

Valence College Preparatory Charter School

Audited Financial Statements

In Accordance with *Government Auditing Standards*

June 30, 2024

Valence College Preparatory Charter School

Audited Financial Statements

June 30, 2024

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Independent Auditor's Report

To the Board of Trustees of
Valance College Preparatory Charter School

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Valance College Preparatory Charter School (the "School"), which comprise the statement of financial position as of June 30, 2024, 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 School as of June 30, 2024, and the changes in its net assets and its cash flows for 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 ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("*Government Auditing Standards*"). 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 School 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 School's 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 GAAS and *Government 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government 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 School's 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 School's 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 School's financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 24, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2024, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Sax CPAs LLP

New York, NY
October 29, 2024

Valence College Preparatory Charter School

Statement of Financial Position

As of June 30, 2024

(With comparative totals as of June 30, 2023)

	June 30,	
	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and cash equivalents	\$ 3,771,295	\$ 3,157,425
Government grants receivable - per pupil funding	4,598	9,605
Government grants receivable - other	325,844	287,940
Prepaid expenses and other assets	40,588	14,732
Security deposit	400,000	400,000
Property and equipment, net	329,496	440,572
Financing lease right-of-use asset	49,687,449	51,462,001
Restricted cash	75,049	75,034
TOTAL ASSETS	<u>\$ 54,634,319</u>	<u>\$ 55,847,309</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 513,344	\$ 373,077
Financing lease liability	54,143,813	54,398,377
Total liabilities	<u>54,657,157</u>	<u>54,771,454</u>
NET ASSETS		
Net assets without donor restrictions	<u>(22,838)</u>	<u>1,075,855</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 54,634,319</u>	<u>\$ 55,847,309</u>

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

Valence College Preparatory Charter School

Statement of Activities

For the Year Ended June 30, 2024
(With comparative totals for the year ended June 30, 2023)

	June 30,	
	2024	2023
WITHOUT DONOR RESTRICTIONS		
PUBLIC SUPPORT AND REVENUE		
Public school district revenue:		
Resident student enrollment	\$ 8,042,218	\$ 7,724,154
Students with special education services	943,195	857,280
Subtotal public school district revenue	8,985,413	8,581,434
New York City rental assistance	2,401,081	2,313,777
Other government grants	613,176	619,064
Contributions	250,156	18,754
Interest Income	42,162	15
Other income	-	72,733
	12,291,988	11,605,777
EXPENSES		
Program services:		
Regular education	8,772,290	8,262,486
Special education	1,955,467	2,036,359
Total program services	10,727,757	10,298,845
Supporting services:		
Management and general	2,662,924	2,271,152
Total expenses	13,390,681	12,569,997
	(1,098,693)	(964,220)
NET ASSETS - beginning of year	1,075,855	2,040,075
NET ASSETS - end of year	\$ (22,838)	\$ 1,075,855

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

Valence College Preparatory Charter School

Statement of Functional Expenses

For the Year Ended June 30, 2024
(With comparative totals for the year ended June 30, 2023)

	Program Services			Supporting Services	Total Expenses 6/30/24	Total Expenses 6/30/23
	Regular Education	Special Education	Total Program Services	Management and General		
Salaries	\$ 4,150,682	\$ 925,245	\$ 5,075,927	\$ 970,966	\$ 6,046,893	\$ 5,024,406
Payroll taxes and employee benefits	945,142	210,685	1,155,827	221,097	1,376,924	1,103,921
Total personnel costs	5,095,824	1,135,930	6,231,754	1,192,063	7,423,817	6,128,327
Professional fees	18,995	4,234	23,229	431,996	455,225	420,852
Curriculum and classroom expenses	189,194	42,174	231,368	-	231,368	444,046
Occupancy and facility costs	2,741,414	611,100	3,352,514	641,296	3,993,810	3,984,802
Food services	267,289	59,583	326,872	-	326,872	448,255
Non-capitalized equipment and furnishings	13,878	3,093	16,971	52,248	69,219	88,948
Office expense	21,988	4,901	26,889	216,815	243,704	214,740
Professional development	139,553	31,108	170,661	30,489	201,150	403,193
Insurance	71,783	16,002	87,785	16,792	104,577	86,661
Student and staff recruitment	49,842	11,111	60,953	-	60,953	75,417
Other expenses	69,527	15,499	85,026	59,469	144,495	113,545
Depreciation	93,003	20,732	113,735	21,756	135,491	161,211
Total other than personnel costs	3,676,466	819,537	4,496,003	1,470,861	5,966,864	6,441,670
Total expenses	\$ 8,772,290	\$ 1,955,467	\$ 10,727,757	\$ 2,662,924	\$ 13,390,681	\$ 12,569,997

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

Valence College Preparatory Charter School

Statement of Cash Flows

For the Year Ended June 30, 2024
(With comparative totals for the year ended June 30, 2023)

	June 30	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,098,693)	\$ (964,220)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	135,491	161,211
Financing lease amortization	1,774,552	1,774,552
Changes in assets and liabilities:		
Government grant receivable/advance - per pupil funding	5,007	(16,904)
Government grants receivable - other	(37,904)	599,175
Prepaid expenses and other assets	(25,856)	85,956
Accounts payable and accrued expenses	140,267	(106,830)
Total adjustments	1,991,557	2,497,160
Net cash flows provided by operating activities	892,864	1,532,940
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of furniture and equipment	(24,415)	(36,559)
Net cash used for investing activities	(24,415)	(36,559)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on financing lease liability	(254,564)	(192,219)
Net cash used for financing activities	(254,564)	(192,219)
Net increase in cash, cash equivalents and restricted cash	613,885	1,304,162
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - <i>beginning of year</i>	3,232,459	1,928,297
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH - <i>end of year</i>	\$ 3,846,344	\$ 3,232,459
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
Cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 3,771,295	\$ 3,157,425
Restricted cash	75,049	75,034
Total cash, cash equivalents and restricted cash	\$ 3,846,344	\$ 3,232,459
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 2,168,633	\$ 2,177,656
Cash paid during the year for taxes	\$ -	\$ -

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

Valence College Preparatory Charter School

Notes to Financial Statements

For the Year Ended June 30, 2024

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 Trustees of the State University of New York ("SUNY Trustees"). 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 2023-2024 fiscal year with an enrollment of approximately 440 students. The School is a publicly funded, privately managed school, which is independent of the New York City Department of Education ("NYCDOE"). On April 16, 2024, the School was granted a five-year extension of its charter for a term up through and including July 31, 2029.

The School has the following programs:

- Regular Education - Instruction provided to all students.
- Special Education - Instruction that is specially designed to meet the unique needs of students with disabilities.

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.

The School is affiliated with Friends of Valence College Preparatory Charter School ("Friends") through the use of shared members of their respective Boards of Directors. Friends is a not-for-profit corporation established to support the School and function as the fundraising arm of the School. Friends does not meet the requirements for consolidation because the School does not exercise control over them.

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting and Presentation

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

The financial statements are presented in accordance with the provisions of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") *958 Presentation of Financial Statement of Not-For-Profit Entities*. FASB ASC 958 requires the School to report information regarding its financial position and activities according to the following specific classes of net assets:

- *Net Assets Without Donor Restrictions* - represents those resources for which there are no restrictions by donors as to their use.
- *Net Assets With Donor Restrictions* - represents contributions and the net residual of assets with donor-imposed restrictions that are expected to be satisfied by performing certain activities or through the passage of time. The School had no donor restricted net assets at June 30, 2024 or June 30, 2023.

Valence College Preparatory Charter School

Notes to Financial Statements

For the Year Ended June 30, 2024

Note 2 - Summary of Significant Accounting Policies - Continued

b. Revenue Recognition

The School follows the requirements of the FASB's Accounting Standards Codification ("ASC") 958-605 for recording contributions, which are recognized when a contribution 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 evaluates whether contributions 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. The School's public-school district revenue and other government grants are primarily conditional, non-exchange transactions and fall under FASB ASC 958-605. Revenue from these transactions is recognized based on rates established by the School's funding sources and when performance related outcomes are achieved, or qualifying expenditures are incurred as well as other conditions under the agreements are met.

Contributions expected to be received within one year are recorded at net realizable value. Long-term pledges are recorded at fair value, using risk-adjusted present value techniques. Receivables 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, 2024. All receivables at June 30, 2024 are expected to be received within one year.

c. Cash and Cash Equivalents

The School considers all liquid investments with an initial maturity of three months or less to be cash and cash equivalents. Cash maintained in escrow per requirements of the NYCDOE are treated as restricted cash.

d. Concentration of Credit Risk

Financial instruments that potentially subject the School to a concentration of credit risk consist of checking and money market accounts, and investment securities which are placed with financial institutions that management deems to be creditworthy. At year end and at various times throughout the year, balances were in excess of insured amounts. The School did not suffer any losses due to bank failure.

e. Property and Equipment

Equipment and furniture that exceed \$5,000 and that have a useful life of greater than one year are recorded at cost or at fair value at the date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

Furniture and fixtures - 7 years

Computers and equipment - 3 to 5 years

Valence College Preparatory Charter School

Notes to Financial Statements

For the Year Ended June 30, 2024

Note 2 - Summary of Significant Accounting Policies - Continued

f. Leases

The School determines if an arrangement is or contains a lease at inception. Leases are included in ROU assets and lease liabilities in the statement of financial position. ROU assets and lease liabilities reflect the present value of the future minimum lease payments over the lease term, and ROU assets also include prepaid or accrued rent. Finance lease amortization is recognized on a straight-line basis over the lease term. The School does not report ROU assets and lease liabilities for its short-term leases (leases with a term of 12 months or less). Instead, the lease payments of those leases are reported as lease expense on a straight-line basis over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the School will exercise that option.

g. 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 employee benefits
- Occupancy and facility costs
- Insurance
- Depreciation

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.

h. 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 services that assist the School. These services do not meet the criteria outlined above and have not been recorded in the financial statements.

i. Management Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Valence College Preparatory Charter School

Notes to Financial Statements

For the Year Ended June 30, 2024

Note 2 - Summary of Significant Accounting Policies - Continued

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, if it is probable that a liability has been incurred.

In the normal course of business, the School is involved in proceedings, lawsuits, and other claims. These matters are subject to many uncertainties, and outcomes are not predictable with a high degree of assurance. Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of June 30, 2024 cannot be ascertained. Management believes that the final outcome of these matters will not have a material impact on the financial statements of the School.

k. Accounting for Uncertainty of Income Taxes

The School does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2021 and later are subject to examination by applicable taxing authorities.

l. 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2023, from which the summarized information was derived.

Note 3 - Government Grants Receivable/Advance - Per Pupil Funding

Activity related to the contract with the NYCDOE can be summarized as follows:

	6/30/24	6/30/23
Beginning grant receivable/(advance payable)	\$ 9,605	\$ (7,299)
Funding based on allowable FTEs	8,985,413	8,581,434
Advances received	(8,990,420)	(8,564,530)
Ending grant receivable	<u>\$ 4,598</u>	<u>\$ 9,605</u>

In addition to per pupil funding, the School was entitled to receive a rent subsidy, that is calculated at the lower of 30% of the per pupil amount or actual lease costs as approved by the NYCDOE. The School recognized revenue of \$2,401,081 and \$2,313,777 during the years ended June 30, 2024 and June 30, 2023, respectively.

Valence College Preparatory Charter School

Notes to Financial Statements

For the Year Ended June 30, 2024

Note 4 - Property and Equipment

Property and equipment consist of the following:

	<u>6/30/24</u>	<u>6/30/23</u>
Furniture and fixtures	\$ 285,476	\$ 285,476
Computers and equipment	<u>622,162</u>	<u>597,747</u>
	907,638	883,223
Less: accumulated depreciation	<u>(578,142)</u>	<u>(442,651)</u>
Total property and equipment, net	<u>\$ 329,496</u>	<u>\$ 440,572</u>

Note 5 - Right-of-Use Asset and Financing Lease Liability

The School evaluated current contracts to determine which met the criteria of a lease. The School has a non-cancellable sublease with Friends, the related party referred to in Note 1, that started on July 1, 2021 and expires on June 30, 2052. The lease does not include specific extension terms. As of June 30, 2024, security deposits of \$400,000 have been made under the lease agreement. In addition, the School guaranteed the original underlying lease between Friends and the landlord. The maximum potential amount that the School can be required to pay on this lease is \$79,235,000 at June 30, 2024. The School's sublease with Friends has been determined to be a financing lease.

The ROU assets represent the School's right to use underlying assets for the lease term, and the lease liabilities represent the School's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from financing leases, were calculated based on the present value of future lease payments over the lease terms using the School's incremental borrowing rate for this calculation. The School has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate. The weighted-average discount rate applied to calculate lease liabilities as of June 30, 2024 was 3.26%. As of June 30, 2024, the weighted average remaining lease term for the School's financing lease was 336 months.

For the year ended June 30, 2024, total finance lease cost was \$3,943,185 of which \$1,774,552 was related to amortization of the ROU asset and \$2,168,633 was interest. There were no short-term lease costs during the year ended June 30, 2024.

Cash paid for finance leases for the year ended June 30, 2024 totaled \$2,423,197 of which \$254,564 was related to principal and \$2,168,633 was related to interest.

Valence College Preparatory Charter School

Notes to Financial Statements

For the Year Ended June 30, 2024

Note 5 - Right-of-Use Asset and Financing Lease Liability - Continued

Future required minimum lease payments are as follows:

Year ending:

June 30, 2025	\$ 2,477,719
June 30, 2026	2,533,468
June 30, 2027	2,590,471
June 30, 2028	2,648,757
June 30, 2029	2,708,354
Thereafter	82,257,668
Total lease payments	<u>95,216,437</u>
Less: present value discount	(41,072,624)
Total lease liability at June 30, 2024	<u><u>\$ 54,143,813</u></u>

Note 6 - Restricted Cash

An escrow account has been established to meet the requirement of the NYCDOE. 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 7 - 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 \$100,000 to the Plan for the year ended June 30, 2024. The School did not contribute to the Plan for the year ended June 30, 2023.

Note 8 - Significant Concentrations

The School is dependent upon grants from the NYCDOE to carry out its operations. Approximately 93% and 94% of the School's total public support and revenue was received from the NYCDOE for the years ended June 30, 2024 and June 30, 2023, respectively. If the NYCDOE were to discontinue funding, this would have a severe economic impact on the School's ability to operate.

Note 9 - Availability and Liquidity

The School's financial assets available to meet cash needs for general expenditures within one year are as follows:

Cash and cash equivalents	\$ 3,771,295
Government grants receivable - per pupil funding	4,598
Government grants receivable - other	<u>325,844</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 4,101,737</u></u>

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.

Valence College Preparatory Charter School

Notes to Financial Statements

For the Year Ended June 30, 2024

Note 10 - Net Asset Deficit

As of June 30, 2024, the School had a deficit balance of \$22,838 in net assets. The School's financing lease liability of \$54,143,813 exceeded its financing lease right-of-use asset of \$49,687,449 by \$4,456,364 as of June 30, 2024.

Note 11 - Subsequent Events

Subsequent events have been evaluated through October 29, 2024, the date the financial statements were available to be issued. There were no material subsequent events that require adjustment or disclosure to the financial statements.



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 and for the year ended June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2024.

Report on 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") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2024-001 and 2024-002 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2024-002.

School's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the School's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Sax CPAs LLP

New York, NY
October 29, 2024

Valence College Preparatory Charter School

Schedule of Findings and Questioned Costs

June 30, 2024

Current Year:

2024-001 - Significant Audit Adjustments

Criteria: The School is responsible for maintaining the books and preparing the financial statements so that they are in accordance with Generally Accepted Accounting Principles.

Condition: The auditor proposed significant adjustments related to recording the correct beginning net asset balance and prepaid rent expense, and grant revenue and receivable for the year ended June 30, 2024.

Cause: The School's accounting department did not correctly perform year-end account analysis on a timely basis before closing the books.

Effect: Significant audit adjustments were required to accurately record net assets, prepaid rent expense, grant revenue, and grant receivables for the year ended June 30, 2024.

Recommendation: We recommend that the School institute steps to ensure that such accounting functions are performed more timely and accurately.

Views of Responsible Officials: See management corrective action plan attached.

2024-002 – NYCDOE Per Pupil Funding – Proof of Residency

Criteria: The School is required to document proof of residency of students who attend the school.

Condition: During our testing, we noted that one student file out of the twenty-five student files tested did not contain documentation of proof of residency.

Cause: Student files were not kept in a central location. The supporting documentation for the student was not reviewed by anyone other than the person who maintained these documents.

Effect: District rates used for billing of services are at risk of being incorrect.

Recommendation: Enrollment documents, including proof of residency, should be collected prior to the student's admittance and maintained in a student file. Student files should be kept in a central location and reviewed for accuracy and completeness by someone other than the person who maintains the file.

Views of Responsible Officials: See management corrective action plan attached.

Prior Year Follow-Up:

2023-001 - Significant Audit Adjustments - The condition still exists. See 2024-001.

To address findings in the 2024 fiscal year audit, Valence College Prep has identified the following corrective actions to mitigate the deficiencies noted by the auditors.

1. 2024-001: Significant Audit Adjustments

- a. Due to a clerical error, the accountant for the school inadvertently did not post the audit adjustments for the year ended June 30, 2023.
- b. As of July 2024, the following steps have been taken to ensure that all future audit adjustments are posted:
 - i. As part of the review of the audit draft, all audit adjustments will be posted and both the accountant and the finance manager for the school will compare the general ledger to the draft audit statements and confirm balances tie.
 - ii. During periodic balance sheet reviews, the accountant will compare the final fund balance per the general ledger to the final audit report and sign off when completed.
 - iii. As part of the annual preparation of the audit workbook, the accountant will compare the fund balance for the prior year to the final audit report for the prior year.
 - iv. This plan has been implemented as of July 1, 2024.

2. 2024-002: NYCDOE Per-Pupil Funding - Proof of Residency

- a. Due to a discrepancy in the school's recordkeeping procedures, a student's proof of residence documentation was not maintained on file.
- b. As of September 2024, the following steps have been taken to ensure that all proof of residency documents are properly stored are as follows:
 - i. All team members who are involved in the student intake process have been retrained on how to properly scan and store documents related to proof of residency.
 1. Documentation is scanned digitally, and uploaded to Google Drive.
 - a. Physical copies are placed into the student's record folder, and kept in the main office.
 - ii. During the intake process for each new student, staff members must complete a detailed checklist, documenting each step in a Student Information Spreadsheet.
 1. The new student's enrollment cannot be completed until each step of the process is completed, including scanning and storing proof of residency documentation.