

Challenge Preparatory Charter School

Financial Statements

June 30, 2021 and 2020



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, 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 its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 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, 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
October 21, 2021

Challenge Preparatory Charter School

Statements of Financial Position

	June 30,	
	2021	2020
ASSETS		
Current Assets		
Cash	\$ 6,635,874	\$ 4,810,225
Grants and contracts receivable	365,449	452,240
Prepaid expenses and other current assets	542,925	374,481
Total Current Assets	7,544,248	5,636,946
Property and equipment, net	1,366,039	893,394
Restricted cash	70,000	70,000
Security deposits	925,999	932,999
	\$ 9,906,286	\$ 7,533,339
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 363,585	\$ 220,880
Accrued payroll and payroll taxes	1,152,059	1,027,251
Refundable advances	315,546	-
Deferred rent, current portion	103,919	172,454
Total Current Liabilities	1,935,109	1,420,585
Paycheck Protection Program loan payable	1,792,512	1,792,512
Deferred rent	2,556,245	2,315,256
Total Liabilities	6,283,866	5,528,353
Net assets, without donor restrictions	3,622,420	2,004,986
	\$ 9,906,286	\$ 7,533,339

See notes to financial statements

Challenge Preparatory Charter School

Statements of Activities

	Year Ended June 30,	
	2021	2020
REVENUE AND SUPPORT		
State and local per pupil operating revenue	\$ 15,854,084	\$ 14,318,940
State and local per pupil facilities funding	1,064,272	1,415,761
Federal grants	582,156	380,354
State grants	59,460	54,291
Contributions, grants and other income	8,345	640
Rental income	9,408	126,096
Total Revenue and Support	17,577,725	16,296,082
EXPENSES		
Program Services		
Regular education	11,200,358	10,655,297
Supporting services	2,714,491	2,741,774
Total Program Services	13,914,849	13,397,071
Supporting Services		
Management and general	2,011,517	1,626,830
Fundraising	33,925	72,912
Total Expenses	15,960,291	15,096,813
Change in Net Assets	1,617,434	1,199,269
NET ASSETS		
Beginning of year	2,004,986	805,717
End of year	\$ 3,622,420	\$ 2,004,986

See notes to financial statements

CHALLENGE PREPARATORY CHARTER SCHOOL

Statement of Functional Expenses
Year Ended June 30, 2021

	No. of Positions	Program Services			Management and General	Fundraising and Special Events	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	19	\$ 539,589	\$ 152,812	\$ 692,401	\$ 754,734	\$ 16,597	\$ 1,463,732
Instructional personnel	86	3,887,783	1,051,861	4,939,644	-	-	4,939,644
Non-Instructional personnel	33	1,701,855	330,236	2,032,091	320,791	-	2,352,882
Total Personnel Services Costs	<u>138</u>	<u>6,129,227</u>	<u>1,534,909</u>	<u>7,664,136</u>	<u>1,075,525</u>	<u>16,597</u>	<u>8,756,258</u>
Fringe benefits and payroll taxes		1,205,472	304,583	1,510,055	216,080	3,334	1,729,469
Retirement		123,461	31,194	154,655	22,130	342	177,127
Legal services		-	-	-	10,086	-	10,086
Accounting and auditing services		-	-	-	29,000	-	29,000
Other professional and consulting services		657,665	142,120	799,785	164,042	1,195	965,022
Building and land rent		1,918,336	484,701	2,403,037	343,860	5,306	2,752,203
Repairs and maintenance		59,481	15,029	74,510	10,662	165	85,337
Insurance		87,099	22,007	109,106	15,612	241	124,959
Utilities		190,207	48,059	238,266	34,094	526	272,886
Supplies and materials		269,712	45,685	315,397	11,275	300	326,972
Equipment and furnishings		8,374	1,550	9,924	549	5,085	15,558
Staff development		56,374	8,239	64,613	18,473	-	83,086
Marketing and recruiting		78,770	11,512	90,282	-	-	90,282
Technology		67,889	14,079	81,968	10,261	723	92,952
Student service		34,884	5,098	39,982	-	-	39,982
Office expense		106,943	19,918	126,861	7,216	111	134,188
Depreciation and amortization		206,464	25,808	232,272	25,808	-	258,080
Other		-	-	-	16,844	-	16,844
 Total Expenses		<u>\$ 11,200,358</u>	<u>\$ 2,714,491</u>	<u>\$ 13,914,849</u>	<u>\$ 2,011,517</u>	<u>\$ 33,925</u>	<u>\$ 15,960,291</u>

See notes to the financial statements

CHALLENGE PREPARATORY CHARTER SCHOOL

Statement of Functional Expenses
Year Ended June 30, 2020

	No. of Positions	Program Services			Management and General	Fundraising and Special Events	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	17	\$ 526,473	\$ 147,153	\$ 673,626	\$ 713,100	\$ 13,241	\$ 1,399,967
Instructional personnel	78	3,547,305	1,009,674	4,556,979	-	-	4,556,979
Non-Instructional personnel	<u>32</u>	<u>1,535,938</u>	<u>303,181</u>	<u>1,839,119</u>	<u>296,467</u>	<u>-</u>	<u>2,135,586</u>
Total Personnel Services Costs	<u>127</u>	5,609,716	1,460,008	7,069,724	1,009,567	13,241	8,092,532
Fringe benefits and payroll taxes		1,095,068	308,470	1,403,538	123,387	15,424	1,542,349
Retirement		118,669	33,428	152,097	13,371	1,671	167,139
Legal services		-	-	-	5,019	-	5,019
Accounting and auditing services		-	-	-	26,250	-	26,250
Other professional and consulting services		577,993	140,372	718,365	115,628	5,715	839,708
Building and land rent		1,970,339	555,025	2,525,364	222,010	27,751	2,775,125
Repairs and maintenance		55,146	15,534	70,680	6,214	777	77,671
Insurance		75,029	21,135	96,164	8,454	1,057	105,675
Utilities		189,782	45,365	235,147	20,729	3,237	259,113
Supplies and materials		386,442	69,765	456,207	11,078	1,521	468,806
Equipment and furnishings		23,376	4,071	27,447	630	58	28,135
Staff development		162,590	24,613	187,203	31,214	-	218,417
Marketing and recruiting		115,449	17,477	132,926	-	-	132,926
Technology		36,072	10,158	46,230	6,409	21	52,660
Food service		810	123	933	-	-	933
Student service		53,093	8,037	61,130	-	-	61,130
Office expense		48,634	11,057	59,691	8,083	2,439	70,213
Depreciation and amortization		137,089	17,136	154,225	17,136	-	171,361
Other		-	-	-	1,651	-	1,651
Total Expenses		<u>\$ 10,655,297</u>	<u>\$ 2,741,774</u>	<u>\$ 13,397,071</u>	<u>\$ 1,626,830</u>	<u>\$ 72,912</u>	<u>\$ 15,096,813</u>

Challenge Preparatory Charter School

Statements of Cash Flows

	Year Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,617,434	\$ 1,199,269
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	258,080	171,361
Deferred rent	172,454	238,992
Changes in operating assets and liabilities		
Grants and contracts receivable	86,791	95,388
Prepaid expenses and other current assets	(168,444)	(178,720)
Security deposits	7,000	(599,423)
Accounts payable and accrued expenses	142,705	(52,051)
Accrued payroll and payroll taxes	124,808	40,787
Refundable advances	315,546	-
Net Cash from Operating Activities	2,556,374	915,603
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(730,725)	(230,154)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program loan	-	1,792,512
Net Change in Cash and Restricted Cash	1,825,649	2,477,961
CASH AND RESTRICTED CASH		
Beginning of year	4,880,225	2,402,264
End of year	\$ 6,705,874	\$ 4,880,225

See notes to financial statements

Challenge Preparatory Charter School

Notes to Financial Statements
June 30, 2021 and 2020

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 905 students in kindergarten through ninth grade during the 2020-2021 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.

Challenge Preparatory Charter School

Notes to Financial Statements
June 30, 2021 and 2020

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

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 reclassified 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, 2021 and 2020.

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.

The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position to the amounts presented in the statements of cash flows for the years ended June 30:

	2021	2020
Cash	\$ 6,635,874	\$ 4,810,225
Restricted Cash	70,000	70,000
	<u>\$ 6,705,874</u>	<u>\$ 4,880,225</u>

Challenge Preparatory Charter School

Notes to Financial Statements
June 30, 2021 and 2020

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. 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, 2021 and 2020.

Refundable Advances

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

The School is entitled to receive a rent subsidy that is calculated at the lower of 30 percent of the state and city per pupil amount or actual lease costs as approved by the New York City Department of Education (“NYCDOE”). The school received funds from NYCDOE in excess of the amounts earned. A liability of \$315,546 has been established as of June 30, 2021 and is reflected in the accompanying statements of financial position.

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.

Challenge Preparatory Charter School

Notes to Financial Statements
June 30, 2021 and 2020

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

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.

Marketing and Recruitment

Marketing and recruitment costs are expenses as incurred. Marketing and recruitment costs for the years ended June 30, 2021 and 2020 amounted to \$90,282 and \$132,926.

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 bases 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, 2018.

Reclassifications

Certain 2020 accounts have been reclassified to conform to the 2021 financial statement presentation.

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 October 21, 2021.

Challenge Preparatory Charter School

Notes to Financial Statements
June 30, 2021 and 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:

	2021	2020
Computers and equipment	\$ 1,110,086	\$ 554,136
Furniture and fixtures	448,755	411,524
Software and website development	55,217	55,217
Standby generator	127,589	127,589
Leasehold improvements	713,269	596,398
Construction in progress	320,673	300,000
	<u>2,775,589</u>	<u>2,044,864</u>
Accumulated depreciation and amortization	<u>(1,409,550)</u>	<u>(1,151,470)</u>
	<u>\$ 1,366,039</u>	<u>\$ 893,394</u>

Construction in progress at June 30, 2021 and 2020 consists of soft costs associated with the new facilities at 15-20 Central Avenue, Queens, New York (see Note 9).

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:

	2021	2020
Cash	\$ 6,635,874	\$ 4,810,225
Grants and contracts receivable	365,449	452,240
	<u>\$ 7,001,323</u>	<u>\$ 5,262,465</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. The School will continue to rely on funding received from the NYCDOE to cover its future operating costs (see Note 7).

Challenge Preparatory Charter School

Notes to Financial Statements
June 30, 2021 and 2020

6. Employee Benefit Plan

The School maintains a defined 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, 2021 and 2020 amounted to \$176,977 and \$167,140.

7. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash 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, 2021 and 2020, approximately \$6,390,000 and \$4,560,000 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, 2021 and 2020, the School received approximately 96% and 97% 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.

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, 2042. The lease commenced in August 2021 and includes a yearly rent escalation of 3%, and requires the School to pay for utilities and other office costs. This location is being used to house grades 9-12.

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.

Challenge Preparatory Charter School

Notes to Financial Statements
June 30, 2021 and 2020

9. Commitments (continued)

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

2022	\$ 4,253,731
2023	4,554,134
2024	4,690,759
2025	4,831,481
2026	4,412,067
Thereafter	<u>60,059,119</u>
	<u>\$ 82,801,291</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, 2021 and 2020 amounted to \$2,752,203 and \$2,775,125.

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, 2021 and 2020.

11. Paycheck Protection Program 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 two 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.

Challenge Preparatory Charter School

Notes to Financial Statements
June 30, 2021 and 2020

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.

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, 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 21, 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 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
October 21, 2021

Challenge Preparatory Charter School

Auditors' Communication on Internal Control

June 30, 2021

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, 2021, 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
October 21, 2021