

# **Challenge Preparatory Charter School**

Financial Statements and  
Uniform Guidance Schedules  
Together With Independent Auditors' Reports

June 30, 2023 and 2022

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Uniform Guidance Schedules  
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## **Independent Auditors' Report**

**Board of Trustees**  
**Challenge Preparatory Charter School**

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Challenge Preparatory Charter School (a nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Challenge Preparatory Charter School as of June 30, 2023 and 2022, 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.

#### ***Basis for Opinion***

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Challenge Preparatory Charter School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Change in Accounting Policy***

As discussed in Note 2 to the financial statements, Challenge Preparatory Charter School adopted Financial Accounting Standards Board ("FASB") Topic 842, *Leases*, which resulted in the recognition of right of use assets and related lease liabilities effective July 1, 2022. Our opinion is not modified with respect to that matter.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Challenge Preparatory Charter School's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Challenge Preparatory Charter School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Challenge Preparatory Charter School's ability to continue as a going concern for a reasonable period of time.

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

***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2023, on our consideration of Challenge Preparatory Charter 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 Challenge Preparatory Charter 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 Challenge Preparatory Charter School's internal control over financial reporting and compliance.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 26, 2023

## Challenge Preparatory Charter School

### Statements of Financial Position

	June 30,	
	2023	2022
<b>ASSETS</b>		
Current Assets		
Cash	\$ 4,402,510	\$ 2,829,496
Grants and contracts receivable	174,792	527,246
Prepaid expenses and other current assets	602,469	805,047
Due from related party	14,000	5,000
Total Current Assets	5,193,771	4,166,789
Property and equipment, net	1,324,926	1,631,974
Restricted cash	70,000	70,000
Right of use assets, operating leases, net	97,167,643	-
Security deposits	940,999	925,999
	<b>\$ 104,697,339</b>	<b>\$ 6,794,762</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 530,609	\$ 329,846
Accrued payroll and payroll taxes	1,624,172	1,429,516
Refundable advances	474,260	142,329
Deferred rent, current portion	-	1,643,524
Operating lease liabilities	2,588,147	-
Total Current Liabilities	5,217,188	3,545,215
Operating lease liabilities, less current portion	99,282,217	-
Deferred rent	-	1,399,119
Total Liabilities	104,499,405	4,944,334
Net assets, without donor restrictions	197,934	1,850,428
	<b>\$ 104,697,339</b>	<b>\$ 6,794,762</b>

See notes to financial statements

## Challenge Preparatory Charter School

### Statements of Activities

	Year Ended June 30,	
	2023	2022
<b>REVENUE AND SUPPORT</b>		
State and local per pupil operating revenue	\$ 22,111,689	\$ 17,643,377
State and local per pupil facilities funding	2,437,470	1,721,827
Federal grants	1,546,967	1,301,852
Federal E-Rate and IDEA	203,723	304,856
State grants	-	69,621
Contributions and grants	477,624	42,262
Other income	313,833	3,247
Total Revenue and Support	27,091,306	21,087,042
<b>EXPENSES</b>		
Program Services		
Regular education	18,978,715	17,330,004
Special education	6,619,653	5,583,555
Total Program Services	25,598,368	22,913,559
Supporting Services		
Management and general	3,109,280	2,970,235
Fundraising	36,152	60,301
Total Expenses	28,743,800	25,944,095
<b>OTHER REVENUE</b>		
Gain on forgiveness of		
Paycheck Protection Program Loan	-	1,813,019
Gain on transfer of lease to related party	-	1,272,042
Total Other Revenue	-	3,085,061
Change in Net Assets	(1,652,494)	(1,771,992)
<b>NET ASSETS, WITHOUT DONOR RESTRICTIONS</b>		
Beginning of year	1,850,428	3,622,420
End of year	\$ 197,934	\$ 1,850,428

See notes to financial statements

**Challenge Preparatory Charter School**

Statement of Functional Expenses  
Year Ended June 30, 2023

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	44	\$ 1,917,291	\$ 557,620	\$ 2,474,911	\$ 887,559	\$ 13,953	\$ 3,376,423
Instructional personnel	121	6,234,819	2,467,609	8,702,428	219,004	-	8,921,432
Non-Instructional personnel	18	508,547	184,926	693,473	231,158	-	924,631
Total Personnel Services Costs	<u>183</u>	<u>8,660,657</u>	<u>3,210,155</u>	<u>11,870,812</u>	<u>1,337,721</u>	<u>13,953</u>	<u>13,222,486</u>
Fringe benefits and payroll taxes		1,878,778	696,387	2,575,165	290,195	3,027	2,868,387
Retirement		153,493	56,894	210,387	23,709	247	234,343
Legal services		-	-	-	94,876	-	94,876
Accounting and auditing services		-	-	-	51,250	-	51,250
Other professional and consulting services		946,028	250,122	1,196,150	281,794	5,648	1,483,592
Building and land rent		4,946,541	1,833,483	6,780,024	796,424	7,970	7,584,418
Repairs and maintenance		108,052	40,050	148,102	16,690	174	164,966
Insurance		130,133	48,235	178,368	20,100	210	198,678
Utilities		287,111	106,421	393,532	44,347	463	438,342
Supplies and materials		574,562	127,193	701,755	28,335	895	730,985
Equipment and furnishings		271,290	51,377	322,667	808	3,018	326,493
Staff development		268,231	62,340	330,571	15,196	109	345,876
Marketing and recruiting		49,368	9,173	58,541	-	-	58,541
Technology		105,482	36,982	142,464	15,824	371	158,659
Food service		447	83	530	-	-	530
Student service		40,243	7,478	47,721	-	-	47,721
Office expense		95,231	25,396	120,627	6,601	67	127,295
Depreciation and amortization		463,068	57,884	520,952	57,884	-	578,836
Other		-	-	-	27,526	-	27,526
Total Expenses		<u>\$ 18,978,715</u>	<u>\$ 6,619,653</u>	<u>\$ 25,598,368</u>	<u>\$ 3,109,280</u>	<u>\$ 36,152</u>	<u>\$ 28,743,800</u>

See notes to the financial statements



**Challenge Preparatory Charter School**

Statement of Functional Expenses  
Year Ended June 30, 2022

	No. of Positions	Program Services			Management and General	Fundraising	Total
		Regular Education	Special Education	Total			
Personnel Services Costs							
Administrative staff personnel	40	\$ 1,791,472	\$ 501,462	\$ 2,292,934	\$ 818,453	\$ 17,409	\$ 3,128,796
Instructional personnel	103	5,552,886	1,964,783	7,517,669	177,495	-	7,695,164
Non-Instructional personnel	19	541,884	197,049	738,933	246,311	-	985,244
Total Personnel Services Costs	<u>162</u>	<u>7,886,242</u>	<u>2,663,294</u>	<u>10,549,536</u>	<u>1,242,259</u>	<u>17,409</u>	<u>11,809,204</u>
Fringe benefits and payroll taxes		1,731,305	584,686	2,315,991	272,719	3,822	2,592,532
Retirement		140,505	48,251	188,756	24,872	315	213,943
Legal services		-	-	-	38,388	-	38,388
Accounting and auditing services		-	-	-	33,250	-	33,250
Other professional and consulting services		600,987	155,076	756,063	140,214	17,420	913,697
Building and land rent		4,555,443	1,564,371	6,119,814	812,016	10,226	6,942,056
Repairs and maintenance		90,873	31,207	122,080	16,086	204	138,370
Insurance		109,795	37,704	147,499	19,436	246	167,181
Utilities		383,982	131,862	515,844	67,973	862	584,679
Supplies and materials		720,927	163,892	884,819	50,401	1,562	936,782
Equipment and furnishings		29,551	7,454	37,005	2,270	7,597	46,872
Staff development		243,835	44,471	288,306	164,387	-	452,693
Marketing and recruiting		85,340	15,564	100,904	-	-	100,904
Technology		107,433	34,198	141,631	18,068	522	160,221
Food service		642	117	759	-	-	759
Student service		67,540	12,318	79,858	-	-	79,858
Office expense		151,956	36,134	188,090	9,898	116	198,104
Depreciation and amortization		423,648	52,956	476,604	52,956	-	529,560
Other		-	-	-	5,042	-	5,042
Total Expenses		<u>\$ 17,330,004</u>	<u>\$ 5,583,555</u>	<u>\$ 22,913,559</u>	<u>\$ 2,970,235</u>	<u>\$ 60,301</u>	<u>\$ 25,944,095</u>

## Challenge Preparatory Charter School

### Statements of Cash Flows

	Year Ended June 30,	
	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (1,652,494)	\$ (1,771,992)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	578,836	529,560
Amortization of right of use assets - operating leases	3,872,663	-
Deferred rent	-	1,654,521
Gain on forgiveness of Paycheck Protection Program loan	-	(1,813,019)
Gain on transfer of leases to related party	-	(1,272,042)
Changes in operating assets and liabilities		
Grants and contracts receivable	352,454	(161,797)
Prepaid expenses and other current assets	(252,669)	(262,122)
Due from related party	(9,000)	(5,000)
Security deposits	(15,000)	-
Accounts payable and accrued expenses	200,763	(13,232)
Accrued payroll and payroll taxes	194,656	277,457
Operating lease liabilities	(1,757,338)	-
Refundable advances	331,931	(173,217)
Net Cash from Operating Activities	1,844,802	(3,010,883)
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>		
Purchases of property and equipment	(271,788)	(795,495)
Net Change in Cash and Restricted Cash	1,573,014	(3,806,378)
<b>CASH AND RESTRICTED CASH</b>		
Beginning of year	2,899,496	6,705,874
End of year	\$ 4,472,510	\$ 2,899,496
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for amounts included in the measurement of lease liabilities	\$ 4,985,017	\$ -

See notes to financial statements

# Challenge Preparatory Charter School

Notes to Financial Statements  
June 30, 2023 and 2022

## 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 (the “Board of Regents”). 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 1135 students in kindergarten through eleventh grade during the 2022-2023 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.

### ***Adoption of New Accounting Pronouncement***

#### ***Leases (Topic 842)***

The School adopted Financial Accounting Standards Board Topic 842, *Leases* (“Topic 842”), using the effective date method with July 1, 2022, as the date of initial adoption, with certain practical expedients available.

The School elected the available practical expedients to account for its existing operating leases as operating leases, under the new guidance, without reassessing whether the contracts contain leases under the new standard, whether classification of capital leases or operating leases would be different in accordance with the new guidance, or whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

## Challenge Preparatory Charter School

Notes to Financial Statements  
June 30, 2023 and 2022

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

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

##### *Leases (Topic 842) (continued)*

As a result of the adoption of the new lease accounting guidance, on July 1, 2022, the School recognized lease liabilities of \$102,445,302, that represents the present value of the remaining operating and finance lease payments of \$157,419,329, discounted with risk free interest rates using the treasury bond rate ranging from 2.85% to 4.27% depending on the lease term, and right of use (“ROU”) assets of \$99,842,906, that represent the discounted operating and finance lease liabilities of \$102,445,302, with the ROU operating assets adjusted for deferred rent of \$2,602,396.

The adoption of Topic 842 had a material impact on the School’s statement of financial position but did not have a material impact on its statements of activities, functional expenses and cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

#### ***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, 2023 and 2022.

## Challenge Preparatory Charter School

Notes to Financial Statements  
June 30, 2023 and 2022

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

#### ***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 at June 30:

	<u>2023</u>	<u>2022</u>
Cash	\$ 4,402,510	\$ 2,829,496
Restricted Cash	<u>70,000</u>	<u>70,000</u>
	<u>\$ 4,472,510</u>	<u>\$ 2,899,496</u>

#### ***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, 2023 and 2022.

#### ***Leases***

The School accounts for leases under Topic 842. The School determines if an arrangement is a lease at inception. Operating leases are included in operating leases ROU assets, other current liabilities and operating lease liabilities on the accompanying statement of financial position. The School made the short-term lease election for leases with an initial term of less than 12 months.

## Challenge Preparatory Charter School

Notes to Financial Statements  
June 30, 2023 and 2022

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

#### ***Leases (continued)***

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating leases ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The leases do not provide an implicit borrowing rate. The School uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. The operating leases ROU assets includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the School will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The School's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The School has lease agreements with lease and non-lease components, which are generally accounted for separately. The School's lease agreements do not contain any variable lease components. The School applies the short-term lease exemption to all of its classes of underlying assets. During the year ended June 30, 2023, the short-term lease cost was \$7,604,419 and is included in lease expense in the accompanying statement of functional expenses. For the year ended June 30, 2022, U.S. GAAP guidance stated rent shall be charged to expense over the lease term as it became payable. If rental payments are not made on a straight-line basis, rental expense shall be recognized on a straight-line basis unless another systematic and rational basis is more representative of the time pattern in which use benefit is derived from the leased property, in which case that basis shall be used. The difference between the straight-line rent expense and rent paid is reflected as a deferred rent liability in the statement of financial position as of June 30, 2022.

#### ***Refundable Advances***

The School records certain government operating revenue and private grants related to a specific program as refundable advances until related services are performed, at which time they are recognized as revenue.

#### ***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, 2023 and 2022

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

#### ***Marketing and Recruitment***

Marketing and recruitment costs are expensed as incurred. Marketing and recruitment costs for the years ended June 30, 2023 and 2022 amounted to \$58,541 and \$100,904.

#### ***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 such as personnel services costs, fringe benefits and payroll taxes, building and rent lease and other professional and consulting services 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, 2020.

#### ***Reclassifications***

Certain 2022 accounts have been reclassified to conform to the 2023 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 26, 2023.

### **3. Grants and Contracts Receivable**

Grants and contracts receivable consist of federal, state, city entitlements and grants. The School expects to collect these receivables within one year. Management has assessed the need for an allowance and has determined that such allowance is not necessary.

## Challenge Preparatory Charter School

Notes to Financial Statements  
June 30, 2023 and 2022

### 4. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2023</u>	<u>2022</u>
Computers and equipment	\$ 1,707,233	\$ 1,563,703
Furniture and fixtures	737,174	722,908
Software and website development	37,929	55,217
Standby generator	127,589	127,589
Leasehold improvements	<u>1,134,229</u>	<u>1,101,667</u>
	3,744,154	3,571,084
Accumulated depreciation and amortization	<u>(2,419,228)</u>	<u>(1,939,110)</u>
	<u>\$ 1,324,926</u>	<u>\$ 1,631,974</u>

Assets with a cost basis and accumulated depreciation of \$98,718 were disposed of during the year ended June 30, 2023. There were no disposals for the year ended June 30, 2022.

### 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>2023</u>	<u>2022</u>
Cash	\$ 4,402,510	\$ 2,829,496
Grants and contracts receivable	174,792	527,246
Due from related party	<u>14,000</u>	<u>5,000</u>
	<u>\$ 4,591,302</u>	<u>\$ 3,361,742</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 letter 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 New York City Department of Education to cover its future operating costs (see Note 8).

### 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, 2023 and 2022 amounted to \$234,343 and \$213,943.



## **Challenge Preparatory Charter School**

Notes to Financial Statements  
June 30, 2023 and 2022

### **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, 2023 and 2022, approximately \$3,743,000 and \$2,580,000 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, 2023 and 2022, the School received approximately 92% 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. Related Party Transactions (not disclosed elsewhere)**

The School is an affiliate of Friends of Challenge Prep. Inc. (“FOCP”), a New York State not-for-profit corporation, through common management. FOCP supports the School through real estate and facilities-related needs. At June 30, 2023 and 2022, the balance due from FOCP was \$14,000 and \$5,000.

Effective May 1, 2022, the lease agreement for one facility used by the School was transferred to FOCP (see Note 11) and a new sublease agreement was entered into between FOCP (sublandlord) and the School (subtenant). As a result of this transfer, an unamortized deferred rent liability was written off resulting in a non-operating gain of \$1,272,042 which is reported as gain on transfer of lease to related party in the statements of activities for year ended June 30, 2022.

### **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, 2023 and 2022.

### **11. 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-3.

## Challenge Preparatory Charter School

Notes to Financial Statements  
June 30, 2023 and 2022

### 11. Commitments (*continued*)

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 it currently houses grades 4-5.

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 9-11. In May 2022, the lease agreement was transferred to FOCP (see Note 9) and a new sublease agreement between FOCP (sublandlord) and the School (subtenant) was executed effective May 1, 2022 for a period of 29 years ending on June 30, 2051.

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. It currently houses grades 6-8.

On March 1, 2023, the School entered into an agreement to lease additional property at 14-18 Central Avenue, Queens, New York, expiring on February 28, 2028. The lease commenced on March 1, 2023 and includes a yearly rent escalation of 5%, and requires the School to pay for utilities and other office costs. This location became the home of the CTE Culinary Arts Kitchen.

ROU assets consist of the following at June 30, 2023:

ROU assets - operating leases	\$ 101,040,306
Less: accumulated amortization	<u>(3,872,663)</u>
	<u>\$ 97,167,643</u>

Weighted average remaining lease term for operating leases	24.38 years
Weighted average discount rate for operating leases	3.15%

## Challenge Preparatory Charter School

Notes to Financial Statements  
June 30, 2023 and 2022

### 11. Commitments (continued)

The future minimum lease payments under the lease agreements are as follows for years ending June 30:

2024	\$ 5,756,331
2025	5,922,229
2026	5,519,044
2027	5,577,941
2028	5,649,230
Thereafter	<u>125,145,835</u>
Total minimum lease payments	153,570,610
Present value discount	<u>(51,700,246)</u>
Present value of lease liabilities	101,870,364
Current portion	<u>(2,588,147)</u>
Lease liabilities, less current portion	<u>\$ 99,282,217</u>

Occupancy expense under the leases for the years ended June 30, 2023 and 2022 amounted to \$7,584,418 and \$6,942,056.

### 12. Paycheck Protection Program Loan Payable

On May 4, 2020, the School received loan proceeds in the amount of \$1,792,512 under the Paycheck Protection Program (the "PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), provides for loans to qualifying entities for amounts up to 2.5 times the 2019 average monthly payroll expenses of the qualifying entity. The PPP loan bears an interest rate of 1% per annum. All or a portion of the PPP loan principal and accrued interest were forgivable as long as the borrower used the loan proceeds for eligible purposes, as described in the CARES Act, over a period of between eight and twenty-four weeks (the "Covered Period"). Loan payments of principal or interest are deferred until the amount of loan forgiveness is determined by the United States Small Business Administration ("SBA").

On November 4, 2021, \$1,792,512 of principal and \$20,507 of accrued interest were forgiven by the SBA, and as such, the School has recognized the proceeds as gain on forgiveness of Paycheck Protection Program Loan in the accompanying statements of activities.

### 13. 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.

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# **Challenge Preparatory Charter School**

Uniform Guidance  
Schedules and Reports

June 30, 2023

## Challenge Preparatory Charter School

### Schedule of Expenditures of Federal Awards Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
U.S. Department of Education				
Pass-Through New York State Education Department:				
Title I Grants to Local Educational Agencies	84.010	0021-23-4785	\$ -	\$ 185,390
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147-23-4785	-	31,675
Student Support and Academic Enrichment Program	84.424	0204-23-4785	-	13,909
Charter Schools	84.282	0089-23-9003	-	429,125
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II	84.425D	5891-21-4785	-	385,339
COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund ARP	84.425U	5880-21-4785	-	501,529
 Total U.S. Department of Education			-	1,546,967
 Total Expenditures of Federal Awards			\$ -	\$ 1,546,967

See independent auditors' report and notes to schedule of expenditures of federal awards

## Challenge Preparatory Charter School

Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2023

### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Challenge Preparatory Charter School (the "School"), under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

### 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

### 3. Indirect Cost Rate

The School has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



## **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") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, 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 26, 2023.

#### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 26, 2023



**Report on Compliance for Each Major Federal Program and Report on Internal Control  
Over Compliance Required by the Uniform Guidance**

**Independent Auditors' Report**

**Board of Trustees  
Challenge Preparatory Charter School**

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited Challenge Preparatory Charter School's (the "School") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2023. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the School's federal programs.

***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control Over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*PKF O'Connor Davies, LLP*

Harrison, New York  
October 26, 2023

## Challenge Preparatory Charter School

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2023

### **Section I - Summary of Auditors' Results**

#### Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ yes X no

Significant deficiency(ies) identified?

\_\_\_\_\_ yes X none reported

Noncompliance material to the financial statements noted?

\_\_\_\_\_ yes X no

#### Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

\_\_\_\_\_ yes X no

Significant deficiency(ies) identified?

\_\_\_\_\_ yes X none reported

Type of auditors' report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required

to be reported in accordance with 2 CFR 200.516(a)?

\_\_\_\_\_ yes X no

Identification of major federal programs:

#### Federal Assistance Listing Number(s)

#### Name of Federal Program or Cluster

84.425D

COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II

84.425U

COVID-19 Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund ARP

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes X no

### **Section II – Financial Statement Findings**

During our audit, we noted no material findings for the year ended June 30, 2023.

### **Section III – Federal Award Findings and Questioned Costs**

During our audit, we noted no material instance of noncompliance and none of the costs tested which were reported in the federal financially assisted programs are questioned or recommended to be disallowed.

### **Section IV – Prior Year Findings**

There were no findings in the prior year.