SCHALL & ASHENFARB Certified Public Accountants, LLC

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Valence College Prep

Audited Financial Statements In Accordance With Government Auditing Standards

June 30, 2020

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VALENCE COLLEGE PREPARATORY CHARTER SCHOOL

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SCHALL & ASHENFARB Certified Public Accountants, LLC

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Independent Auditor's Report

To the Board of Trustees of
Valence College Preparatory Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of Valence College Preparatory 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 from inception through June 30, 2020, 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 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 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 organization'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 organization'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.

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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 Valence College Preparatory Charter School as of June 30, 2020, and the changes in its net assets and its cash flows for the period from inception through June 30, 2020 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 October 20, 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 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.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

October 20, 2020

VALENCE COLLEGE PREPARATORY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2020

Assets

Cash and cash equivalents	$807,513
Grant receivable - New York City (Note 3)	0
Grants receivable - other	71,636
Prepaid expenses	105,416
Security deposit	87,750
Restricted cash (Note 4)	25,002
Fixed assets, net (Note 5)	218,549
Total assets	$1,315,866

Liabilities and Net Assets

Liabilities:	
Accounts payable and accrued expenses	$288,731
Total liabilities	288,731
Net assets:	
Without donor restrictions	1,027,135
Total net assets	1,027,135
Total liabilities and net assets	$1,315,866

The attached notes and auditor's report are an integral part of these financial statements.

VALENCE COLLEGE PREPARATORY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FROM INCEPTION THROUGH JUNE 30, 2020

Without donor restrictions:	
Public support and revenue:	
Public school district: (Note 3)	
Revenue - resident student enrollment	$1,866,375
Revenue - students with special education services	209,929
Subtotal public school district revenue	2,076,304
Other government grants	1,410,963
Contributions	342,996
Other income	2,101
Total public support and revenue	3,832,364
Expenses:	
Program services:	
Regular education	1,750,618
Special education	311,039
Total program services	2,061,657
Supporting services:	
Management and general	743,572
Total expenses	2,805,229
Change in net assets	1,027,135
Net assets - beginning	0
Net assets - ending	$1,027,135

The attached notes and auditor's report are an integral part of these financial statements.

VALENCE COLLEGE PREPARATORY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FROM INCEPTION THROUGH JUNE 30, 2020

	Program Services			Supporting Services	
	Regular Education	Special Education	Total Program Services	Management and General	Total Expenses
Salaries	$827,273	$146,984	$974,257	$303,666	$1,277,923
Payroll taxes and benefits	151,450	26,909	178,359	55,592	233,951
Total personnel costs	978,723	173,893	1,152,616	359,258	1,511,874
Professional fees	21,932	3,898	25,830	233,898	259,728
Curriculum and classroom expenses	91,234	16,210	107,444		107,444
Occupancy and facility costs	498,362	88,545	586,907		586,907
Non-capitalized equipment and furnishings	52,042	9,246	61,288	17,509	78,797
Office expense	166	30	196	42,127	42,323
Professional development	15,526	2,758	18,284	78,962	97,246
Insurance	28,499	5,063	33,562	5,923	39,485
Student and staff recruitment	36,012	6,399	42,411		42,411
Other expenses	1,774	316	2,090	5,895	7,985
Depreciation	26,348	4,681	31,029		31,029
Total other than personnel costs	771,895	137,146	909,041	384,314	1,293,355
Total expenses	$1,750,618	$311,039	$2,061,657	$743,572	$2,805,229

The attached notes and auditor's report are an integral part of these financial statements.

VALENCE COLLEGE PREPARATORY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FROM INCEPTION THROUGH JUNE 30, 2020

Cash flows from operating activities:	
Change in net assets	$1,027,135
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	31,029
Changes in assets and liabilities:	
Grants receivable - other	(71,636)
Prepaid expenses	(105,416)
Security deposit	(87,750)
Accounts payable and accrued expenses	288,731
Total adjustments	54,958
Net cash flows provided by operating activities	1,082,093
Cash flows from investing activities:	
Purchases of furniture and equipment	(249,578)
Net cash used for investing activities	(249,578)
Net increase in cash and cash equivalents	832,515
Cash, cash equivalents, and restricted cash - beginning	0
Cash, cash equivalents, and restricted cash - ending	$832,515

Cash, cash equivalents, and restricted cash:	
Cash and cash equivalents	$807,513
Restricted cash	25,002
	$832,515

Supplemental disclosures:	
Interest and taxes paid	$0

The attached notes and auditor's report are an integral part of these financial statements.

VALENCE COLLEGE PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 - Organization

Valence College Preparatory Charter School (the "School"), located in Queens, New York, is a not-for-profit education corporation chartered by the Board of Regents of the University of the State of New York, for and on behalf of the State Education Department. The School equips all scholars in grades five through eight with the academic skills, professional habits, and strength of character to graduate from college and lead lives of opportunity. The School completed the 2019-2020 fiscal year with an average enrollment of approximately 116 students. The School is a publicly funded, privately managed school, which is independent of the New York City Department of Education ("NYCDOE").

On October 23, 2018, the School was granted a provisional charter for a term up to and including June 2023. The financial statements reflect activity from inception through June 30, 2020.

The School has been notified by the Internal Revenue Service that it is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in the accompanying financial statements. They have not been designated as a private foundation.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting, which is the process of recognizing revenue and expenses when earned or incurred rather than received or paid.

The School follows the requirements of the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "Topic 606"). This provides the framework for recognizing revenue by highlighting the identification of performance obligations of a contract, determining the price and then allocating the price to each of the performance obligations so that revenue is recognized as each of those performance obligations are satisfied.

The School also follows ASU No. 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("Topic 605"). Key provisions of this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improved guidance for conditional versus unconditional contributions. In accordance with this new standard, the School evaluates whether a transfer of assets is an exchange transaction in which a resource provider is receiving a commensurate value in return for the transfer of resources or whether it is non-reciprocal. If the transaction is determined to be an exchange transaction, the School applies guidance under Topic 606. If the transaction is determined to be non-reciprocal, it is treated as a contribution under Topic 605.

For contributions, the School evaluates whether they are conditional or unconditional. Contributions are considered to be conditional when both a barrier must be overcome for the School to be entitled to the revenue and a right of return of the asset or right of release from the obligation exists.

Analysis of the various provisions of both standards resulted in no significant changes in the way the School recognizes revenue.

b. Basis of Presentation

Net assets are classified based upon the existence or absence of donor-imposed restrictions as follows:

- *Net Assets Without Donor Restrictions* – represent those resources for which there are no restrictions by donors as to their use.

- *Net Assets With Donor Restrictions* – represent those resources, the uses of which have been restricted by donors to specific purposes or the passage of time and/or must remain intact, in perpetuity. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor. The School did not have any net assets with donor restrictions at June 30, 2020.

c. Revenue Recognition

Contributions are recognized at the earlier of when cash is received or at the time a pledge becomes unconditional in nature. Contributions are recorded in the net asset classes referred to above depending on the existence and/or nature of any donor-imposed restriction. When a restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. If donor restricted contributions are satisfied in the same period they were received, they are classified as without donor restrictions.

The School's public-school district revenue and other government grants are primarily conditional, non-exchange transactions and fall under Topic 605. Revenue from these transactions is recognized based on rates established by the School's funding sources and when performance related outcomes are achieved as well as other conditions under the agreements are met.

Contributions and grants that are due within one year are recorded at net realizable value. Long-term pledges are recorded at fair value, using risk-adjusted present value techniques. Pledges are reviewed for collectability. Based on knowledge of specific donors and factoring in historical experience, no allowance for doubtful accounts exists as of June 30, 2020. Write-offs will be made directly to operations in the period the receivable is deemed to be uncollected.

d. Cash and Cash Equivalents

The School considers all liquid investments purchased with a maturity of three months or less to be cash and cash equivalents. Restricted cash has been classified separately.

e. Concentration of Credit

Financial instruments which potentially subject the School to concentration of credit risk consist of checking accounts, which have been placed with a financial institution that management deems to be creditworthy. From time-to-time, cash balances may be in excess of insurance levels. At year-end, there was a significant uninsured balance; however, the School has not experienced any losses due to bank failure.

f. Capitalization Policy

Computer hardware, furniture and equipment are capitalized at cost or at the fair value at the date of gift, if donated. The School capitalizes fixed assets in excess of $5,000 that have a useful life of more than one year. Depreciation was computed using the straight-line method over the estimated useful life of each asset, which generally is between 3 and 5 years.

g. Donated Services

Donated services are recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased, if not provided in-kind. Board members and other individuals volunteer their time and perform a variety of tasks that assist the School. These services do not meet the criteria outlined above and have not been recorded in the financial statements.

h. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the School.

Salaries were allocated using time and effort as the basis. The following costs were allocated using the salary allocation as the basis:

- Payroll taxes and benefits
- Insurance

Certain program expenses have been allocated between Regular Education and Special Education based on student FTE rates. All other expenses have been charged directly to the applicable program or supporting services.

i. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Actual results could differ from those estimates.

j. Contingencies

Government contracts are subject to audit by the grantor. Management does not believe that any audits, if they were to occur, would result in material disallowed costs, and has not established any reserves. Any disallowed costs would be recorded in the period notified.

k. Accounting for Uncertainty in Income Taxes

The School does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2019, the School's initial filing, and later are subject to examination by applicable taxing authorities.

l. New Accounting Pronouncement

FASB issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the June 30, 2023 year, requires the full obligation of long-term leases to be recorded as a liability with a corresponding "right to use asset" on the statement of financial position.

FASB issued ASU No. 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets, which becomes effective for the June 30, 2022 (December 31, 2022) year with early adoption permitted. This ASU focuses on improving transparency in the reporting of contributed nonfinancial assets and requires separate line item presentation on the statement of activities and additional disclosures.

The School is in the process of evaluating the impact these standards will have on future financial statements.

Note 3 - Grants Receivable – New York City Department of Education

Activity related to the contract with the NYCDOE for the period from inception through June 30, 2020 can be summarized as follows:

Per pupil funding:	
Funding based on allowable FTE's	$2,076,304
Advances received	(2,076,304)
Ending grants receivable	$0

Note 4 - Restricted Cash

An escrow account has been established to meet the requirement of the Board of Regents of the State of New York. The purpose of this account is to ensure sufficient funds are available for an orderly dissolution or transition process in the event of termination of the charter or school closure.

Note 5 - Fixed Assets

Fixed assets consist of the following:

Furniture and fixtures	$171,145
Computers and equipment	78,433
	249,578
Less: accumulated depreciation	(31,029)
Total fixed assets, net	$218,549

Note 6 - Significant Concentrations

The School is dependent upon grants from the NYCDOE to carry out its operations. Approximately 68% of the School's total public support and revenue was from NYCDOE for the period from inception through June 30, 2020. If the NYCDOE were to discontinue funding, it would have a severe economic impact on the School's ability to operate.

Note 7- Commitments and Contingencies

The School has a two-year lease that commenced on August 2, 2019 and expires on June 30, 2021. Per the terms of the agreement, the School occupied a temporary space for the first year of the lease and will move to new premises for the second year of the lease. Future minimum payments under this lease are $1,052,000 for the year ending June 30, 2021.

Note 8 - Retirement Plan

The School has a retirement plan ("plan") under Section 403(b) of the Internal Revenue Code. All employees are eligible to participate. Employees may elect to defer a portion of their salary and contribute to the plan up to statutory amounts and receive a discretionary employer-based contribution. Both employee and employer contributions are 100% vested.

The School contributed $19,000 to the plan during the period from inception through June 30, 2020.

Note 9 - Availability and Liquidity

At June 30, 2020, the School's financial assets available to meet cash needs for general expenditures within one year are $879,149, which consist of cash and cash equivalents of $807,513 and grants receivable due within one year of $71,636. There are no external or internal limits imposed on these balances. As part of its liquidity management, the School operates its programs within a board approved budget and relies on grants and contributions to fund its operations and program activities.

Note 10 - Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 20, 2020, the date the financial statements were available to be issued.

On July 21, 2020, the School obtained a loan from the SBA in the amount of $141,000 through the Paycheck Protection Program. Terms of the loan indicate that if certain conditions are met, which include maintaining average work forces during the covered period subsequent to the receipt of the loan funds that are greater than pre-determined historical periods, that the loan, or a portion thereof, will be forgiven. Portions that are not forgiven will be payable over a five-year period, with a six-month deferral of payments and interest will accrue at 1%. The loan forgiveness amount has not been determined as of the date of these financial statements.

Note 11 - Other Matters

In January 2020, the World Health Organization declared the novel coronavirus (COVID-19) a Public Health Emergency of International Concern. Since then, the pandemic has led to quarantines, facility closures, and travel and logistics restrictions that have hurt workforces, economies, and financial markets. These events could adversely affect the School by potentially impacting the funding it receives; limiting program operations; depressing demand for its services; and disrupting its students, staff, and suppliers. As of the date of these financial statements, the potential impact of these events on the School cannot be quantified.

No events have occurred subsequent to the statement of financial position date, through our evaluation date, that would require adjustment to or disclosure in the financial statements.

SCHALL & ASHENFARB Certified Public Accountants, LLC

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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 Auditor's Report

To the Board of Trustees of
Valence College Preparatory Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Valence College Preparatory 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 period from inception through June 30, 2020 and the related notes to the financial statements, and have issued our report thereon dated October 20, 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 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. 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 over financial reporting 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

October 20, 2020

VALENCE COLLEGE PREPARATORY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2020

Current Year:

None

Prior Year:

None – This is the School's first audit.