

Board of Trustees
PAVE Academy Charter School

Auditors' Communication on Internal Control

In planning and performing our audit of the financial statements of PAVE Academy Charter School (the "School") as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

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

This communication is intended solely for the information and use of the management, the Board of Trustees, federal and local awarding agencies, The Charter School Institute of the State University of New York, The State Education Department of the State University of New York, and others within the School, and is not intended to be used by anyone other than these specified parties.

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

PKF O'Connor Davies, LLP

Harrison, New York
September 21, 2020

PAVE Academy Charter School

Financial Statements

June 30, 2020 and 2019

Independent Auditors' Report

Board of Trustees
PAVE Academy Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of PAVE Academy Charter School (the "School"), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PAVE Academy Charter School as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2020, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Harrison, New York
September 21, 2020

PAVE Academy Charter School

Statements of Financial Position

	June 30,	
	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets		
Cash	\$ 4,796,729	\$ 2,564,205
Grants and contracts receivable	362,310	197,963
Prepaid expenses and other current assets	<u>42,174</u>	<u>22,665</u>
Total Current Assets	5,201,213	2,784,833
Property and equipment, net	455,538	314,385
Restricted cash	<u>76,467</u>	<u>76,442</u>
	<u>\$ 5,733,218</u>	<u>\$ 3,175,660</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 136,393	\$ 177,422
Accrued payroll and payroll taxes	330,805	277,213
Due to related party	<u>380,684</u>	<u>237,826</u>
Total Current Liabilities	847,882	692,461
Paycheck protection program loan payable	<u>1,144,300</u>	<u>-</u>
Total Liabilities	1,992,182	692,461
Net assets, without donor restrictions	<u>3,741,036</u>	<u>2,483,199</u>
	<u>\$ 5,733,218</u>	<u>\$ 3,175,660</u>

See notes to financial statements

PAVE Academy Charter School

Statements of Activities

	Year Ended June 30,	
	2020	2019
REVENUE AND SUPPORT		
State and local per pupil operating revenue	\$ 9,846,485	\$ 8,910,290
Federal grants	635,234	616,994
State grants	49,044	62,247
Contributions and grants	20,095	-
Rental income	12,600	28,800
Interest income	25	46
Total Revenue and Support	<u>10,563,483</u>	<u>9,618,377</u>
EXPENSES		
Program Services		
Regular education	7,002,107	6,373,545
Special education	1,511,102	1,870,701
Total Program Services	<u>8,513,209</u>	<u>8,244,246</u>
Supporting Services		
Management and general	<u>792,437</u>	<u>736,390</u>
Total Expenses	<u>9,305,646</u>	<u>8,980,636</u>
Change in Net Assets	1,257,837	637,741
NET ASSETS		
Beginning of year	<u>2,483,199</u>	<u>1,845,458</u>
End of year	<u>\$ 3,741,036</u>	<u>\$ 2,483,199</u>

See notes to financial statements

PAVE Academy Charter School

Statement of Functional Expenses
Year Ended June 30, 2020

	Program Services			Management and General	Total
	No. of Positions	Regular Education	Special Education		
Personnel Services Costs					
Administrative staff personnel	18	\$ 873,841	\$ 336,705	\$ 1,210,546	\$ 463,699
Instructional personnel	46	2,895,457	461,390	3,356,847	5,721
Total Salaries and Staff	64	3,769,298	798,095	4,567,393	469,420
Fringe benefits and payroll taxes		873,458	184,942	1,058,400	108,779
Retirement		30,585	6,476	37,061	3,809
Management company fees		660,570	139,866	800,436	82,266
Legal service		621	131	752	77
Accounting / audit services		35,543	7,526	43,069	4,427
Other purchased / professional / consulting services		196,530	43,869	240,399	18,174
Repairs and maintenance		403,731	85,484	489,215	50,280
Insurance		78,630	16,649	95,279	9,792
Utilities		81,281	17,210	98,491	10,123
Supplies / materials		267,129	68,477	335,606	-
Equipment / furnishings		1,103	234	1,337	137
Staff development		46,786	11,993	58,779	-
Marketing / recruitment		53,893	12,715	66,608	3,071
Technology		43,178	9,142	52,320	5,377
Food service		230,108	58,986	289,094	-
Student services		11,313	2,900	14,213	-
Office expense		96,961	20,530	117,491	12,075
Depreciation and amortization		99,446	21,056	120,502	12,385
Other		21,943	4,821	26,764	2,245
Total Expenses		\$ 7,002,107	\$ 1,511,102	\$ 8,513,209	\$ 792,437
					\$ 9,305,646

PAVE Academy Charter School

Statement of Functional Expenses
Year Ended June 30, 2019

	No. of Positions	Program Services			Management and General	Total
		Regular Education	Special Education	Total		
Personnel Services Costs						
Administrative staff personnel	8	\$ 444,009	\$ 43,091	\$ 487,100	\$ 428,142	\$ 915,242
Instructional personnel	52	2,896,718	956,611	3,853,329	6,778	3,860,107
Total Salaries and Staff	<u>60</u>	<u>3,340,727</u>	<u>999,702</u>	<u>4,340,429</u>	<u>434,920</u>	<u>4,775,349</u>
Fringe benefits and payroll taxes		724,526	216,812	941,338	94,324	1,035,662
Retirement		31,905	9,548	41,453	4,154	45,607
Management company fees		623,344	186,534	809,878	81,151	891,029
Legal service		930	278	1,208	121	1,329
Accounting / audit services		26,329	7,879	34,208	3,428	37,636
Other purchased / professional / consulting services		147,718	43,824	191,542	18,261	209,803
Repairs and maintenance		343,045	102,655	445,700	44,660	490,360
Insurance		69,225	20,715	89,940	9,012	98,952
Utilities		66,845	20,003	86,848	8,702	95,550
Supplies / materials		300,486	74,600	375,086	-	375,086
Equipment / furnishings		3,436	1,028	4,464	447	4,911
Staff development		59,782	14,853	74,635	27	74,662
Marketing / recruitment		36,686	10,269	46,955	2,965	49,920
Technology		65,410	19,574	84,984	8,516	93,500
Food service		320,044	79,455	399,499	-	399,499
Student services		7,346	1,824	9,170	-	9,170
Office expense		89,778	26,866	116,644	11,688	128,332
Depreciation and amortization		74,274	22,226	96,500	9,670	106,170
Other		<u>41,709</u>	<u>12,056</u>	<u>53,765</u>	<u>4,344</u>	<u>58,109</u>
 Total Expenses		<u>\$ 6,373,545</u>	<u>\$ 1,870,701</u>	<u>\$ 8,244,246</u>	<u>\$ 736,390</u>	<u>\$ 8,980,636</u>

PAVE Academy Charter School

Statements of Cash Flows

	Year Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,257,837	\$ 637,741
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	132,887	106,170
Changes in operating assets and liabilities		
Grants and contracts receivable	(164,347)	90,348
Prepaid expenses and other current assets	(19,509)	94,979
Accounts payable and accrued expenses	(41,029)	(129,753)
Accrued payroll and payroll taxes	53,592	(12,435)
Due to related party	142,858	52,859
Refundable advances	-	(15,704)
Net Cash from Operating Activities	1,362,289	824,205
CASH FLOWS FROM INVESTING ACTIVITY		
Purchases of property and equipment	(274,040)	(233,465)
CASH FLOWS FROM FINANCING ACTIVITY		
Proceeds from paycheck protection program loan	1,144,300	-
Net Change in Cash and Restricted Cash	2,232,549	590,740
CASH AND RESTRICTED CASH		
Beginning of year	2,640,647	2,049,907
End of year	\$ 4,873,196	\$ 2,640,647
The following table provides a reconciliation of cash, and restricted cash within the statements of financial position:		
Cash	\$ 4,796,729	\$ 2,564,205
Restricted cash	76,467	76,442
	\$ 4,873,196	\$ 2,640,647

See notes to financial statements

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2020 and 2019

1. Organization and Tax Status

PAVE Academy 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 approved and issued several renewals to the School's charter expiring on June 30, 2023. During March of 2017, the School applied to change their authorizer and transfer its charter from the New York City Department of Education to the State University of New York ("SUNY"). On October 11, 2017, SUNY approved the transfer of the School's charter effective for the 2017-2018 school year. The School's mission is to prepare kindergarten through eighth grade students to thrive in competitive high schools and four year colleges and provide the children of Brooklyn with a rigorous academic program and a school community built on the School's core values of Perseverance, Achievement, Vibrance, and Excellent character ("PAVE"). Classes commenced in Red Hook, Brooklyn, New York, in August 2008 and the School provided education to approximately 510 students in kindergarten through eighth grade in the 2019-2020 academic year.

The New York City Department of Education provides free transportation directly to some of the School's students. Such costs are not included in these financial statements.

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 Policies

Recognition of Contributions

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

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2020 and 2019

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

Adoption of New Accounting Policies (continued)

Restricted Cash

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

Net 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 classified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. The School had no net assets with donor restrictions as of June 30, 2020 and 2019.

Restricted Cash

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

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2020 and 2019

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

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000 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 ranging from two to three years. Purchased property and equipment are recorded at cost at the date of acquisition.

Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, in which case it is expensed as incurred.

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

Computers and equipment	3 and 5 years
Furniture and fixtures	7 years
Software	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, 2020 and 2019.

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.

Contribution revenue is recognized when a donor makes a gift to the School or a promise to make a gift to the School which 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. 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.

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.

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2020 and 2019

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

Marketing and Recruitment

Marketing and recruitment costs are expensed as incurred for staff and student recruitment. Marketing and recruitment expense for the years ended June 30, 2020 and 2019 was \$69,679 and \$49,920.

Accounting for Uncertainty in Income Taxes

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

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is September 10, 2020.

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.

4. Property and Equipment

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

	2020	2019
Computers and equipment	\$ 803,808	\$ 647,512
Furniture and fixtures	83,218	81,866
Software	128,552	100,163
Leasehold improvements	178,436	90,433
	<u>1,194,014</u>	<u>919,974</u>
Accumulated depreciation and amortization	<u>(738,476)</u>	<u>(605,589)</u>
	<u>\$ 455,538</u>	<u>\$ 314,385</u>

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2020 and 2019

5. Liquidity and Availability of Financial Assets

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

	<u>2020</u>	<u>2019</u>
Cash	\$ 4,796,729	\$ 2,564,205
Grants and contracts receivable	<u>268,278</u>	<u>197,963</u>
	<u>\$ 5,065,007</u>	<u>\$ 2,762,168</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 invested in highly liquid securities.

6. Related Party Transactions (not disclosed elsewhere)

The School is an affiliate of PAVE Schools, Inc. ("PAVE Schools"), a New York State not-for-profit corporation. PAVE Schools supported the School through financial, fundraising and facility development efforts. Effective July 1, 2015, PAVE Schools acted as a Charter Management Organization. For the years ended June 30, 2020 and 2019, the School paid PAVE Schools for shared expenses in the amount of \$462 and \$9,794. The net balance due to PAVE Schools at June 30, 2020 and 2019 was \$380,684 and \$237,826.

Facility Lease

On March 13, 2014, the School entered into a sub-sublease agreement with PACS 732 Henry LLC ("PACS 732") (a single member LLC under PAVE Schools Inc., a related party) to occupy a new facility located at 732 Henry Street in Brooklyn, New York. The School pays for all facility expenses, upkeep, and insurance. The sub-sublease agreement will terminate on March 13, 2034. PACS 732's sublease with Civic Builders, a non-profit charter school developer, expires on March 13, 2113 and it is envisioned that the School will continue to periodically renew its sub-sublease agreement with PACS 732. Rent is payable at \$1 per year, pursuant to the Ultimate Prime Lease that PACS 732 has with Civic Builders and the New York City School Construction Authority. On May 21, 2014, the School paid \$20 to PACS 732 as prepayment of its 20 year lease. The School did not record an amount for donated use of facilities.

Management Agreement

On June 15, 2015, the School entered into a management agreement with PAVE Schools to provide the School with educational management services and designs that expired June 30, 2018. The Management agreement was renewed in September 2018 and was mutually terminated on June 30, 2020. PAVE Academy Charter School has transitioned all applicable responsibilities including implementation of educational programs, coaching, professional development and business administration support, to the School. This change necessitated a charter revision, which was approved by the School's authorizer in March 2020.

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2020 and 2019

6. Related Party Transactions (not disclosed elsewhere) (continued)

For the years ended June 30, 2020 and 2019, as compensation to PAVE Schools for these services, the School paid an annual fee of 9.1% and 10% of the School's funding provided by the State of New York and the New York City Department of Education. Management fee expense for the years ended June 30, 2020 and 2019 was \$882,702 and \$891,029.

7. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 401(k) for the benefit of its eligible employees. Under the plan, the School provided matching contributions of 2% to the plan. The amount charged to operations for fees and matching contributions to this plan amounted to \$40,869 and \$45,607 for the years ended June 30, 2020 and 2019.

8. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2020 and 2019, approximately \$4,544,000 and \$2,366,000 of cash was maintained with institutions in excess of FDIC limits.

9. Concentration of Revenue and Support

The School receives a substantial portion of its support and revenue from the New York City Department of Education. For the years ended June 30, 2020 and 2019, the School received approximately 93% 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.

10. Paycheck Protection Program Loan Payable

On May 5, 2020, the School qualified for and received a loan pursuant to the Paycheck Protection Program ("PPP"), a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified PPP lender, for an aggregate principal amount of \$1,144,300 (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of five years, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal amount of the PPP Loan is subject to forgiveness under the PPP upon the School's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the PPP, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the School. The School intends to apply for forgiveness of the PPP Loan with respect to these covered expenses. The School believes that most, if not all, of the PPP Loan will meet the requirements for debt forgiveness. To the extent that all or part of the PPP Loan is not forgiven, the School will be required to pay interest on the PPP Loan through the date principal is repaid in full or maturity date.

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2020 and 2019

11. 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.

12. Risks and Uncertainties

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

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditors' Report

Board of Trustees
PAVE Academy Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of PAVE Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 21, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
September 21, 2020