

Communication with Those Charged with Governance

To the Board of Trustees of
Valence College Preparatory Charter School

We have audited the financial statements of Valence College Preparatory Charter School (the "School") for the year ended June 30, 2022 and have issued our report thereon dated October 18, 2022. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated June 30, 2022, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope of Audit

We performed our audit according to the plan previously communicated to you in our engagement letter.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. No new accounting policies were adopted during the period under audit and the application of existing policies was not changed during the year.

During fiscal 2021, The School received a loan from SBA in the amount of \$140,692 through the Payroll Protection Program ("PPP"). As the covered period of the funds occurred and all conditions had been met during fiscal 2021, this was recognized as revenue during that year. In addition, the SBA forgave this loan.

We noted no other transactions entered into by the School during the period that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates used in preparing the financial statements were as follows:

- The allocation of expenses into program, management and fundraising categories and to determine use of government grant funds
- Estimate for collectability of receivables
- Fixed asset depreciation methods and useful lives

We evaluated the key factors and assumptions used to develop the above estimate in determining that it was reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent and clear.

Significant Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. There were no adjustments of this kind.

Management agreed with all proposed adjustments. These adjustments have been included as part of the audited financial statements presented. There are no known adjustments that have not been recorded.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the auditors. There were no specific matters of this nature discussed prior to our retention.

Difficulties Encountered in Performing the Audit

There were no significant difficulties encountered in performing the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Industry Updates

We would like to update you on important matters in the not-for-profit sector, including new accounting standards, priorities at the IRS and the Office of Management and Budget.

To summarize:

Accounting and Auditing Updates

FASB New Accounting Standard – Accounting Standards Update No. 2020-07

In September 2020, the Financial Accounting Standards Board (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, year with early adoption permitted. The ASU is intended to improve transparency and consistency of the Gifts-in-Kind (GIK) reporting. The new standard will require the following changes in the presentation of the Gifts-in-Kind:

- Separate line-item presentation on Statement of Activities.
- The footnotes will disclose:
 - Desegregation of the amount contributed.
 - Whether nonfinancial GIKs were sold or utilized and description of the program/activities in which those assets were used.
 - NFP's policy (if any) for monetizing rather than utilizing contributed nonfinancial assets.
 - A description of any donor restrictions associated with the contributed nonfinancial assets.
 - How fair value was arrived at, provide a description of the valuation techniques and inputs used to arrive at a fair value measure for GIKs.

FASB New Accounting Standard – Accounting Standards Update No. 2016-02

On February 25, 2016, the FASB issued an ASU No. 2016-02, *Leases*. Under this standard, all leases, including operating leases, with terms of more than twelve months will be required to be reflected as assets and liabilities on the statement of financial position. The asset will be for the rights to use the property, equipment or space and the liability will be for the present value of the total obligations created by that lease.

ASU No. 2020-05 delayed the required adoption date of this new standard (ASU No. 2016-02 and related ASUs) until fiscal years beginning on or after December 15, 2021, which for practical purposes will be years ending December 31, 2022, or June 30, 2023. During the time before implementation is required, it is important for you to determine how this change will impact your organization. Important financial ratios and measures will change, and that is especially relevant to organizations that have loans with debt covenants.

Auditing Standards Changes

During 2019 and 2020, the Auditing Standards Board (ASB) issued new Statements on Auditing Standards (SASs) Nos. 134-140. As amended by SAS No. 141, Amendment to the Effective Dates of SAS Nos. 134-140, the new standards are effective for audits of financial statements for fiscal years ending on or after December 15, 2021 (calendar year-end 2021 and fiscal year-end 2022 financial statements).

These standards impact several aspects of an audit. Some of the most significant changes are:

- **SAS 134**
 - Addresses changes to the auditor's report. The auditor's report will start with the opinion followed by basis of opinion. Users of the audited financial statements will benefit from added visibility of the opinion as it will be at the front of the report. In addition, the new report has enhanced descriptions of the responsibilities of management and auditors.
 - Introduces Key Audit Matters (KAM) reporting. The presentation of KAM is not required, however, NFPs may engage their auditors to perform additional procedures and report on KAM. KAM might include areas of higher risk of material misstatement, areas of the financial statements that involve significant judgment or significant events or transactions occurring during the current year audit.
- **SAS 135**
 - Enhances audit quality by heightening the auditor's focus on related party transactions and significant unusual transactions. Communications to those charged with governance will include required significant unusual transactions and related party communication.
- **SAS 137**
 - Addresses auditor's responsibilities relating to an NFPs annual report providing for performance, documentation, and reporting requirements. The auditor's main responsibility under this standard is to consider whether a material inconsistency exists between the information reported in an annual report and the audited financial statements and to remain alert for indications that a material misstatement of fact exists.

IRS Updates

CHAR500

The new threshold for submitting financial statements with the annual filing (CHAR500) is effective starting with fiscal years **beginning** on or after July 1, 2021, as follows:

- Organizations with total revenues greater than \$1 million will be required to submit audited financial statements with the CHAR500 filing.
- Organizations with total revenues between \$250,000 and \$1 million will be required to submit a review report with the CHAR500 filing.

Schedule B No Longer Required with CHAR 500

The New York Attorney General's Charities Bureau has suspended its collection of IRS Form 990 Schedule B while it reviews any amendments that may be necessary to its policies, procedures, and forms in order to comply with the U.S. Supreme Court's decision in *Americans for Prosperity Foundation v. Bonta* (594 U.S. __, 2021). Annual filings will no longer require disclosure information that identifies donors. Any notices that charities have received regarding a deficiency due to missing or incomplete Schedule Bs are no longer operative as to such deficiency, and annual filings will no longer be considered deficient in such regard.

2020 Form 990-T

The Form 990-T has been revised for tax year 2020 to allow for e-filing in calendar year 2021 (reporting on tax year 2020), as required by the Taxpayer First Act. Revisions are also being made to improve its utility for reporting unrelated business taxable income consistent with the 'silo' rules of Section 512(a)(6) as put in place by the Tax Cuts and Jobs Act. The 2020 Form 990-T separates the tax computation (which will be on Form 990-T) from reporting of separate unrelated trades or businesses, which will be on as many Schedules A (Form 990-T) as the organization needs.

Additionally, the Treasury Department and the IRS issued final regulations under IRC Section 512(a)(6), which requires an exempt organization subject to the unrelated business income tax that has more than one unrelated trade or business to calculate unrelated business taxable income, separately with respect to each such trade or business. The final regulations provide guidance on how an exempt organization subject to the UBIT determines if it has more than one unrelated trade or business, and if so, how it calculates UBIT.

Tax Exempt & Government Entities FY 2021 Program Letter

The IRS TE/GE Entities Division released its program letter which details the main priorities of the division for the upcoming fiscal year. One of the key issues within the division continues to be the review of worker classification to ensure organizations are not reducing their tax burden by incorrectly treating workers as independent contractors instead of employees. Worker misclassification results in employers underreporting and underpaying Federal Insurance Contributions Act (FICA) and Federal Income taxes and may also result in incorrect exclusion from employer retirement plans.

Consolidated Appropriations Act: Charitable Giving Impact

Signed into law on December 27, 2020, the legislation extended through 2021, several areas of the CARES Act that relate to charitable giving including: the increased deduction limitation related to certain types of donations of food inventory, above-the-line charitable contribution deductions for non-itemizers and the increased deduction limitations for cash contributions.

Government Auditing Updates

2021 Compliance Supplement

In August 2021, the Office of Management and Budget (OMB) released the *2021 OMB Compliance Supplement*. This Supplement is effective for audits of fiscal years beginning after June 30, 2020, e.g., fiscal years ending on June 30, 2021, and later.

Some of the most significant highlights are:

- **Overview**
 - The Compliance Supplement is the primary document for the programs that are subject to the Uniform Guidance (UG).
 - OMB will be releasing two Addenda to the 2021 Supplement later in 2021, primarily to address new programs established by the American Rescue Plan.
 - A 6-month audit submission extension has been provided by OMB to all entities for fiscal years through June 30, 2021.
 - Entities with a fiscal year-end of December 31, 2020 - the single audits were due on September 30, 2021 and are now extended to March 31, 2022.
 - Entities with a fiscal year-end of June 30, 2021 - the single audits were due on March 31, 2022 and are now extended to September 30, 2022.
- **Part 2, Matrix of Compliance Requirements**
 - Changes to the compliance requirements are identified in bold and yellow highlighting.
- **Part 3, Compliance Requirements**
 - Updated to reflect the August 2020 revisions to the Uniform Guidance.
 - Incorporates into the Reporting section a new reporting requirement relating to recipient reporting under the Federal Funding Accountability and Transparency Act (FFATA), along with guidance on when auditors must test FFATA.
 - Clarifies key requirements for the Provider Relief Fund program, including the amount and timing of expenditures and lost revenues to be reported on the SEFA and what the auditor is required to test.
- **Part 4, Agency Program Requirements**
 - There are several program additions and deletions as well as many programs with significant changes.
 - Identifies several programs as higher-risk programs, including the Education Stabilization Fund, the Coronavirus Relief Fund and the Provider Relief Fund and Medicaid Cluster.
 - Identified new American Rescue Plan (ARP) programs as high risk.
- **Part 5, Clusters**
 - The Student Financial Assistance cluster has numerous compliance requirement changes.
 - Note that Appendix VII states that there will be no other clusters formed by the ARP nor will any ARP numbers be added to existing clusters.
- **Appendix V**
 - Provides an overview of the changes made from the 2020 Supplement.
- **Appendix VII**
 - Provides additional guidance on COVID-19 funding.

- Provides an indication of the programs that may be included in the Addenda.

Reminder of the Changes to Uniform Guidance

In August 2020, OMB issued revisions to the Uniform Guidance (2 CFR Part 200).

Changes to the procurement standards:

- Procurement types have been grouped into three categories:
 - Informal (micro-purchase, small purchase)
 - Formal (sealed bids, proposals)
 - Non-competitive (sole source)

The UG has been aligned with recently enacted federal laws to raise:

- The micro-purchase threshold has increased from \$3,500 to \$10,000.
- The simplified acquisition threshold has increased from \$150,000 to \$250,000.

Nonfederal entities are authorized to request a micro-purchase threshold higher than the \$10,000 based on certain conditions.

Expansion of the de minimis indirect cost rate (200.414)

Previously, to claim the de minimis indirect cost rate, an entity could not have previously had a federal indirect rate in their entire life history. With the change, if the entity does not have a **current** federal indirect cost rate, then they are now eligible for the de minimis rate.

Shuttered Venue Operators Grant

Shuttered Venue Operators Grant (SVOG) is subject to Single Audit under UG. Under the terms of the SVOG, recipients are not required to repay the funding so long as funds are used for eligible expenses. Not-for-profit entities should account for government grants in accordance with the contributions model in the FASB Accounting Standards Codification (ASC) subsection 958-605, *Not-for-Profit Entities – Revenue Recognition*. Because entitlement to the payments is conditioned upon having incurred eligible expenses (a barrier) and because noncompliance with the terms of the grant is grounds for recoupment by the SBA (right of return), the payments are considered conditional contributions under ASC 958-605. Thus, contribution revenue would be recognized only to the extent that eligible expenses have been incurred.

The Organization will need to evaluate their individual facts and circumstances to determine the extent to which conditions have been substantially met at a given reporting date.

Legislative/Regulatory Updates

Accounting considerations for Paycheck Protection Program

The Paycheck Protection Program (PPP) was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide funds for businesses to keep their workers on the payroll. The funds were provided in the form of low-interest loans that are guaranteed by the Small Business Administration (SBA).

Terms of the loan indicate that if certain conditions are met, which include maintaining average work forces during periods subsequent to receipt of the loan funds that are greater than pre-determined historical periods, that the loan, or a portion thereof, would be forgiven. Portions that are not forgiven will be payable over a five-year period, with a ten-month deferral of payments and interest will accrue at 1%.

Given the unique nature of these loans, questions have arisen as to how a borrower should account for the loan in accordance with US Generally Accepted Accounting Principles (GAAP). There are two existing models that a NFP entity may choose from.

The loan can be accounted for as a financial liability in accordance with ASC 470, Debt, and interest, if material, should be accrued. Following the guidance in ASC 470, a borrower would recognize the entire loan amount as a liability. A loan is removed as a liability at the time payment is made or the loan gets forgiven.

Many NFP's view this loan as a grant that is expected to be forgiven. NFP's can account for the PPP loan in accordance with ASC 958-605 as a conditional contribution, whereby revenue is not recognized until the conditions are substantially met or explicitly waived. Under this model, the proceeds from a PPP loan would initially be recognized as a refundable advance, a liability, until the conditions for forgiveness are substantially met. The borrower needs to identify what the conditions are, which include satisfying the requirement to maintain levels of workforce and incur allowable expenses, and in some cases the submission of the application or forgiveness. Under this recognition model, NFPs should carefully track costs that are eligible for forgiveness, and understand that costs funded by other grants, contracts and contributions may not be allowable for forgiveness under the concept of double dipping. Therefore, NFPs should keep internal records of which costs are being applied to PPP forgiveness, government grants and private grants (preferably in the accounting system) to reduce the risk that the same costs are not charged to other funding sources.

Employee Retention Tax Credit (ERTC):

- **General overview:**
 - Available to all employers, but there are certain tests that need to be met and different calculations for the credit based on FTE in 2019.
 - There are also two different versions of the credit for each year it is offered – 2020 and 2021.
- **Eligibility** – To qualify for ERTC, employers must experience **either of the following:**
 - Employer must experience gross receipts reductions of $\geq 50\%$ of the comparable quarter in 2019 and gross receipts reductions of $\geq 20\%$ of the comparable quarter in 2020.
 - Full or partial suspension of business by the government due to COVID-19.
- **Gross receipts defined:**
 - Solely for purposes of determining eligibility for the Employee Retention Credit, gross receipts for a tax-exempt employer include gross receipts from all operations, not only from activities that constitute unrelated trades or businesses.

For example, gross receipts for this purpose include amounts received by the organization from total sales (net of returns and allowances) and all amounts received for services, whether or not those sales or services are substantially related to the organization's exercise or performance of the exempt purpose or function constituting the basis for its exemption. Gross receipts also include the organization's investment income, including from dividends, rents, and royalties, as well as the gross amount received as contributions, gifts, grants, and similar amounts, and the gross amount received as dues or assessments from members or affiliated organizations.

- PPP loan forgiveness is not considered part of gross income.

- ***Suspension:***

- What are not considered suspensions?
 - Ability to resume similar activity by telecommuting
 - A reduction of demand for products or services
 - Voluntary suspensions
- Partial suspension is defined as closure of the workplace that causes the employer to suspend business operations for certain purposes, but not others:
 - Every case is unique
 - Examples of partial suspension: A physical therapy facility is shut down due to government order. Prior to the shutdown, none of the employees provided services via telework and all services were rendered at the workplace. Due to the shutdown, the facility moved to an online format to serve clients remotely, but employees are unable to access specific equipment or tools and not all clients can be served remotely. Due to these factors, this is considered a partial suspension since access to the equipment is essential to the employer's operations and the business operations could not continue in a comparable manner.

- ***Credit calculation:***

- 2020 version: 50% of qualifying wages up to \$10k per employee for the period of 03/13/20 to 12/31/20.
- 2021 version: 70% of qualifying wages up to \$10k per employee per quarter.

- ***How do you receive the credit?***

- Claim the credit on Form 941 or 941-X (if amending a previously filed return for the credit).
- Request an advance of the credit by filing Form 7200, but there is administrative work needed in reconciling the advance against the credit.

- ***Interaction with PPP:***

- Initially, PPP and ERTC were mutually exclusive when introduced by the CARES Act.
- With the enactment of the Consolidated Appropriation Act (CAA), the initial restrictions for PPP and ERTC were removed, so employers could qualify for both programs.
- There is no double benefit on the same eligible expenses, so it becomes an optimization effort

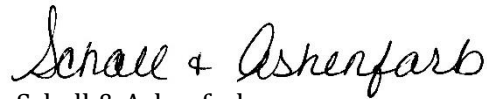
COVID-19 EIDL

US Small Business Administration (SBA) offers working capital low-interest fixed rate loan to help overcome the effects of the pandemic. The loan is intended to help with making regular payments for operating expenses, including payroll, rent/mortgage, utilities, and other ordinary business expenses, and to pay business debt. The loan should be repaid over 30-year period with the interest at 2.75%. Payments are deferred for the first 2 years (during which interest will accrue), and payments of principal and interest are made over the remaining 28 years. To apply visit www.sba.gov.

Independence Issues

Schall & Ashenfarb, CPA's, LLC is not aware of any relationships that our firm, or any employees thereof, has with the School or any of its board trustees that, in our professional judgment, may impair our independence.

This information is intended solely for the use of the Board of Trustees and management of Valence College Preparatory Charter School and should not be used for any other purpose.


Schall & Ashenfarb
Certified Public Accountants, LLC

October 18, 2022



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

June 30, 2022

Mr. Mitchell Flax
Head of School
And Those Charged with Governance
Valence College Prep
32-20 108th Street
East Elmhurst, NY 11369

Via e-mail

Dear Mr. Flax,

We are pleased to confirm our understanding of the services we are to provide for Valence College Prep for the year ended June 30, 2022.

We will audit the financial statements of Valence College Prep, which comprise the statement of financial position as of June 30, 2022, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. Also, the following supplementary information accompanying the financial statements will be subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America, and we will provide an opinion on it in relation to the financial statements as a whole, in a separate written report accompanying our auditor's report on the financial statements:

1. Schedule of expenditures of federal awards
2. Schedule of findings and questioned costs

Audit Objectives

The objective of our audit is the expression of an opinion about whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on:

- Internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.

EXHIBIT 1

- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states that (1) the purpose of the report is solely to describe the scope of 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, and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The Uniform Guidance report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance, and will include tests of accounting records, a determination of major program(s) in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express such an opinion. We will issue written reports upon completion of our Single Audit. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion or add an emphasis-of-matter or other-matter paragraph. If our opinions are other than unmodified, we will discuss the reasons with management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or issue reports, or we may withdraw from this engagement.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Organization or to acts by management or employees acting on behalf of the Organization. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing

EXHIBIT 1

standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or on major programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors' is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will also request written representations from the Organization's attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

Audit Procedures—Internal Control

Our audit will include obtaining an understanding of the Organization and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and the Uniform Guidance.

EXHIBIT 1

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance, and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the Organization's major programs. The purpose of these procedures will be to express an opinion on compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

Other Services

We are always available to meet with you and other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting your Organization. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas. We will also be pleased, at your request, to attend your board of directors' meetings. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities, or that might otherwise impair our independence.

You agree to assume all management responsibilities relating to the tax services, financial statements, related notes, and any other non-audit services we provide. You will be required to acknowledge in the management representation letter the tax services provided and our assistance with the preparation of the financial statements and related notes and that you have evaluated the adequacy of our services and have reviewed and approved the results of the services, the financial statements, and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to assume all management responsibilities for the tax services, financial statement preparation services, and any other non-audit services we provide; you agree to oversee the non-audit services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

See sections below about preparation of financial statements and annual tax returns.

Assistance in Preparing Financial Statements

As noted above, we will also assist in preparing the financial statements of the Organization in conformity with U.S. generally accepted accounting principles based on information provided by you. We will not perform management functions or make management decisions on behalf of your Organization. However, we will provide advice and recommendations to assist management of the Organization in performing its functions and fulfilling its responsibilities.

EXHIBIT 1

Taxes

As part of our engagement, we will also prepare the federal information return (Form 990) in accordance with applicable professional standards, including the Statements on Standards for Tax Services issued by the American Institute of Certified Public Accountants. In order to prepare complete and accurate returns, we will require you to provide certain information about board governance policies, which may also include, but not be limited to, providing salary amounts for employees greater than \$100,000, contractors for professional services in excess of the same amount, names, addresses and dollar amounts of large contributors in excess of certain calculated amounts and other matters that are not generally covered during the audit. If the information is not provided to us timely, you will not hold us responsible for any penalties incurred for incomplete information.

We will send you a draft of the form 990 for your review. We expect that you will get back to us within a reasonable time frame with any questions, or edits. Once we answer your questions and receive any edits that may be required, we will ask you to send back IRS form 8879, which gives us the authority to file your federal taxes electronically. Unfortunately, due to the time it takes to create draft documents in an encrypted file that we can send to you, **we will only provide one draft of the taxes**, and will incorporate all edits into the final document. If additional drafts are requested, **you will incur a charge of \$250 for each additional draft**. If we do not receive edits back from you or the authorization to file the taxes by receiving the signed form 8879, or you prefer not to file electronically, we will send you hard copies to file. We will also send you electronic copies only for your records unless we receive a specific request for hard copies.

Management Responsibilities

Management is responsible for (1) designing, implementing, establishing and maintaining effective internal controls, including internal controls over federal awards, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. Management is also responsible for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and all accompanying information in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations (including federal statutes) and the provisions of contracts and grant agreements (including award agreements). Management responsibilities also include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

Management is also responsible for making all financial records and related information available to us, and for the accuracy and completeness of that information. Management is also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) access to personnel, accounts, books, records, supporting documents, and other information as needed to perform an audit under the Uniform Guidance, (3) additional information that we may request for the purpose of the audit, and (4) unrestricted access to persons within the organization from whom we determine it necessary to obtain audit evidence.

EXHIBIT 1

Management responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Management responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the Organization complies with applicable laws, regulations, contracts, agreements, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by the Uniform Guidance, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings; promptly follow up and take corrective action on reported audit findings; and prepare a summary schedule of prior audit findings and a separate corrective action plan. The summary schedule of prior audit findings should be available for our review.

Management is responsible for identifying all federal awards received and understanding and complying with the compliance requirements and for the preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in conformity with the Uniform Guidance. Management agrees to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we reported on the schedule of expenditures of federal awards. Management also agrees to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Your responsibilities include acknowledging to us in the representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance; (2) you believe the schedule of expenditures of federal awards, including its form and content, is stated fairly in accordance with the Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

Management is also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the representation letter that (1) management is responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or

EXHIBIT 1

presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and for the timing and format for providing that information.

Audit Administration and Other

We understand that your employees and/or consultants will prepare all cash, accounts receivable, and other confirmations we request and will locate any documents selected by us for testing and they will be uploaded by you to our secure portal. Certain financial institutions may charge us for this, and the cost will be included in the flat rate charges built into your fee. We will send a template in Word format for use with confirmation requests.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. **It is management's responsibility** to electronically submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditor's reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with you the electronic submission and certification. The Data Collection Form and the reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's reports or nine months after the end of the audit period.

We will provide copies of our reports to the Organization; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Schall & Ashenfarb and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to your cognizant or oversight agency for audit or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of our personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

EXHIBIT 1

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any addition period requested by you. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

David Ashenfarb is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign it. Please contact us to discuss a date that we can begin the audit and outline a plan for delivery of draft and final documents to you. Our audit engagement ends on delivery of financial reports; however, we are still available for routine conversations without charge until either party has officially terminated the relationship. Any follow-up services that might be required will be considered a new engagement.

E-mail Communication

In connection with this engagement, we may communicate with you or others via e-mail. As e-mails can be intercepted, disclosed, used, and/or otherwise communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed, we cannot ensure that e-mails from us will be properly delivered and read only by the addressee. Therefore, we disclaim and waive any liability for interception or unintentional disclosure of e-mail transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage arising from the use of e-mail, including any punitive, consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

Reproduction of Audit Report

If the Organization plans any reproduction or publication of our audit, or any portion of it, in an annual report or otherwise, it is expected that you will provide us with a proof or final draft version of the entire document prior to the date of publication, in sufficient time for our review and written approval before publishing. You also agree to provide us with a copy of the final reproduced material for our written approval before it is distributed. If in our professional judgment the circumstances require, we may withhold our written approval.

If such an annual report is produced, Management is responsible for providing information regarding the Organization's annual report in a timely manner. Our responsibility with respect to the other information included the annual report is to read and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. In the event the auditor concludes that there is a material misstatement it may result in a reissuing of the financial statements to reflect lack of disclosure and/ or correct misstated information including but not limited to an issuing of a Management Letter with deficiencies and modifying auditor's opinion.

In addition, Management is responsible for the information included in the annual report and agrees: 1) to provide written acknowledgment regarding which document or documents comprise the annual report and the entity's planned manner and timing of the issuance of such documents prior to the start of the audit 2) to provide the final version of all documents comprising the annual report, including other information, prior to the date of the auditor's report so that required audit procedures can be completed prior to the issuance of the auditor's report. If obtaining the final version of these documents is not possible prior to the date of the auditor's report, that the

EXHIBIT 1

documents will be provided as soon as practicable, and the Organization will be prohibited from issuing the annual report prior to providing them to the auditor. 3) to provide a reconciliation between amounts within the other information and the financial statements.

Posting of Audit Report and Financial Statements on Your Web Site

With regard to publishing the financial statements on your website, you understand that websites are a means of distributing information and therefore, we are not required to read the information contained in those sites or to consider the consistency of other information on the website with the original document. You agree that, if you plan to post an electronic version of the financial statements and audit report on your Web site, you will ensure that there are no differences in content between the electronic version of the financial statements and audit report on your Web site and the signed version of the financial statements and audit reports provided to management by us. You also agree to indemnify us from any and all claims that may arise from any differences between the electronic and signed copies.

We will provide copies of our reports to the Organization; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

Fee and Deliverables of Documents

Our fee will be \$26,250 (\$26,000 plus a flat rate of **\$250** for confirmations processed during the audit. *No additional fees will be billed for confirmation processing*) Additional drafts of tax filings or financial statements as referred to within the letter can incur additional fees as noted. A payment is required upon the signing of this letter in the amount of \$10,000. After the initial retainer has been billed, we will send progress billings based upon an estimate of the work completed to date.

At the completion of field work we will provide you with a comprehensive audit presentation that includes an executive summary, required communication with those charged with governance, the financial statements with related footnotes, schedule of expenditures of federal awards, and related notes of the Organization in conformity with U.S. generally accepted accounting principles and the Uniform Guidance, a management letter, or other recommendations, if applicable, and industry updates. As this will be the document we expect to review with those charged with governance, we will review with management to determine if there is additional information you wish to provide, and make edits if necessary. **Any additional drafts will incur a cost of \$250 per draft.**

At the completion of the audit, we will provide electronic versions of the audited financial statements, management letter (if applicable) and communications with those charged with governance. **The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. You will be responsible for all fees for time spent to date of when you are notified of the unexpected circumstance.** Invoices that are unpaid 30 days past the invoice date are deemed delinquent and we reserve the right to charge interest at 1% per month (not to exceed the maximum amount permitted by law.) In the event any collection action is required to collect unpaid balances due to us, you agree to reimburse us for all our costs of collection, including without limitation attorney's fees.

EXHIBIT 1

If we terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

We understand that the School may receive CSP funding, and the grantor may require a separate "agreed upon procedures report". The terms of this engagement do not include additional services required to prepare a separate agreed upon procedures report. A separate agreement outlining the scope of work and related fees is being presented simultaneous to this agreement.

Independence

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to your Organization in the performance of our services. Any discussions that you have with personnel of our Firm regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

For us to remain independent, professional standards require us to maintain certain respective roles and relationships with you with respect to the non-attest services described above. Prior to performing such services in conjunction with our audit, management must acknowledge its acceptance of certain responsibilities.


We will not perform management functions or make management decisions on behalf of your Organization. However, we will provide advice and recommendations to assist management of the Organization in performing its functions and fulfilling its responsibilities. We, in our professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as making management decisions or performing management functions. The Organization must make all decisions regarding our recommendations. By signing this Agreement, you acknowledge our acceptance of these responsibilities.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2020 peer review report accompanies this letter.

We have attached a brief questionnaire that will help us plan the timing of the engagement to ensure you receive documents in your desired time frame. Please take a moment to fill that out.

We appreciate the opportunity to be of service to you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us along with the questionnaire referred to above.

Very truly yours,



Schall & Ashenfarb
Certified Public Accountants, LLC

EXHIBIT 1

RESPONSE:

This letter correctly sets forth the understanding of Valence College Prep for the year ended June 30, 2022.



Authorized Signature

Head of School

Title

7/14/2022

Date

EXHIBIT 1



Report on the Firm's System of Quality Control

January 29, 2020

To the Members of Schall & Ashenfarb Certified Public Accountants, LLC
and the Peer Review Committee of the Pennsylvania Institute of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Schall & Ashenfarb Certified Public Accountants, LLC, (the firm) in effect for the year ended August 31, 2019. Our peer review was conducted in accordance with Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under Government Auditing Standards, including a compliance audit under the Single Audit Act.

Opinion

In our opinion the system of quality control for the accounting and auditing practice of Schall & Ashenfarb Certified Public Accountants, LLC in effect for the year ended August 31, 2019, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of pass; pass with deficiency (ies) or fail, Schall & Ashenfarb Certified Public Accountants, LLC has received a rating of pass.

A handwritten signature in black ink that reads "Lutz, Selig & Zeronda L.L.P." in a cursive script.

EXHIBIT 2



97-29 64th Rd
Rego Park, NY 11374
(347) 352-4599

October 18, 2022

Schall & Ashenfarb, CPA's, LLC
307 Fifth Avenue, 15th Floor
New York, NY 10016

This representation letter is provided in connection with your audit of the financial statements of the Valence College Preparatory Charter School which comprise the statements 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, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of October 18, 2022, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 30, 2022, including our responsibility for the preparation and fair presentation of the financial statements, in accordance with US GAAP.
 2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
 3. We acknowledge our responsibility 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.
 4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
 5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. This specifically includes the methodology for the statement of functional expenses.
 6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
-

EXHIBIT 2

7. There are no events subsequent to the date of the financial statements which require adjustment to or disclosure in the financial statements to be in accordance with the requirements of U.S. GAAP.
8. There were no uncorrected misstatements that are material, both individually and in the aggregate, to the financial statements as a whole
9. There were no known actual or possible litigation, claims, and assessments required to be accounted for and disclosed in accordance with U.S. GAAP.
10. Material concentrations have been appropriately disclosed in accordance with U.S. GAAP.
11. There were no guarantees, either written or oral, under which the organization is contingently liable, that are required to be recorded or disclosed in accordance with U.S. GAAP.

Non Attest Services

In regard to the non-attest services provided by you, we have:

1. Assumed all management responsibilities.
2. Designated an individual with suitable skill, knowledge, or experience to oversee the services.
3. Evaluated the adequacy and results of the services performed.
4. Accepted responsibility for the results of the services.

As part of your audit, you prepared the draft financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have assumed all management responsibilities. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

Information Provided

1. We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of the governing board or summaries of actions of recent meetings for which minutes have not yet been prepared.
2. Any documents that we provided electronically were exact copies of the underlying physical document.

EXHIBIT 2

3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
5. We have no knowledge of any fraud or suspected fraud that affects the organization and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
6. We have no knowledge of any allegations of fraud or suspected fraud affecting the organization's financial statements communicated by employees, former employees, grantors, regulators, or others.
7. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
8. We are not aware of any pending or threatening litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
9. We have disclosed to you the identity of the organization's related parties and all the related party relationships and transactions of which we are aware.
10. The organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
11. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
12. We have evaluated subsequent events through the report date including events related to the coronavirus disease 2019 (COVID-19) pandemic. We have concluded that there are no adjustments needed to the financial statements. The estimated potential future impact cannot be determined.
13. We have no plans or intentions to discontinue the operations of any program or discontinue any significant services or activities.
14. Valence College Preparatory Charter School is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you and appropriately reported. All required filings with tax authorities are up-to-date.

EXHIBIT 2

15. There have been no instances that have occurred, or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance

16. There have been no instances that have occurred, or are likely to have occurred, of noncompliance with provision of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

17. There have been no instances that have occurred, or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.

18. Management does not intend to prepare and issue the other information included in the annual report as defined by AU-C 720. The standard defines other information as a document, or combination of documents, typically prepared on an annual basis by management or those charged with governance in accordance with law, regulation, or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements.



Mitchell Flax
Head of School



Celines Leonardo
Director of Operations



Bryson Wilson
Financial Consultant



Audited Financial Statements In Accordance
With Government Auditing Standards

June 30, 2022

VALENCE COLLEGE PREPARATORY CHARTER SCHOOL

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 – 3
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8 – 14
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15 – 16
Schedule of Findings and Questioned Costs	17

Independent Auditors' Report

To the Board of Trustees of
Valence College Preparatory Charter School

Report on the Audit of the Financial Statements

Opinion

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, 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 accompanying financial statements present fairly, in all material respects, the financial position of the School as of June 30, 2022, and the changes in 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. Our responsibilities under those standards are further described in the Auditors' 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.

Auditors' 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 auditors' 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users on the basis of these 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 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 19, 2021. 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2022 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.

A handwritten signature in black ink that reads "Schall & Ashenfarb". The script is cursive and fluid.

Schall & Ashenfarb
Certified Public Accountants, LLC

October 18, 2022

VALENCE COLLEGE PREPARATORY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2022
(With comparative totals as of June 30, 2021)

	<u>6/30/22</u>	<u>6/30/21</u>
Assets		
Cash and cash equivalents	\$1,853,278	\$1,251,543
Government grants and contributions receivable	887,115	235,330
Prepaid expenses and other assets	100,688	180,965
Security deposit	400,000	337,750
Restricted cash (Note 3)	75,019	50,007
Fixed assets, net (Note 4)	<u>565,224</u>	<u>454,614</u>
Total assets	<u><u>\$3,881,324</u></u>	<u><u>\$2,510,209</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$479,907	\$271,743
Government grant advance - per pupil funding (Note 5)	7,299	1,661
Deferred rent	<u>1,354,043</u>	<u>0</u>
Total liabilities	<u><u>1,841,249</u></u>	<u><u>273,404</u></u>
Net assets:		
Without donor restrictions	<u>2,040,075</u>	<u>2,236,805</u>
Total net assets	<u><u>2,040,075</u></u>	<u><u>2,236,805</u></u>
Total liabilities and net assets	<u><u>\$3,881,324</u></u>	<u><u>\$2,510,209</u></u>

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

VALENCE COLLEGE PREPARATORY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022
(With comparative totals for the year ended 30, 2021)

	<u>6/30/22</u>	<u>6/30/21</u>
Without donor restrictions:		
Public support and revenue:		
Public school district revenue: (Note 5)		
Resident student enrollment	\$5,729,858	\$3,599,556
Students with special education services	<u>768,546</u>	<u>474,618</u>
Subtotal public school district revenue	6,498,404	4,074,174
New York City rental assistance (Note 5)	1,720,064	1,052,000
Government grant - Paycheck		
Protection Program (Note 6)	0	140,692
Other government grants	1,145,465	227,814
Contributions	9,566	30,085
Other income	<u>12</u>	<u>6</u>
Total public support and revenue	<u>9,373,511</u>	<u>5,524,771</u>
Expenses:		
Program services:		
Regular education	6,912,465	3,008,078
Special education	<u>1,380,518</u>	<u>562,648</u>
Total program services	<u>8,292,983</u>	<u>3,570,726</u>
Supporting services - Management and general	<u>1,277,258</u>	<u>744,375</u>
Total expenses	<u>9,570,241</u>	<u>4,315,101</u>
Change in net assets	(196,730)	1,209,670
Net assets - beginning of year	<u>2,236,805</u>	<u>1,027,135</u>
Net assets - end of year	<u><u>\$2,040,075</u></u>	<u><u>\$2,236,805</u></u>

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

VALENCE COLLEGE PREPARATORY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022
(With comparative totals for the year ended 30, 2021)

	Program Services			Supporting Services		
	Regular Education	Special Education	Total Program Services	Management and General	Total Expenses 6/30/22	Total Expenses 6/30/21
Salaries	\$2,600,275	\$515,644	\$3,115,919	\$291,642	\$3,407,561	\$1,881,492
Payroll taxes and benefits	582,241	115,461	697,702	65,303	763,005	413,704
 Total personnel costs	 3,182,516	 631,105	 3,813,621	 356,945	 4,170,566	 2,295,196
Professional fees	33,125	6,569	39,694	330,516	370,210	335,355
Curriculum and classroom expenses	326,610	64,768	391,378		391,378	84,820
Occupancy and facility costs	2,660,421	527,571	3,187,992	298,387	3,486,379	1,109,308
Non-capitalized equipment and furnishings	59,177	11,735	70,912	22,992	93,904	77,808
Office expense	297,294	58,955	356,249	120,761	477,010	70,892
Professional development	102,884	30,152	133,036	56,583	189,619	147,345
Insurance	64,097	12,711	76,808	13,554	90,362	63,553
Student and staff recruitment	58,762	11,653	70,415		70,415	43,070
Other expenses			0	63,211	63,211	4,530
Depreciation	127,579	25,299	152,878	14,309	167,187	83,224
 Total other than personnel costs	 3,729,949	 749,413	 4,479,362	 920,313	 5,399,675	 2,019,905
 Total expenses	 \$6,912,465	 \$1,380,518	 \$8,292,983	 \$1,277,258	 \$9,570,241	 \$4,315,101

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

VALENCE COLLEGE PREPARATORY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022
(With comparative totals for the year ended 30, 2021)

	<u>6/30/22</u>	<u>6/30/21</u>
Cash flows from operating activities:		
Change in net assets	(\$196,730)	\$1,209,670
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	167,187	83,224
Changes in assets and liabilities:		
Government grants and contributions receivable	(651,785)	(163,694)
Prepaid expenses and other assets	80,277	(75,549)
Security deposit	(62,250)	(250,000)
Accounts payable and accrued expenses	208,164	(16,988)
Government grant advance - per pupil funding	5,638	1,661
Deferred rent	1,354,043	0
Total adjustments	<u>1,101,274</u>	<u>(421,346)</u>
Net cash flows provided by operating activities	<u>904,544</u>	<u>788,324</u>
Cash flows from investing activities:		
Purchases of furniture and equipment	<u>(277,797)</u>	<u>(319,289)</u>
Net cash used for investing activities	<u>(277,797)</u>	<u>(319,289)</u>
Net increase in cash, cash equivalents and restricted cash	626,747	469,035
Cash, cash equivalents and restricted cash - beginning	<u>1,301,550</u>	<u>832,515</u>
Cash, cash equivalents and restricted cash - ending	<u><u>\$1,928,297</u></u>	<u><u>\$1,301,550</u></u>
Cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$1,853,278	\$1,251,543
Restricted cash	<u>75,019</u>	<u>50,007</u>
Total cash, cash equivalents and restricted cash	<u><u>\$1,928,297</u></u>	<u><u>\$1,301,550</u></u>
Supplemental disclosures:		
Interest and taxes paid	<u><u>\$0</u></u>	<u><u>\$0</u></u>

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

VALENCE COLLEGE PREPARATORY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

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. 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 2021-2022 fiscal year with an enrollment of approximately 340 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 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.

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.

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* – represents those resources for which there are no restrictions by donors as to their use.

- *Net Assets With Donor Restrictions* – represents 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, 2022 or June 30, 2021.

c. Revenue Recognition

The School follows the requirements of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 958-605 for recording contributions, which 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.

Contributions may be subject to conditions which are defined as both a barrier to entitlement and a right of return or release from obligations and are recognized as income once conditions have been substantially met.

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 when performance related outcomes are achieved and other conditions under the agreements are met. Government grants that have not been recognized amounted to \$23,760 at June 30, 2022. The grants are conditional upon achieving certain performance goals and incurring qualifying expenditures and will be recognized when the conditions on which they depend are substantially met.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Long-term pledges are recorded at fair value using an interest-free discount rate, when deemed material. The School reviews receivables for collectability using factors such as historical experience and a review of activity subsequent to the date of the statement of financial position. Based on knowledge of specific funders and factoring in historical experience, no allowance for doubtful accounts exists as of June 30, 2022 and June 30, 2021. Write-offs will be made directly to operations in the period the receivable is deemed to be uncollectable.

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. Cash maintained in escrow per requirements of the NYCDOE are treated as restricted cash.

e. Concentration of Credit Risk

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. 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.

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

h. Deferred Rent

Rent expense is recognized evenly over the life of the lease using the straight-line method. Rent expense recognized in excess of cash payments is reflected as deferred rent. In future years, when payments exceed the amount of rent recognized as expense, the deferred rent will be reduced until it is zero at the end of the lease.

i. Advertising

Advertising costs are charged to operations when the advertising first takes place.

j. 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
- 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.

k. 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.

l. 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.

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, 2022 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.

m. 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, 2020, the School's initial filing, and later are subject to examination by applicable taxing authorities.

n. Summarized Comparative Financial 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, 2021, from which the summarized information was derived.

o. 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.

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

Note 3 - Restricted Cash

An escrow account has been established to meet the requirement of the charter agreement. 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 4 - Fixed Assets

Fixed assets consist of the following:

	<u>6/30/22</u>	<u>6/30/21</u>
Furniture and fixtures	\$285,476	\$157,238
Computers and equipment	<u>561,188</u>	<u>411,629</u>
	846,664	568,867
Less: accumulated depreciation	<u>(281,440)</u>	<u>(114,253)</u>
Total fixed assets, net	<u>\$565,224</u>	<u>\$454,614</u>

Note 5 - Government Grant Advance – Per Pupil Funding

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

	<u>6/30/22</u>	<u>6/30/21</u>
Beginning receivable/(advance)	(\$1,661)	\$0
Per pupil funding:		
Funding based on allowable FTE's	6,498,404	4,074,174
Advances received	<u>(6,504,042)</u>	<u>(4,075,835)</u>
Ending receivable/(advance)	<u>(\$7,299)</u>	<u>(\$1,661)</u>

In addition to per pupil funding, the School was entitled to receive a rent subsidy, that is calculated at the lower of 30 percent of the per pupil amount or actual lease costs as approved by the NYCDOE. During the years ended June 30, 2022 and June 30, 2021, the School recognized revenue of \$1,720,064 and \$1,052,000, respectively.

Note 6 - Paycheck Protection Program Loan

During the year ended June 30, 2021, the School obtained a loan from the Small Business Administration ("SBA") through the Paycheck Protection Program ("PPP"). Terms of the loan indicated that if certain conditions were met, which included maintaining average work forces during periods subsequent to receipt of the loan funds that were not less than pre-determined historical periods, that the loan, or a portion thereof, could be forgiven.

The School accounted for the PPP loan as a conditional grant in accordance with FASB ASC 958- 605. The School met all conditions during the year ended June 30, 2021, and this was recognized as revenue. In addition, the School was notified that full forgiveness was approved by the SBA.

Note 7 - Significant Concentrations

The School is dependent upon grants from the NYCDOE to carry out its operations. Approximately 88% and 93% of the School's total public support and revenue was from the NYCDOE for the years ended June 30, 2022 and June 30, 2021, respectively. If the NYCDOE were to discontinue funding, it would have a severe economic impact on the School's ability to operate.

Note 8 - Commitments

The School entered into a non-cancellable lease with Friends, the related party referred to in Note 1. Per the terms of this lease, the School paid a deposit of \$250,000 at the inception of the lease, with additional security deposits of \$150,000 due before the first anniversary of the lease and \$200,000 due before the second anniversary of the lease. As of June 30, 2022, security deposits of \$400,000 have been made under the lease agreement.

The lease started on July 1, 2021 and expires on June 30, 2052. The lease was amended during the year ended June 30, 2022, modifying the future minimum lease payments schedule. Minimum future rental payments under this lease are as follows:

Year ending:	June 30, 2023	\$2,369,875
	June 30, 2024	2,423,197
	June 30, 2025	2,477,719
	June 30, 2026	2,533,468
	June 30, 2027	2,590,471
	Thereafter	<u>87,602,779</u>
Total		<u>\$99,997,509</u>

Note 9 - 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 \$114,000 and \$32,000 to the Plan for the years ended June 30, 2022 and June 30, 2021, respectively.

Note 10 - Availability and Liquidity

At June 30, 2022, the School's financial assets available to meet cash needs for general expenditures within one year are \$2,740,393, which consist of cash and cash equivalents of \$1,853,278 and grants and contributions receivable of \$887,115. 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 11 - Subsequent Events

Subsequent events have been evaluated through October 18, 2022, the date the financial statements were available to be issued. There were no material events that have occurred that require adjustment to or disclosure to the financial statements.

Note 12 - Other Matters

On January 30, 2020, the World Health Organization declared a novel coronavirus (COVID-19) outbreak a “Public Health Emergency of International Concern” and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures of certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had, and are expected to continue to have, an adverse impact on the economies and financial markets of many countries, including the geographical area in which the School operates. As of the date of these financial statements, many of the travel restrictions and stay at home orders have been lifted; however, supply chains remain impacted. Management continues to monitor the outbreak; however, as of the date of these financial statements, the potential impact cannot be quantified.

**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 Auditors' 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, 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, and have issued our report thereon dated October 18, 2022.

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.

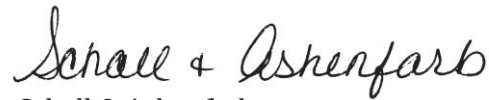
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on 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
Certified Public Accountants, LLC

October 18, 2022

**VALENCE COLLEGE PREPARATORY CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2022**

Current Year:

None

Prior Year:

None – There were no findings in the prior year.

Observations and Recommendations

To Management of
Valence College Preparatory Charter School (the "School")

As a result of our audit for the year ending June 30, 2022, we want to inform you of the following recommendations to strengthen controls and implement "best practices":

Segregation of Duties over Cash Disbursements

The accounts payable clerk, an employee of EdTec, who has access to the general ledger, adds a digital signature of others (Head of School, Board Chair, and Treasurer, as necessary) to the check before it is sent out. A strong control to minimize the risk of error or fraud would be to limit check signing (or the ability to add the digital signature of a check signer) to those who do not have access to make edits to the general ledger or vendor file.

T The process identified above would **not prevent** an error from occurring but there are several compensating controls designed **to detect** an error. First, the practice is for the accounts payable clerk to provide the digital signature only upon receiving the electronic approval from one of the authorized check signers, (the Head of School, Board Chair, and Treasurer). Second, an alert goes out to the accounts payable manager and chief financial officer of EdTec if the name or amount on the check is changed subsequently in the general ledger system.

While the detection controls would provide the ability to catch an error after it occurred, a control that would **prevent** the error from occurring would be stronger. As such, we recommend that the person signing (whether physically or electronically) be an individual who does not have access to the general ledger or make changes to the vendor file.

Payroll Reconciliation

A strong procedure to ensure that salaries are accurately recorded in the books is to perform a reconciliation between the salary expense on the general ledger and the amount reported on the reports provided by the payroll provider each month. These reconciliations were not performed during the year under audit as there was a switch in payroll providers.

We recommend that the reconciliation of the payroll provider's reports to the books be completed on a monthly basis but no less than quarterly. The reconciliations should be reviewed by someone other than the preparer and approval should be documented.

Reviewing facility costs for sublease with related party

The School has a lease for rent with a related party, Friends of Valence Prep, Inc. ("Friends"), for an amount that is higher than the amount that Friends has with the outside unrelated third-party landlord. The rationale is that the rent includes base rent and additional facility costs such as utilities, maintenance and capital improvements.

As this is a highly scrutinized area, we believe the board should document the steps it went through as part of the approval process to determine that the rent payments to the related party are reasonable. The documentation should include the details of facility charges and other related expenses included in the lease other than base rent. We also recommend that the School enter into a formal agreement that identifies the responsibilities of Friends with respect to the facility services and capital improvements. As part of that agreement, consideration should be made to include a clause where the related entity agrees to put unspent funds that have been charged into a separate building fund. This will help assure that all amounts paid as part of the lease are either spent on facility related purposes and unspent funds are earmarked for similar purposes.

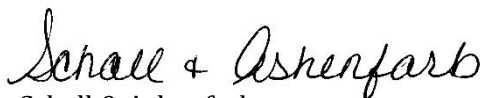
We also wanted to provide a follow-up to the "best practice" noted during the prior year's audit:

Disaster Recovery Plan

Organizations should consider having a plan to reduce the risk of data loss due to a fire, flood, terrorist attack or other natural disaster. This would include hard copy records as well as the backup of computer files. Last year, we recommended that a comprehensive plan be created that includes not only the backup of computer files, but a testing of the restoring of computer files. In addition, because in today's environment many documents are stored via electronic means (computers, hard drives and other electronic media), software upgrades are often made that make it impossible to read files that have been created on older versions of the software. As part of a disaster recovery plan, the School should ensure that they can read all older, stored files.

Follow-up for June 30, 2022: We continue our recommendation.

This report is intended solely for the information and use of the board of trustees and management and others within the School and is not intended to be and should not be used by anyone other than these specified parties.


Schall & Ashenfarb
Certified Public Accountants, LLC

October 18, 2022