

The Equity Project Charter School

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

June 30, 2022 and 2021

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Uniform Guidance Schedules
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Independent Auditors' Report

**To the Board of Trustees
The Equity Project Charter School**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The Equity Project Charter School (a nonprofit organization), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Equity Project Charter School as of June 30, 2022 and 2021, 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 The Equity Project 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.

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 The Equity Project 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.

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**To the Board of Trustees
The Equity Project Charter School**

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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 The Equity Project 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 The Equity Project 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, 2022, on our consideration of The Equity Project 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 The Equity Project 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 The Equity Project Charter School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Harrison, New York
October 26, 2022

The Equity Project Charter School

Statements of Financial Position

	June 30,	
	2022	2021
ASSETS		
Current Assets		
Cash	\$ 3,285,509	\$ 2,565,690
Cash - reserves for facilities	1,015	190,013
Grants and contracts receivable	977,913	529,539
Contributions receivable	275,000	275,000
Prepaid expenses and other current assets	189,542	149,509
Due from related party	106,949	-
Total Current Assets	4,835,928	3,709,751
Property and equipment, net	3,016,733	3,751,307
Loan receivable	8,390,890	8,390,890
Restricted cash	75,201	75,163
Cash - interest reserve	330,000	330,000
Security deposit	132,613	132,613
	\$ 16,781,365	\$ 16,389,724
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 681,519	\$ 652,684
Accrued payroll and payroll taxes	1,261,794	1,189,849
Deferred rent, current portion	75,394	49,245
Due to related party	-	103,960
Refundable advances	108,827	56,834
Total Current Liabilities	2,127,534	2,052,572
Construction loan payable	-	500,000
Paycheck Protection Program loan payable	-	2,570,485
Deferred rent	388,590	463,984
Total Liabilities	2,516,124	5,587,041
Net Assets		
Without donor restrictions	13,990,241	10,527,683
With donor restrictions	275,000	275,000
Total Net Assets	14,265,241	10,802,683
	\$ 16,781,365	\$ 16,389,724

See notes to financial statements

The Equity Project Charter School

Statement of Activities Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and local per pupil operating revenue	\$ 21,095,486	\$ -	\$ 21,095,486
State and local per pupil facilities funding	871,629	-	871,629
Federal grants	2,931,713	-	2,931,713
Federal IDEA and E-Rate	387,364	-	387,364
State grants	103,538	-	103,538
Total Operating Revenue	25,389,730	-	25,389,730
EXPENSES			
Program Services			
Regular education	18,122,652	-	18,122,652
Special education	4,515,284	-	4,515,284
Total Program Services	22,637,936	-	22,637,936
Supporting Services			
Management and general	2,013,549	-	2,013,549
Fundraising	29,886	-	29,886
Total Expenses	24,681,371	-	24,681,371
Surplus from Operations	708,359	-	708,359
SUPPORT AND OTHER REVENUE			
Gain on forgiveness of Paycheck			
Protection Program loan	2,570,485	-	2,570,485
Capital campaign	25,150	-	25,150
Interest and other income	158,564	-	158,564
Total Support and Other Revenue	2,754,199	-	2,754,199
Change in Net Assets	3,462,558	-	3,462,558
NET ASSETS			
Beginning of year	10,527,683	275,000	10,802,683
End of year	\$ 13,990,241	\$ 275,000	\$ 14,265,241

See notes to financial statements

The Equity Project Charter School

Statement of Activities Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING REVENUE			
State and local per pupil operating revenue	\$ 20,737,542	\$ -	\$ 20,737,542
State and local per pupil facilities funding	856,892	-	856,892
Federal grants	1,454,865	-	1,454,865
Federal IDEA and E-Rate	320,063	-	320,063
State grants	95,464	-	95,464
Total Operating Revenue	23,464,826	-	23,464,826
EXPENSES			
Program Services			
Regular education	17,007,515	-	17,007,515
Special education	4,310,065	-	4,310,065
Total Program Services	21,317,580	-	21,317,580
Supporting Services			
Management and general	1,723,230	-	1,723,230
Fundraising	33,036	-	33,036
Total Expenses	23,073,846	-	23,073,846
Surplus from Operations	390,980	-	390,980
SUPPORT AND OTHER REVENUE			
Capital campaign	32,600	-	32,600
Interest and other income	162,226	-	162,226
Net assets released from restrictions	525,000	(525,000)	-
Total Support and Other Revenue	719,826	(525,000)	194,826
Change in Net Assets	1,110,806	(525,000)	585,806
NET ASSETS			
Beginning of year	9,416,877	800,000	10,216,877
End of year	\$ 10,527,683	\$ 275,000	\$ 10,802,683

The Equity Project Charter School

Statement of Functional Expenses
Year Ended June 30, 2022

	No. of Positions	Program Services			Support Services		
		Regular Education	Special Education	Total	Management and General	Fundraising	Total
Personnel Services Costs:							
Administrative staff personnel	24	\$ 1,095,444	\$ 241,303	\$ 1,336,747	\$ 1,154,781	\$ 22,664	\$ 2,514,192
Instructional personnel	83	8,640,463	2,128,473	10,768,936	-	-	10,768,936
Non-instructional personnel	27	1,134,435	300,197	1,434,632	67,398	2,306	1,504,336
Total Personnel Services Costs	134	10,870,342	2,669,973	13,540,315	1,222,179	24,970	14,787,464
Fringe benefits and payroll taxes		1,757,895	431,773	2,189,668	197,644	4,038	2,391,350
Retirement		139,042	34,151	173,193	15,633	319	189,145
Accounting/audit services		-	-	-	49,000	-	49,000
Other purchased/professional/consulting services		240,836	63,621	304,457	99,151	141	403,749
Building and land rent/lease		1,712,932	420,730	2,133,662	196,524	-	2,330,186
Repairs and maintenance		185,633	45,595	231,228	21,298	-	252,526
Insurance		192,779	47,350	240,129	22,117	-	262,246
Utilities		187,583	46,074	233,657	21,521	-	255,178
Supplies/materials		258,497	76,236	334,733	-	-	334,733
Staff development		79,837	19,794	99,631	8,561	81	108,273
Marketing/recruitment		122,680	30,133	152,813	14,075	-	166,888
Technology		253,896	62,362	316,258	29,129	-	345,387
Food service		681,266	195,185	876,451	-	-	876,451
Student services		447,871	128,269	576,140	131	-	576,271
Office expense		193,508	47,530	241,038	21,864	337	263,239
Depreciation and amortization		773,866	190,077	963,943	88,785	-	1,052,728
Other		24,189	6,431	30,620	5,937	-	36,557
Total Expenses		\$ 18,122,652	\$ 4,515,284	\$ 22,637,936	\$ 2,013,549	\$ 29,886	\$ 24,681,371

The Equity Project Charter School

Statement of Functional Expenses
Year Ended June 30, 2021

	No. of Positions	Program Services			Support Services		Total
		Regular Education	Special Education	Total	Management and General	Fundraising	
Personnel Services Costs:							
Administrative staff personnel	26	\$ 1,180,828	\$ 275,033	\$ 1,455,861	\$ 1,002,846	\$ 26,490	\$ 2,485,197
Instructional personnel	90	8,388,177	2,123,582	10,511,759	-	-	10,511,759
Non-instructional personnel	25	971,944	256,860	1,228,804	59,409	1,114	1,289,327
Total Personnel Services Costs	141	10,540,949	2,655,475	13,196,424	1,062,255	27,604	14,286,283
Fringe benefits and payroll taxes		1,689,046	425,506	2,114,552	170,213	4,424	2,289,189
Retirement		216,750	54,604	271,354	21,843	568	293,765
Accounting/audit services		-	-	-	28,152	-	28,152
Other purchased/professional/consulting services		161,755	42,460	204,215	70,213	130	274,558
Building and land rent/lease		1,680,439	423,336	2,103,775	173,745	-	2,277,520
Repairs and maintenance		199,013	50,135	249,148	20,577	-	269,725
Insurance		165,819	41,773	207,592	17,145	-	224,737
Utilities		161,781	40,756	202,537	16,727	-	219,264
Supplies/materials		693,459	194,489	887,948	-	-	887,948
Staff development		41,719	10,644	52,363	3,711	56	56,130
Marketing/recruitment		99,846	25,153	124,999	10,323	-	135,322
Technology		256,499	64,617	321,116	26,520	-	347,636
Student services		141,613	39,258	180,871	106	-	180,977
Office expense		134,586	33,905	168,491	14,061	254	182,806
Depreciation and amortization		765,680	192,890	958,570	79,166	-	1,037,736
Other		58,561	15,064	73,625	8,473	-	82,098
Total Expenses		\$ 17,007,515	\$ 4,310,065	\$ 21,317,580	\$ 1,723,230	\$ 33,036	\$ 23,073,846

See notes to financial statements

The Equity Project Charter School

Statements of Cash Flows

	Year Ended June 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,462,558	\$ 585,806
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	1,052,728	1,037,736
Gain on forgiveness of Paycheck Protection Program loan	(2,570,485)	-
Deferred rent	(49,245)	(23,857)
Loss on disposal of property and equipment	11,390	-
Changes in operating assets and liabilities		
Grants and contracts receivable	(448,374)	(52,109)
Contributions receivable	-	525,000
Prepaid expenses and other current assets	(40,033)	(16,464)
Due from related party	(106,949)	-
Accounts payable and accrued expenses	28,835	210,223
Accrued payroll and payroll taxes	71,945	(51,224)
Due to related party	(103,960)	40,825
Refundable advances	51,993	52,425
Net Cash from Operating Activities	1,360,403	2,308,361
CASH FLOWS FROM INVESTING ACTIVITY		
Purchases of property and equipment	(329,544)	(446,676)
CASH FLOWS FROM FINANCING ACTIVITY		
Payments on construction loan payable	(500,000)	(500,000)
Net Change in Cash and Restricted Cash	530,859	1,361,685
CASH AND RESTRICTED CASH		
Beginning of year	3,160,866	1,799,181
End of year	\$ 3,691,725	\$ 3,160,866
SUPPLEMENTARY CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ -	\$ 57,136

See notes to financial statements

The Equity Project Charter School

Notes to Financial Statements
June 30, 2022 and 2021

1. Organization and Tax Status

The Equity Project Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on January 15, 2008 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 January 15, 2008 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 has extended the School's charter through June 30, 2023. The School's mission is focused on providing students from low-income families with equal access to outstanding teachers as a means of achieving educational equality. The School is uniquely focused on attracting and retaining master teachers. To do so, the School uses a three-pronged strategy of rigorous qualifications, redefined expectations, and revolutionary compensation.

Classes commenced in the Washington Heights neighborhood of New York City in September 2009 and the School provided education to approximately 1,057 students in grades kindergarten through eighth during the 2021-2022 academic year.

Beginning in September 2009, the School has been operating in transportable classroom units ("TCUs") located on the campus of a New York City public school. The School pays for its own security guards and for a portion of maintenance and custodial costs. The School does not pay annual rent. The School was unable to determine a value for the contributed space and did not record any value for the use of donated facilities. The School built a permanent facility in Inwood/Washington Heights and started middle school classes in the new facility in August 2019. During the year ended June 30, 2016, the School began leasing additional space for its early childhood location and classes commenced at the new facility in September 2016 (see Note 15).

Through December 31, 2020, The New York City Department of Education provided free lunches to kindergarten through fourth grade students, and through June 30, 2022, transportation was provided directly to a majority of the School's students. Such costs are not included in these financial statements. The School covers 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.

The Equity Project Charter School

Notes to Financial Statements
June 30, 2022 and 2021

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

Net Assets 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.

Restricted Cash

Under the provisions of its Charter, the School was required to establish an escrow account of no less than \$70,000 to pay for legal and audit expenses that would be associated with a dissolution, should it occur.

Under the terms of the New Markets Tax Credit financing, the School is required to maintain an interest reserve cash account in the amount of \$330,000.

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>2022</u>	<u>2021</u>
Cash	\$ 3,285,509	\$ 2,565,690
Cash - reserves for facilities	1,015	190,013
Restricted cash	75,201	75,163
Cash-interest reserve	330,000	330,000
	<u>\$ 3,691,725</u>	<u>\$ 3,160,866</u>

The Equity Project Charter School

Notes to Financial Statements
June 30, 2022 and 2021

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 \$2,000 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 four to ten 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:

Equipment	4 to 7 years
Furniture and fixtures	5 years
Software	4 and 5 years
Musical instruments	3 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, 2022 and 2021.

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.

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.

The Equity Project Charter School

Notes to Financial Statements
June 30, 2022 and 2021

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, 2022 and 2021 amounted to \$166,888 and \$135,322.

Measure of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the School's ongoing services. Non-operating activities include revenue and support from gain on forgiveness of Paycheck Protection Program loan, non-governmental sources that include grants and contributions revenue, return on investments and other activities considered to be of a more non-recurring nature.

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, 2019.

Deferred Rent

The School records its rent in accordance with U.S. GAAP guidance whereby all rental payments, included 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, as well as any unamortized lease incentive, is reflected in deferred rent in the accompanying financial statements.

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, 2022.

3. Grants and Contracts Receivable

Grants and contracts receivable consists of federal, state, and 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 an allowance is not necessary.

The Equity Project Charter School

Notes to Financial Statements
June 30, 2022 and 2021

4. Contributions Receivable

Contributions receivable at June 30, 2022 and 2021 were \$275,000. The June 30, 2022 balance is due to be collected within one year. The School annually reviews contributions receivable for collectability and will write-off contributions deemed uncollectible. At June 30, 2022 and 2021, no allowance for doubtful accounts has been deemed necessary.

5. Property and Equipment

Property and equipment consists of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Equipment	\$ 2,698,439	\$2,553,974
Furniture and fixtures	1,063,335	1,053,886
Software	303,412	284,572
Musical instruments	115,588	115,588
Leasehold improvements	<u>4,261,636</u>	<u>4,140,343</u>
	8,442,410	8,148,363
Accumulated depreciation and amortization	<u>(5,425,677)</u>	<u>(4,397,056)</u>
	<u>\$ 3,016,733</u>	<u>\$ 3,751,307</u>

During the year ended June 30, 2022, the School disposed of assets with a cost basis of \$35,497 and accumulated depreciation of \$24,107, resulting in a loss on disposal of \$11,390, which is reflected in the other expenses on the accompanying 2022 statement of functional expenses. There were no assets disposed during the year ended June 30, 2021.

6. 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 statements of financial position dates, are comprised of the following at June 30:

	<u>2022</u>	<u>2021</u>
Financial assets at year end:		
Cash	\$ 3,285,509	\$ 2,565,690
Cash - reserves for facilities	1,015	190,013
Grants and contracts receivable	977,913	529,539
Due from related party	106,949	-
Contributions receivable	<u>275,000</u>	<u>275,000</u>
Total Financial Assets	4,646,386	3,560,242
Less amounts unavailable for general expenditure:		
Net Assets with donor restrictions	<u>275,000</u>	<u>275,000</u>
	<u>\$ 4,371,386</u>	<u>\$ 3,285,242</u>

The Equity Project Charter School

Notes to Financial Statements
June 30, 2022 and 2021

6. Liquidity and Availability of Financial Assets (continued)

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 money market accounts and other liquid instruments until it is required for operational use. 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 13).

7. Loan Receivable

The School received funds through a capital campaign and proceeds were used by the School to make an \$8,390,890 loan to an investment fund on August 4, 2016. Interest only at the rate of 1.472% per annum is to be paid quarterly through October 1, 2023. Thereafter, through the note's maturity on July 1, 2044, interest at 1.472% per annum and principal payments are due quarterly in equal installments of \$117,503.

The investment fund used the loan proceeds, together with funds provided by the New Markets Tax Credit ("NMTC") Investor, to make an equity investment in an entity which then made three loans totaling \$12,400,000 to TEP Charter School Assistance, Inc, a related entity. These loans were made under the New Markets Tax Credit Program, a federally funded program to encourage community development.

The School and the 99.99% owner of the investment fund entered into a put/call option agreement whereby the owner has the option to sell its interest in the investment fund to the School for \$1,000 for a period of 180 days after the end of the NMTC compliance period. If the owner does not exercise its option, the School has the option to purchase the interest at its fair value as defined in the agreement.

8. Employee Benefit Plan

The School maintains a retirement plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School will match employee contributions up to 3% of annual compensation. The employer match was \$189,145 and \$293,765 for the years ended June 30, 2022 and 2021.

9. Construction Loan Payable

Construction loan payable at June 30, 2022 and 2021 consists of the following two construction loan notes:

	2022	2021
(a) Civic Charter Lender, Inc.	\$ -	\$ 322,625
(b) The New York Pooled PRI Fund	-	177,375
	<u>\$ -</u>	<u>\$ 500,000</u>

The Equity Project Charter School

Notes to Financial Statements
June 30, 2022 and 2021

9. Construction Loan Payable (continued)

- (a) On June 5, 2017, the School entered into a \$1,000,000 construction loan payable for the purpose of financing the cost of renovations and build out of the early childhood facility. The loan was scheduled to mature on the earlier of 15 days after the School's fiscal year 2022 audit is finalized or December 15, 2022. The term of the loan may be extended for up to six months, at the sole discretion of the lender. Loan advances were made at the School's request through December 1, 2017. The loan shall be payable annually, within 15 days of receipt of the School's fiscal year end audited financial statements, starting with the June 30, 2019 fiscal year. Principal payments shall be equal to the lesser of 50% of the School's unrestricted cash in excess of one-twelfths of the total annual expenses as calculated in such audited financial statements or the amount required to reduce the outstanding principal balance of the loan to the amount listed in the amortization schedule of the agreement. Interest is payable on a quarterly basis at 5% per annum. There were principal payments of \$322,625 and \$402,375 made during the years ended June 30, 2022 and 2021.
- (b) On June 5, 2017, the School entered into a \$800,000 construction loan payable for the purpose of financing the cost of renovations and build out of the early childhood facility. The loan was scheduled to mature on the earlier of 15 days after the School's fiscal year 2022 audit is finalized or December 15, 2022. The term of the loan may be extended for up to six months, at the sole discretion of the lender. There were principal payments of \$177,375 and \$97,625 made during the years ended June 30, 2022 and 2021.

Interest expense was \$0 and \$57,136 for the years ended June 30, 2022 and 2021.

10. Related Party Transactions (not disclosed elsewhere)

The School is closely connected to TEP Charter School Assistance, Inc. ("TEPCSA"), a New York State not-for-profit corporation, an entity related by common management. The School and TEPCSA share certain expenses that are settled through intercompany payments. There were no material transactions for the years ended June 30, 2022 and 2021.

On August 4, 2016, the School entered into a facility lease agreement with TEPCSA, (see Note 15), to lease the land located at 153 Sherman Avenue, New York, New York.

At June 30, 2022, the balance due from TEPCSA amounted to \$106,949. At June 30, 2021 the balance due to TEPCSA amounted to \$103,960.

11. Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30, 2022 and 2021 consist of \$275,000 due to a time restriction. Net assets released from restrictions amounted to \$0 and \$525,000 the years ended June 30, 2022 and 2021.

The Equity Project Charter School

Notes to Financial Statements
June 30, 2022 and 2021

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. 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, 2022 and 2021, the School received approximately 83% and 88% of its 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.

14. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and restricted 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, 2022 and 2021, approximately \$3,200,000 and \$2,660,000 of cash was maintained with an institution in excess of FDIC limits.

15. Commitments

Facility Lease

On May 4, 2016, the School entered into an operating lease with Regents Associates to lease the second floor of a building located at 4280-98 Broadway in Washington Heights, New York. The lease term commenced on May 4, 2016 and expires on June 30, 2026, with no option to extend the lease. Under the terms of the lease, the School paid a security deposit in the amount of \$125,000. The School is responsible for real estate tax increases, utilities, custodial services, and maintenance. Beginning with the 2016-2017 academic year, the School began using this facility to operate its early childhood program.

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

2023	\$	897,778
2024		924,711
2025		952,453
2026		978,580
	\$	<u>3,753,522</u>

The Equity Project Charter School

Notes to Financial Statements
June 30, 2022 and 2021

15. Commitments (continued)

Facility Lease (continued)

On August 4, 2016, the School entered into a facility lease agreement (the “agreement”) with TEPCSA, a related party (see Note 10), to lease the land located at 153 Sherman Avenue, New York, New York on which TEPCSA constructed a six story building used by the School. To fund construction of the building, TEPCSA obtained a loan from a bank, payment of which is guaranteed by the School through assignment of rent payments to TEPCSA. The lease period is thirty years from commencement date of August 1, 2018.

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

2023	\$ 1,532,000
2024	1,826,000
2025	1,826,000
2026	1,826,000
2027	1,826,000
Thereafter	<u>38,346,000</u>
	<u>\$ 47,182,000</u>

Rent expense under the TEPCSA lease was not straight-lined as annual rent payments are the same for the years ending June 30, 2020 through 2023. During the year ending June 30, 2023, TEPCSA intends to refinance the loan under new terms, therefore, rent payments starting with the year ending June 30, 2024 will be recalculated on a straight-line basis through expiration of the lease. The amounts in the table above are management’s best estimate of what the new lease terms will be.

Facilities expense under both leases was \$2,330,186 and \$2,277,520 for the years ended June 30, 2022 and 2021.

Equipment Rental

The School leases office equipment under non-cancelable lease agreements expiring at various dates through June 2027.

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

The Equity Project Charter School

Notes to Financial Statements
June 30, 2022 and 2021

15. Commitments (continued)

Equipment Rental (continued)

2023	\$	45,582
2024		25,923
2025		17,904
2026		17,904
2027		2,984
	\$	<u>110,297</u>

Equipment rental expense was \$63,602 and \$50,884 for the years ended June 30, 2022 and 2021.

16. Paycheck Protection Program Loan Payable

On April 21, 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 ("SBA") under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified PPP lender, for an aggregate principal amount of \$2,570,485 (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, had 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 applied for full forgiveness of the PPP Loan with respect to these covered expenses.

On November 2, 2021, the PPP Loan was forgiven in full by the SBA. The loan forgiveness of \$2,570,485 is included in the accompanying 2022 statement of activities under gain on forgiveness of Paycheck Protection Program loan.

17. 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.

* * * * *

The Equity Project Charter School

Uniform Guidance
Schedules and Reports

June 30, 2022

The Equity Project Charter School

Schedule of Expenditures of Federal Awards Year Ended June 30, 2022

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>U.S. Department of Agriculture</u>				
Pass-through New York State Education Department:				
Fresh Fruit and Vegetable Program	10.582	Not Available	\$ -	\$ 24,979
Pass-Through New York State Education Department:				
<i>Child Nutrition Cluster:</i>				
School Breakfast Program	10.553	Not available	-	255,036
National School Lunch Program	10.555	Not available	-	739,311
Covid-19 - Emergency Operational Cost Reimbursement Program	10.555	Not available	-	2,000
Covid-19 - Supply Chain Assistance Funds	10.555	Not available	-	25,785
Total Child Nutrition Cluster			-	1,022,132
Total U.S. Department of Agriculture			-	1,047,111
<u>U.S. Department of Education</u>				
Pass-Through New York State Education Department:				
Title I Grants to Local Educational Agencies	84.010	0021224510	-	335,883
English Language Acquisition State Grants	84.365	0293224510	-	44,384
Supporting Effective Instruction State Grants (Formerly Improving Teacher Quality State Grants)	84.367	0147224510	-	44,516
Student Support and Academic Enrichment Program	84.424	0204224510	-	25,068
Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund ARP HCY II	84.425W	5218214510	-	22,706
Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II	84.425D	5891214510	-	602,670
Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund ARP	84.425U	5880214510	-	776,565
Total U.S. Department of Education			-	1,851,792
<u>Federal Communications Commission</u>				
Pass-Through Universal Service Administrative Company:				
Emergency Connectivity Fund Program	32.009	not available	-	32,810
Total Expenditures of Federal Awards			\$ -	\$ 2,931,713

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

The Equity Project Charter School

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2022

1. **Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of The Equity Project Charter School (the "School"), under programs of the federal government for the year ended June 30, 2022. 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
The Equity Project 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 The Equity Project Charter School (the "School") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2022.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that 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 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 26, 2022

**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
The Equity Project Charter School

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited The Equity Project Charter School (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, 2022. 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, 2022.

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, 2022

The Equity Project Charter School

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

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

Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund II

84.425U

Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund ARP

84.425W

Education Stabilization Fund/Elementary and Secondary School Emergency Relief Fund ARP HCY II

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

\$750,000

Auditee qualified as low-risk auditee?

X yes _____ no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended June 30, 2022.

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.