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IRA L. SCHALL, CPA  
DAVID C. ASHENFARB, CPA  
MICHAEL L. SCHALL, CPA

## Independent Auditor's Report

To the Board of Trustees of  
Valence College Preparatory Charter School

### *Report*

We have audited the accompanying financial statements of Valence College Preparatory Charter School (the "School"), which comprise the statement 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 in accordance with accounting principles generally accepted in the United States of the financial statements, which includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements, whether by management or a third party.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial statements based on our audit conducted in accordance with the auditing standards generally accepted in the United States of America and the standards of the American Institute of Certified Public Accountants ("AICPA") issued by the Governmental Accounting Standards Board ("GASB"). We plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error.


An audit involves procedures to obtain audit evidence, including the assessment of the risks of material misstatement, whether due to fraud or error. In making these assessments, we use professional judgment and an understanding of the organization, its environment, and its 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. We also evaluate the accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence is sufficient to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial position of Valerius College Preparatory Charter School as of June 30, 2020, 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, are fairly presented in the financial statements.

In accordance with the Government Auditing Standards Act of 2013, we have performed tests of internal controls with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. We did not express an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is intended to be used for the purpose of the audit. We did not express an opinion on the effectiveness of the School's internal control over financial reporting or on compliance.

  
Sara J. Ashenfarb  
Schall & Ashenfarb  
Certified Public Accountants, LLC

October 29, 2020

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

**Assets**

|                           |                    |
|---------------------------|--------------------|
| Cash and cash equivalents | \$557,913          |
| Prepaid expenses          | 74,600             |
| Security deposit          | 87,750             |
| Restricted cash (Note 4)  | 25,000             |
| Fixed assets, net         | 1,027,135          |
| <b>Total assets</b>       | <b>\$1,772,400</b> |

**Liabilities**

|                                       |                |
|---------------------------------------|----------------|
| Accounts payable and accrued expenses | \$288,731      |
| <b>Total liabilities</b>              | <b>288,731</b> |

|                            |                  |
|----------------------------|------------------|
| Without donor restrictions | 1,027,135        |
| <b>Total net assets</b>    | <b>1,027,135</b> |

|   |                    |
|---|--------------------|
| <b>Total liabilities and net assets</b> | <b>\$1,772,400</b> |
|---|--------------------|

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

**VALENCE COLLEGE PREP  
STATEMENT OF ACTIVITIES  
FROM INCE**

|                        |   |                  |
|------------------------|---|------------------|
| <b>With</b>            |   |                  |
| Public                 | Public school district: (Note 3)          |                  |
| Revenue                | Revenue - students with special education | 888,888          |
|                        | Subtotal public school district revenue   | <u>888,888</u>   |
| Other                  | Other government                          | 1,000,000        |
| Contributions          | Contributions                             | 1,000,000        |
| Other                  | Other                                     | 1,000,000        |
|                        | Total public support and revenue          | <u>3,832,364</u> |
| <b>Expenses</b>        |   |                  |
| Program services       | Regular education                         | 1,750,610        |
|                        | Special education                         | 311,039          |
|                        | Subtotal program services                 | <u>2,061,649</u> |
| Supporting services    | Management and general                    | 743,572          |
|                        | Total expenses                            | <u>2,805,221</u> |
| Change in net assets   |   | 1,027,133        |
| Net assets - beginning |   | 0                |
|                        |   | <u>1,027,133</u> |

The accompanying notes are an integral part of these financial statements.

**VALENCE COLLEGE PREPARATORY CHARTER SCHOOL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FROM INCOME**

|   | Program Services   |                   |                    | Supporting Services |                    |
|---|--------------------|-------------------|--------------------|---------------------|--------------------|
|   | Regular Education  | Special Education | Total Program      | Management and      |                    |
|   |                    |                   |                    | Total               |                    |
| Salaries                                  | \$827,273          | \$146,984         | \$974,257          | \$303,666           | \$1,277,923        |
| Payroll taxes and benefits                | 151,150            | 151,450           | 26,901             | 178,359             | 55,992             |
| <b>Total personnel</b>                    |                    |                   |                    |                     |                    |
| Professional fees                         | 21,938             | 8,210             | 25,830             | 233                 |                    |
| Curriculum and classroom expenses         | 91,230             | 6,210             | 107,444            |                     | 107,444            |
| Occupancy and facility costs              | 498,332            |                   | 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             | 6,210             | 42,222             | 42,411              | 42,411             |
| Other expenses                            | 1,774              | 316               | 2,090              | 5,895               | 7,985              |
| Depreciation                              | 26,348             | 4,681             | 31,029             |                     | 31,029             |
| <b>Total other than personnel costs</b>   | <b>771,895</b>     | <b>137,835</b>    | <b>909,730</b>     | <b>634,314</b>      | <b>1,293,355</b>   |
| <b>Total expenses</b>                     | <b>\$1,750,618</b> | <b>\$311,039</b>  | <b>\$2,061,657</b> | <b>\$743,572</b>    | <b>\$2,805,229</b> |

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

**VALENCE COLLEGE PREPARATORY CHA**  
**STATEMENT OF**  
**FROM INCEPTION THROUGH JUNE 30, 2020**

Cash flows from operating activities:

|   |           |
|---|-----------|
| Change in net assets  | \$1,027   |
| 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  |           |
| Prepaid expenses  | (105,416) |
| Security deposit  | (87,751)  |
| Accounts payable and accrued expenses   | 288,731   |
| Total adjustments   | 54,953    |
| Net cash flow   | 1,082,580 |

|                                       |           |
|---------------------------------------|-----------|
| Cash flows from investing activities: |           |
| Purchases of fixed assets             | (210,550) |
| Net cash used in investing activities | (210,550) |

Net increase in cash, cash equivalents, and restricted cash

Cash, cash equivalents, and restricted cash, beginning

Cash, cash equivalents, and restricted cash, ending

|                           |           |
|---------------------------|-----------|
| Cash and cash equivalents | \$380,515 |
| 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



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

**Note 1 - Organization**

Valence College Preparatory Charter School (the "School"), located in New York, New York, is a not-for-profit educational 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 provides all school services, grades five through eight, with the academic skills, professional habits, and leadership skills necessary to help students lead lives of opportunity. The School's enrollment for the 2019-2020 school year had an average enrollment of approximately 110 students. The School is a privately funded, privately managed school, which is independent of the New York State Department of Education ("NYCDOE").

On October 23, 2018, the School was granted a professional services contract, 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 the School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The accompanying financial statements are prepared on a non-tax basis.

**Note 2 - Summary of Significant Accounting Policies**

**a. Basis of Accounting**

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

The School follows the requirements of the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2018-08, *Revenue from Contracts with Customers* and amendments to ASU 2018-10, *Revenue from Contracts with Customers* (Topic 606). This provides the framework for recognizing revenue, including the identification of performance obligations, the determination of the transaction price, and then allocating the price to each of the performance obligations so that revenue is recognized as each of those performance obligations is satisfied.

The School also follows ASU No. 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("Topic 606"). The provisions of this guidance include clarification regarding the accounting for exchange contracts as exchange transactions or contributions. In particular, the standard requires that contributions are not recognized if the transaction is an exchange transaction in which a resource provider is providing a resource in return for the donor's resources or services. It is the School's policy that a transaction is determined to be an exchange transaction if the School applies guidance in Topic 606. If the transaction is determined to be a contribution, the contribution is recognized as revenue.

For contributions, the donor evaluates whether they are conditional or unconditional. Contributions are considered to be conditional when both a barrier must be met and the donor retains control over the asset or right of release from the obligation exists.

Analysis of the various provisions of both standards resulted in changes in the way the School recognizes revenue.

b. Basis Classification

Net assets are classified based on donor-imposed donor 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 donor has placed on the balance sheet which have been restricted by donors to specific purposes, time and/or must remain in perpetuity. The 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 classified into asset classes referred to above depending on the donor-imposed restriction. When a restriction expires, that is, when a time restriction ends, or purpose restriction is satisfied, restricted 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 revenues and other revenue sources are primarily conditional non-exchange transactions and fall under Topic 606. Revenue from the School's fund resources and other performance related contracts, as well as other conditions under the agreements.

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 operating expenses in the period the

d. Cash and Cash Equivalents

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

Financial instruments which potentially subject the School to concentrations of credit risk consist of checking accounts, which have been placed in a financial institution that management deems to be creditworthy. The maximum amount of cash balance; however, the School has not experienced any losses due to

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 recorded in certain circumstances if the services enhance non-financial assets, require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased, if 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 using the following criteria: (1) direct costs are allocated to the program and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall operation of the School.

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

- Payroll taxes and benefits
- Insurance

Certain program expenses have been allocated between the Special Services and the Special Education programs. Some expenses have been charged directly to the identifiable programs or special services.

i. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the reported amounts of 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.

**Contingencies**

Government believe that any audits, if they incur, would result in material disallowed costs, and has not established any liability in the period noted.

**Accounting for Leases**

The School does not believe its financial statements include any material uncertain tax positions. Tax filings for periods ending June 30, 2021, the School's fiscal year, and later are not yet filed.

**1. New Accounting Pronouncement**

FASB issued ASU No. 2016-02, "Leases (Topic 842)", effective for the 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 of Financial Statements - Leases (Topic 842), effective for the 30, 2023 year (December 31, 2022) year with early adoption permitted. This standard requires separate line item presentation in the statement of activities and additional disclosures.

The School is in the final stages of implementation of this standard in its future financial statements.

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

Activity related to the contract with the New York City Department of Education for the period June 30, 2021 to June 30, 2022 is summarized as follows:

**Participating Funding**

|                          |                             |
|--------------------------|-----------------------------|
| Advances received        | (2,076,304)                 |
| Ending grants receivable | <u>                    </u> |

**Note 4 - Restricted Assets**

An escrow account of restricted assets of the State of New York is available for the 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        | 249,578          |
| Less: accumulated depreciation | (310,229)        |
| Total fixed assets, net        | <u>\$110,494</u> |

**Note 6 - Significant Concentrations**

The School's total public support and revenue from NYCDOE for the period from the inception through June 30, 2020, is approximately 68%. If NYCDOE were to discontinue funding, it would have a significant 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 in 2021. Future lease payments are approximately \$1,050,000 through 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-match. The plan's investments 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 \$751,366 and grants receivable due within one year of \$127,783. There are no other internal funds. The School's programs include a general fund, approved budget and fees on grants and contributions to fund its operations and program activities.

**Note 10 - Subsequent Events**

Management has evaluated 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 period subsequent to the receipt of the loan funds that are greater than 75% of the historical periods, that the loan will be forgiven. Portions that are not forgiven will be payable over a 5-year period. 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 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 world economies and financial markets. These events could adversely affect the School by potentially impacting the funding it receives; limiting demand for its services; and disrupting its students, staff, and operations. As of the date of this financial statement, the School cannot predict the impact of these events.

No events have occurred subsequent to the date of the financial statements that, as of our valuation date, might require adjustment to or disclosure of the financial statements.

**REPORT ON  
COMPLIANCE AND OTHER MATTERS BY AN INDEPENDENT AUDITOR ON AN AUDIT OF  
STATEMENTS PREPARED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

**Independent Auditor's Report**

To the Board of Trustees  
Valence College Preparatory Charter School

We have audited, in accordance with the auditing standards generally accepted of America and the standards applicable of financial institutions contained in auditing standards issued by the Comptroller General of the United States, the financial statements of Valence College Preparatory Charter School for the period from inception through June 30, 2020 and the related notes to the financial statements, and have issued our report thereon.

**Internal Control Over Financial Reporting**

In planning and performing our audit, 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 audit of the financial statements. We did not express 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 a misstatement that is either material or likely to be material. 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. A *material weakness* is a deficiency, or 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 of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be considered 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 financial statements are free of material misstatement, we performed tests of controls designed to assess compliance with those provisions that, if not followed, would result in a material effect on the financial statements. However, testing of those provisions that are for compliance with those provisions was not an objective of our audit, and accordingly, we do not express an opinion on the results of our tests. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported.

### ***Purpose of this Report***

The purpose of this report is to express an opinion on the entity's compliance with the provisions of the contract and the results of that testing. This report is prepared in accordance with *Government Auditing Standards* and is not intended to be used for any other purpose. According to *Government Auditing Standards*, the auditor is not responsible for the entity's compliance.



Schall & Asner  
Certified Public Accountants, LLC

October 20, 2020



VALENCIA COLLEGE  
SCHEDULE OF FINANCIAL STATEMENTS  
JUNE 30, 2020

Current

Net

Prior Year:

None