in operations as well as a decline in revenue activities. Economic uncertainty is related to the potential reduction and/or delays in state and local per pupil operating revenue, shortfalls and variations in enrollment, and operational and other changes that could increase expenses. The outbreak may adversely affect the School's activities, financial condition, results of operations, and cash flows. Management is closely monitoring the impact of COVID-19 and believes the School is taking appropriate actions to mitigate the negative impact. However, management is unable to estimate the financial impact, if any, related to this matter.

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**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**

**Board of Trustees  
Challenge Preparatory 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 Challenge Preparatory Charter School (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 September 30, 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.

*PKF O'Connor Davies, LLP*

Harrison, New York  
September 30, 2020

## **Challenge Preparatory Charter School**

Schedule of Findings and Responses  
Year Ended June 30, 2020

### **Section I – Financial Statement Findings**

During our audit, we noted no material findings for the year ended June 30, 2020.

### **Section II – Compliance Findings**

During our audit, we noted no material findings for the year ended June 30, 2020.

### **Section III – Status of Prior Year Findings**

#### **2019-001- General Ledger Maintenance and Account Analysis**

##### ***Condition***

During the preparation of the year-end financial statements, we noted that improvements are needed in the financial statement closing process to address the accuracy of the School's year-end financial reporting. Material audit adjustments were required for prepaid rent, deferred rent liability, and accrued expenses.

##### ***Current year Status***

This condition was corrected in fiscal 2020.

**Challenge Preparatory Charter School**

Auditors' Communication on Internal Control

June 30, 2020

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**Board of Trustees  
Challenge Preparatory Charter School**

In planning and performing our audit of the financial statements of Challenge Preparatory Charter School (the "School") as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, 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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of the management, audit committee, Board of Trustees, The Department of Education of the City of New York, The State Education Department of the State University of New York, and others within the School, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to take this opportunity to acknowledge the courtesy and assistance extended to us by the personnel of the School during the course of our audit.

*PKF O'Connor Davies, LLP*

Harrison, New York  
September 30, 2020