



PARTNERSHIP to EDUCATE and ADVANCE KIDS

**AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2021**

**The Partnership to Educate and Advance Kids
Audit Report
For the Year Ended June 30, 2021**

Table of Contents

Independent Auditor's Report	1 - 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 13

Selden Fox

Accounting for your future

619 Enterprise Drive | Oak Brook, Illinois 60523 | www.seldenfox.com
p 630.954.1400 | f 630.954.1327 | email@seldenfox.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Partnership to Educate and Advance Kids
Chicago, Illinois

We have audited the accompanying financial statements of **The Partnership to Educate and Advance Kids** (PEAK), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Partnership to Educate and Advance Kids as of June 30, 2021, and the changes in its net assets and cash flows during the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited The Partnership to Educate and Advance Kids 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 8, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Selden Fox, Ltd.

February 14, 2022

The Partnership to Educate and Advance Kids
Statement of Financial Position
June 30, 2021
(Comparative Totals for 2020)

	2021	2020
Assets		
Cash	\$ 520,619	\$ 259,269
Investments	26,334	7,241
Accounts receivable, net	5,700	11,375
Prepaid expenses	923	923
Contribution receivable, net	-	333,334
Office furniture and equipment, net	-	1,642
	\$ 553,576	\$ 613,784
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 905	\$ 3,433
Deferred revenue	54,907	38,000
Paycheck protection program loan payable	-	45,800
	55,812	87,233
Net assets:		
With donor restrictions	-	333,334
Without donor restrictions	497,764	193,217
	497,764	526,551
	\$ 553,576	\$ 613,784

See accompanying notes.

The Partnership to Educate and Advance Kids
Statement of Activities
For the Year Ended June 30, 2021
(Comparative Totals for 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenues:				
Sponsor tuition support	\$ 382,797	\$ -	\$ 382,797	\$ 338,315
Grants and contributions	152,915	-	152,915	168,944
Stewardship events	150,457	-	150,457	94,209
Miscellaneous	4	-	4	27
Gain on extinguishment of paycheck protection program loan	45,800	-	45,800	-
Net assets released from restrictions	333,334	(333,334)	-	-
Total revenues	1,065,307	(333,334)	731,973	601,495
Expenses:				
Program services	516,486	-	516,486	497,212
Management and general	89,135	-	89,135	70,972
Fund-raising	155,139	-	155,139	130,342
Total expenses	760,760	-	760,760	698,526
Change in net assets	304,547	(333,334)	(28,787)	(97,031)
Net assets, beginning of the year	193,217	333,334	526,551	623,582
Net assets, end of the year	\$ 497,764	\$ -	\$ 497,764	\$ 526,551

See accompanying notes.

The Partnership to Educate and Advance Kids
Statement of Functional Expenses
For the Year Ended June 30, 2021
(Comparative Totals for 2020)

	Program Services	Management and General	Fund-raising	2021 Total	2020 Total
Bank charges	\$ -	\$ 575	\$ -	\$ 575	\$ 150
Bad debt expense	-	16,084	-	16,084	7,200
Depreciation	-	1,642	-	1,642	1,642
Insurance	-	6,806	-	6,806	6,009
Miscellaneous	-	1,294	-	1,294	3,980
Office expense	-	665	-	665	1,182
Payroll	102,726	31,270	132,038	266,034	267,475
Postage	-	-	-	-	363
Printing and publications	-	93	-	93	566
Professional fees	2,950	28,024	-	30,974	19,280
Sponsor events	59	-	-	59	647
Stewardship events	-	-	23,101	23,101	16,446
Student expenses	2,091	-	-	2,091	8,752
Telephone	-	2,682	-	2,682	2,446
Tuition payments	408,660	-	-	408,660	362,388
	\$ 516,486	\$ 89,135	\$ 155,139	\$ 760,760	\$ 698,526

See accompanying notes.

The Partnership to Educate and Advance Kids
Statement of Cash Flows
For the Year Ended June 30, 2021
(Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ (28,787)	\$ (97,031)
Gain on extinguishment of payroll protection loan	(45,800)	-
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	1,642	1,642
Changes in operating assets and liabilities:		
Accounts receivable	5,675	(125)
Contribution receivable	333,334	-
Accounts payable	(2,528)	1,651
Deferred revenue	16,907	20,000
	<u>280,443</u>	<u>(73,863)</u>
Cash flows from operating activities	280,443	(73,863)
Cash flows from investing activities - purchases of investments	(19,093)	(7,241)
Cash flows from financing activities - proceeds from payroll protection loan	-	45,800
	<u>-</u>	<u>45,800</u>
Net change in cash	261,350	(35,304)
Cash, beginning of the year	<u>259,269</u>	<u>294,573</u>
Cash, end of the year	<u>\$ 520,619</u>	<u>\$ 259,269</u>

See accompanying notes.

The Partnership to Educate and Advance Kids Notes to the Financial Statements

1. Nature of Operations

The Partnership to Educate and Advance Kids (PEAK) was incorporated as an Illinois not-for-profit corporation on January 14, 1998. PEAK provides full four-year high school scholarships and mentoring to academically marginal, economically disadvantaged, inner-city children.

2. Summary of Significant Accounting Policies

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting, which recognizes revenue when earned and expenses when incurred. The financial statements have been prepared to focus on PEAK as a whole to present balances and transactions according to the existence or absence of donor-imposed transactions. This has been accomplished by classification of fund balances and transactions into two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met by the actions of the organization or the passage of time. PEAK received an unconditional promise to give which was paid over multiple years. The final payment was received in the current year and released from net assets with donor restriction.

Net Assets Without Donor Restrictions – Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Expirations of donor restrictions on net assets (i.e., the donor imposed stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets on the statement of activities.

Investments – Investments are stated at fair market value in the statement of financial position. Gains and losses (realized and unrealized) on investments are recognized as changes in net assets in the period in which they occur, and investment income is recognized as revenue in the period earned. Investment income and gains restricted by a donor are reported as increases in net assets without donor restriction if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Investment return is reported net of external and direct internal investment expenses.

The Partnership to Educate and Advance Kids
Notes to the Financial Statements (cont'd)

2. Summary of Significant Accounting Policies (cont'd)

Investments (cont'd)

Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term could affect the amounts reported in the statement of financial position and the statement of activities.

Accounts Receivable – Accounts receivable are stated at the amount due from program sponsors for tuition installments paid by PEAK, reduced by an allowance for doubtful accounts. No late fees are charged on amounts past due.

The allowance for doubtful accounts is established through a provision for bad debts charged to expense. Accounts are charged against the allowance for doubtful accounts when management believes collectability is unlikely. Management's periodic evaluation of the adequacy of the allowance is based on PEAK's past experience, known and inherent risks, adverse situations that may affect a student's ability to repay, and current economic conditions. Management has determined an allowance is not necessary at June 30, 2021 (no allowance at June 30, 2020).

Office Furniture and Equipment – Office equipment is accounted for at cost or fair value at date of donation net of related accumulated depreciation. Depreciation is computed using the straight-line method based on an estimated useful life of five years.

Deferred Revenue – Sponsor payments for tuition and fees collected in advance of the commencement of the fall semester are recorded as deferred revenue.

Revenue Recognition – Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the net assets without donor restrictions.

In-kind Contributions – PEAK records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in professional fees expense.

The Partnership to Educate and Advance Kids Notes to the Financial Statements (cont'd)

2. Summary of Significant Accounting Policies (cont'd)

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and activities at the date of the financial statements, and during the reporting period. Actual results could differ from those estimates. It is reasonably possible that the recorded amounts or related disclosures could significantly change in the near future as more information is available.

Paycheck Protection Program Loan Payable – PEAK has elected to account for its potentially forgivable Paycheck Protection Program loan payable under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 470, *Debt*. Under this guidance, extinguishment of the loan would be recognized when PEAK has been legally released as the primary obligor of the loan. This would occur if and when the United States Small Business Administration approves PEAK's forgiveness application. The Organization received notification of forgiveness on March 17, 2021.

Income Taxes – PEAK is incorporated as a not-for-profit corporation, as described in Section 501(c)(3) of the Internal Revenue Code. PEAK is exempt from income taxes, except to the extent of any unrelated business income. There was no unrelated business income for the years ended June 30, 2021 and 2020. Accordingly, no provision for income tax is included in the financial statements. The federal and state tax returns for the fiscal years ended June 30, 2018, through June 30, 2020, remain subject to examination.

New Accounting Pronouncement – In May 2014, the Financial Accounting Standards Board issued ASU 2014-09, *Revenue from Contracts with Customers* (ASC 606). The new standard requires the PEAK to reassess its revenue recognition policy to accurately depict the transfer of promised goods or services to customers. This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in a company providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the company's contracts with customers. PEAK adopted the standard on July 1, 2020, using the full-retrospective method. There was no cumulative effect adjustment to net assets as of July 1, 2020, as a result of adopting ASC 606 and the adoption of ASC 606 did not have a material effect on the financial statements.

PEAK recognizes revenue in accordance with ASC 606, which provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with the customer
- Identify the performance obligation
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

The Partnership to Educate and Advance Kids
Notes to the Financial Statements (cont'd)

2. Summary of Significant Accounting Policies (cont'd)

New Accounting Pronouncement (cont'd)

PEAK's revenues that are subject to ASC 606 are primarily Sponsor Tuition Support revenues. Revenue from sponsor tuition support are intended to cover the entire school year and are earned over a period of time. Contract service revenue is typically received prior to the related performance obligation(s). Revenue earned over a period of time for the year ended June 30, 2021, was \$382,797 (\$338,315 for the year ended June 30, 2020).

Grants and contributions are considered to be contribution revenue and are accounted for under ASC Topic 958-605 and are not subject to ASC 606. Likewise, investment income is scoped out of ASC 606.

The timing of revenue recognition, billings and cash collections over these contract fees results in billed accounts receivable on the statement of financial position. Fees are earned when the contract service is provided, at which time the customer is billed. The Organization has elected the practical expedient that allows it not to recognize a significant financing component as it anticipates payments will be made typically within 30-60 days. Accounts receivable and deferred revenue at December 31, for the last three years are as follows:

	2021	2020	2019
Accounts receivable	\$ 5,700	\$ 11,375	\$ 11,250
Deferred revenue	54,907	38,000	18,000

Functional Allocation of Expenses – The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Payroll expense is allocated based on estimates of time spent by employee. All direct costs of the programs are charged to the programs, and all remaining costs are considered management and general, or fund-raising expenses.

Summarized Comparative Information – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the PEAK's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

The Partnership to Educate and Advance Kids
Notes to the Financial Statements (cont'd)

3. Liquidity and Availability

Assets available to meet cash needs for general expenditures within one year, without contractual or donor restrictions, consist of the following at June 30:

	2021	2020
Cash	\$ 520,619	\$ 259,269
Investments	26,334	7,241
Accounts receivable, net of allowance	5,700	11,375
Contributions receivable, less discount to present value	-	333,334
	\$ 552,653	\$ 611,219

PEAK's goal is generally to maintain financial assets sufficient to fund expenses for the next year not being covered by sponsor commitments.

The contributions are recorded at fair value, which is the portion of the face amount expected to be received at the inception of the contribution, less a discount for the net present value of expected future cash flows, using a 3.50% annual rate of interest. In fiscal year 2020 PEAK received \$48,800 in federal funding under the CARES Act, including a loan of \$45,800 under the paycheck protection program which was forgiven during fiscal year 2021.

4. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value is categorized in three levels based on the reliability of observable inputs as follows:

Level 1 – Valuations are based on quoted prices in active markets for identical assets or liabilities that PEAK has the ability to access at the measurement date.

Level 2 – Valuations are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-derived valuations whose significant inputs are observable.

Level 3 – Valuations are based on unobservable inputs for the asset or liability that reflect the reporting entity's own data and assumptions that market participants would use in pricing the asset or liability.

The Partnership to Educate and Advance Kids
Notes to the Financial Statements (cont'd)

4. Fair Value Measurements (cont'd)

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

If an investment that is measured using net asset value (NAV) has a readily determinable fair value (that is, it can be traded at the measurement date at its published NAV), it is included in Level 1 of the hierarchy. Otherwise, investments measured using NAVs are not included in Level 1, 2, or 3, but are separately reported. PEAK's investments consist of the Vanguard federal money market fund, which is considered a Level 1 investment as its NAV has a readily determinable fair value.

The PEAK recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels during the year.

5. Contribution Receivable

During the year ended June 30, 2018, PEAK was the recipient of a donor contribution of \$1,000,000, payable over three years (\$333,333 per year). PEAK received a payment of \$333,333 in May 2019. The final installment of \$333,334 which PEAK expected to receive in fiscal year 2020 was received during fiscal year 2021.

6. Debt

PEAK entered into a \$45,800 loan agreement dated April 30, 2020, to provide for working capital needs, with principal due in monthly installments including interest at 1%. The loan was obtained under the Paycheck Protection Program (PPP) administered by the United States Small Business Administration (SBA). Payments commence the earlier of (a) forgiveness determination by the SBA or (b) ten months after the expiration of the Borrower's covered period, which is 24 weeks after the loan disbursement date. PEAK received notification of forgiveness on March 17, 2021, at which time the full amount was recognized as a gain on extinguishment of debt in the statement of activities.

7. Contributed Services

Volunteers to PEAK donated a significant number of hours, for which no value has been assigned. PEAK received contributed audit services, valued at \$3,770 at June 30, 2021 (\$2,970 at June 30, 2020), which have been recorded as contribution revenue and professional fees expense, resulting in no effect on change in net assets or ending net assets.

The Partnership to Educate and Advance Kids
Notes to the Financial Statements (cont'd)

8. Uncertainties

In March 2020, the World Health Organization has declared the outbreak of a novel coronavirus (COVID-19) as a “Public Health Emergency of International Concern”. COVID-19 has continued to spread throughout the world and has adversely impacted global commercial activity. COVID-19 forced PEAK to hold its annual Back to School Breakfast fund-raiser virtually. While COVID-19 has not negatively impacted the overall financial position through June 30, 2021, the future impact that COVID-19 will have on PEAK’s financial statements going forward cannot be determined at this time.

Although the PPP loan was forgiven, as discussed in Note 6, the Small Business Administration could perform a further examination of the application. Any disallowed claims resulting from such examination could become a liability to PEAK.

9. Future Accounting Standards

Contributed Nonfinancial Assets – The Financial Accounting Standards Board (FASB) issued ASU 2020-07, Not-for-Profit Entities (Topic 958) – *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This update improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit entities (NFP’s) through enhancements to presentation and disclosure. Entities will be required to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. Along with the new presentation, additional disclosure requirements about contributed nonfinancial assets for NFP’s will be required, including additional disclosure requirements for recognized contributed services. This ASU becomes effective for annual periods beginning after June 15, 2021, on a retrospective basis. PEAK has not determined the effect of adopting the new standard.

10. Subsequent Events

Subsequent events have been evaluated through February 14, 2022, which is the date the financial statements were available to be issued.