



PARTNERSHIP to EDUCATE and ADVANCE KIDS

**AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2022**

**The Partnership to Educate and Advance Kids  
Audit Report  
For the Year Ended June 30, 2022**

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# Selden Fox

Accounting for your future

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

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, 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.

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, 2022, 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.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Partnership to Educate and Advance Kids and to meet our other ethical responsibilities in accordance with the 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 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 Partnership to Educate and Advance Kids' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Auditor's 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 auditor's 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 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, 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 Partnership to Educate and Advance Kids' 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 Partnership to Educate and Advance Kids' 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 Summarized Comparative Information**

We have previously audited The Partnership to Educate and Advance Kids 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 14, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Selden Fox, Ltd.*

March 31, 2023

**The Partnership to Educate and Advance Kids**  
**Statement of Financial Position**  
**June 30, 2022**  
**(Comparative Totals for 2021)**

	2022	2021
<b>Assets</b>		
Cash	\$ 416,465	\$ 520,619
Investments	46,157	26,334
Accounts receivable, net	39,200	5,700
Prepaid expenses	1,113	923
	<b>\$ 502,935</b>	<b>\$ 553,576</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 5,436	\$ 905
Deferred revenue	103,754	54,907
<b>Total liabilities</b>	<b>109,190</b>	<b>55,812</b>
Net assets:		
With donor restrictions	25,000	-
Without donor restrictions	368,745	497,764
<b>Total net assets</b>	<b>393,745</b>	<b>497,764</b>
	<b>\$ 502,935</b>	<b>\$ 553,576</b>

See accompanying notes.

**The Partnership to Educate and Advance Kids**  
**Statement of Activities**  
**For the Year Ended June 30, 2022**  
**(Comparative Totals for 2021)**

	<u>2022</u>			<u>2021</u>
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	
Revenues:				
Sponsor tuition support	\$ 405,751	\$ -	\$ 405,751	\$ 382,797
Grants and contributions	169,100	25,000	194,100	149,145
In-kind contributions	4,410	-	4,410	3,770
Stewardship events	115,303	-	115,303	150,457
Miscellaneous	2	-	2	4
Gain on extinguishment of Paycheck Protection Program loan	-	-	-	45,800
<b>Total revenues</b>	<b>694,566</b>	<b>25,000</b>	<b>719,566</b>	<b>731,973</b>
Expenses:				
Program services	603,650	-	603,650	516,486
Management and general	83,098	-	83,098	89,135
Fund-raising	136,837	-	136,837	155,139
<b>Total expenses</b>	<b>823,585</b>	<b>-</b>	<b>823,585</b>	<b>760,760</b>
<b>Change in net assets</b>	<b>(129,019)</b>	<b>25,000</b>	<b>(104,019)</b>	<b>(28,787)</b>
Net assets, beginning of the year	497,764	-	497,764	526,551
Net assets, end of the year	<b>\$ 368,745</b>	<b>\$ 25,000</b>	<b>\$ 393,745</b>	<b>\$ 497,764</b>

See accompanying notes.

**The Partnership to Educate and Advance Kids**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2022**  
**(Comparative Totals for 2021)**

	Program Services	Management and General	Fund-raising	<b>2022 Total</b>	2021 Total
Bank charges	\$ -	\$ 458	\$ -	<b>\$ 458</b>	\$ 575
Bad debt expense	-	20,050	-	<b>20,050</b>	16,084
Depreciation	-	-	-	-	1,642
Insurance	-	6,809	-	<b>6,809</b>	6,806
Miscellaneous	-	409	1,022	<b>1,431</b>	1,294
Office expense	-	1,284	-	<b>1,284</b>	665
Payroll	76,870	24,904	105,592	<b>207,366</b>	266,034
Postage	-	44	-	<b>44</b>	-
Printing and publications	-	142	-	<b>142</b>	93
Professional fees	28,818	25,787	7,860	<b>62,465</b>	30,974
Sponsor events	-	-	-	-	59
Stewardship events	-	-	22,363	<b>22,363</b>	23,101
Student expenses	26,262	-	-	<b>26,262</b>	2,091
Telephone	-	3,211	-	<b>3,211</b>	2,682
Tuition payments	471,700	-	-	<b>471,700</b>	408,660
	<b>\$ 603,650</b>	<b>\$ 83,098</b>	<b>\$ 136,837</b>	<b>\$ 823,585</b>	<b>\$ 760,760</b>

See accompanying notes.

**The Partnership to Educate and Advance Kids**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2022**  
**(Comparative Totals for 2021)**

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (104,019)	\$ (28,787)
Gain on extinguishment of Paycheck Protection Program loan	-	(45,800)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	-	1,642
Changes in operating assets and liabilities:		
Accounts receivable	(33,500)	5,675
Contribution receivable	-	333,334
Prepaid expenses	(190)	-
Accounts payable	4,531	(2,528)
Deferred revenue	48,847	16,907
<b>Cash flows from operating activities</b>	<b>(84,331)</b>	<b>280,443</b>
Cash flows from investing activities - purchases of investments	<u>(19,823)</u>	<u>(19,093)</u>
<b>Net change in cash</b>	<b>(104,154)</b>	<b>261,350</b>
Cash, beginning of the year	<u>520,619</u>	<u>259,269</u>
Cash, end of the year	<u>\$ 416,465</u>	<u>\$ 520,619</u>

See accompanying notes.

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

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### 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 a contribution in the current year to be used for student with special needs and is reported as a contribution with donor restriction in the statement of activities.

**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)**

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**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, 2022 (no allowance at June 30, 2021).

**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)**

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**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, at which time the full amount was recognized as a gain on extinguishment of debt in the statement of activities.

**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, 2022 and 2021. 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.

**Revenue from Contracts with Customers** – In May 2014, the Financial Accounting Standards Board issued ASU 2014-09, *Revenue from Contracts with Customers* (ASC 606). 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

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, 2022, was \$405,751 (\$382,797 for the year ended June 30, 2021).

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

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

**Revenue from Contracts with Customers (cont'd)**

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:

	2022	2021	2020
Accounts receivable	\$ 39,200	\$ 5,700	\$ 11,375
Deferred revenue	103,754	54,907	38,000

**New Accounting Pronouncement** – In September 2020, the Financial Accounting Standards Board (FASB) issued ASU 2020-07, *Not-for-Profit Entities - Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new standard relates to the presentation and disclosures by not-for-profit entities (NFPs) for contributed nonfinancial assets (i.e. property and equipment, use of property and equipment, materials, supplies, intangibles and services). The standard will require contributed nonfinancial assets to be presented separate from other contributions on the statement of activities. In the notes to the financial statements, the standard will require a disaggregation by category of contributed nonfinancial asset, information about how those assets are used, restrictions placed by the donor or grantor and how those assets are valued. PEAK adopted this standard for the fiscal year ended June 30, 2022.

**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, 2021, from which the summarized information was derived.

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

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**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:

	2022	2021
Cash	\$ 416,465	\$ 520,619
Investments	46,157	26,334
Accounts receivable, net	39,200	5,700
	\$ 501,822	\$ 552,653

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

**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 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.

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

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**4. Fair Value Measurements (cont'd)**

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.

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. In Kind Contributions**

Volunteers to PEAK donated a significant number of hours, for which no value has been assigned. PEAK received contributed audit services, with a fair value of \$4,410 at June 30, 2022 (\$3,770 at June 30, 2021), determined based on unbilled hours at normal billing rates, which have been recorded as in-kind contribution revenue and professional fees expense, resulting in no effect on change in net assets or ending net assets. Prior year revenues have been reclassified to conform to the current year reporting format.

**6. Uncertainties**

Although the PPP loan was forgiven, as discussed in Note 2, 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.

**7. Future Accounting Standards**

**Leases** – During 2016, the Financial Accounting Standards Board issued new standards relating to lease accounting. The new standard will require the Organization to recognize on its balance sheet, the asset and liability of their leasing agreements relating to the rights and obligations created by the leases. The standard will be effective for the fiscal year ended June 30, 2023. PEAK has not determined the effect of adopting the new standard.

**8. Subsequent Events**

Subsequent events have been evaluated through March 31, 2023, which is the date the financial statements were available to be issued.