

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

AUDITED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2023 AND 2022

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

YEARS ENDED JUNE 30, 2023 AND 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Galapagos Rockford Charter School NFP, Inc.
Rockford, Illinois

Opinion

We have audited the accompanying financial statements of Galapagos Rockford Charter School NFP, Inc. (an Illinois nonprofit organization), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Galapagos Rockford Charter School NFP, Inc. as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Galapagos Rockford Charter School NFP, Inc. 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 Galapagos Rockford Charter School NFP, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Galapagos Rockford Charter School NFP, Inc.'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 Galapagos Rockford Charter School NFP, Inc.'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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated, November 3, 2023 on our consideration of Galapagos Rockford Charter School NFP, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Galapagos Rockford Charter School NFP, Inc.'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 Galapagos Rockford Charter School NFP, Inc.'s internal control over financial reporting and compliance.

Grieco & Adelman LLC

Des Plaines, Illinois
November 3, 2023

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022**

ASSETS

	2023	2022
Current assets:		
Cash and cash equivalents	\$ 1,931,611	\$ 2,945,765
Unemployment insurance reserve	9,642	63
Funding receivables	1,353,928	493,086
Total current assets	3,295,181	3,438,914
 Property, equipment and leasehold improvements - net of accumulated depreciation	 3,980,522	 3,671,044
Other assets:		
Finance lease right-of-use asset	20,761	-
Investments	898,438	733,261
Total other assets	919,199	733,261
Total assets	\$ 8,194,902	\$ 7,843,219

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 212,698	\$ 95,809
Accrued payroll expenses	100,522	184,876
Accrued interest	5,474	6,576
Finance lease liability - current portion	3,063	-
Notes payable - current portion	135,307	121,697
Total current liabilities	457,064	408,958
 Long-term liabilities:		
Finance lease liability- net of current portion	17,698	-
Notes payable - net of current portion	1,090,296	1,352,038
Total long term liabilities	1,107,994	1,352,038
 Total liabilities	 1,565,058	 1,760,996
Net assets:		
Without donor restrictions:		
Undesignated	6,629,844	6,082,223
Total liabilities and net assets	\$ 8,194,902	\$ 7,843,219

See Accompanying Notes to the Financial Statements.

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

**STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2023 AND 2022**

	Without Donor Restrictions	
	2023	2022
Revenues:		
Support:		
District funding	\$ 4,877,609	\$ 4,827,554
Fees	59,012	39,336
Federal aid	1,095,578	752,686
Meal funding	353,640	328,459
In-kind contributions	12,803	22,816
Fundraising	27,092	19,587
Total support	6,425,734	5,990,438
Other revenues:		
Other	21,008	17,149
Employee Retention Credits	-	236,960
Interest and dividends	119,603	60,515
Unrealized gain (loss) on investments	56,437	(163,489)
Total other revenues	197,048	151,135
Total revenues	6,622,782	6,141,573
Expenses:		
Program	5,091,584	4,303,394
General and administrative	953,294	823,416
Interest	69,849	82,062
Total expenses	6,114,727	5,208,872
Changes in net assets	508,055	932,701
Net assets, beginning of year	6,082,223	5,149,522
Prior period adjustment	39,566	-
Net assets, end of year	\$ 6,629,844	\$ 6,082,223

See Accompanying Notes to the Financial Statements.

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

**STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023 WITH COMPARATIVE TOTALS FOR 2022**

	2023			Totals 2022
	Program	General and Administrative	Total Expenses	
Instructional materials	\$ 264,201	\$ -	\$ 264,201	\$ 186,721
Salaries, wages and benefits	2,948,785	886,388	3,835,173	3,206,070
Administrative support services	488,213	64,956	553,169	365,360
Facilities support services	334,206	-	334,206	398,692
Instructional support services	853,449	-	853,449	763,375
In-kind expense	12,803	-	12,803	22,816
Depreciation and amortization	189,927	1,950	191,877	183,776
Total functional expenses	\$ 5,091,584	\$ 953,294	\$ 6,044,878	\$ 5,126,810

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

**STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022**

	2023	2022
Cash flows from operating activities:		
Changes in net assets	\$ 508,055	\$ 932,701
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	191,877	183,776
Unrealized (gain) loss on investments	(56,437)	163,489
Changes in operating assets and liabilities:		
(Increase) in funding receivables	(860,842)	(251,380)
Decrease in Employee Retention Credit receivable	-	492,759
(Increase) in finance lease right-of-use asset	(20,761)	-
Increase (decrease) in accounts payable	116,889	(31,695)
(Decrease) increase in accrued expenses	(85,456)	48,601
Increase in finance lease liability	20,761	-
Net cash provided (used) by operating activities	(185,914)	1,538,251
Cash flows from investing activities:		
Purchase of property, equipment and leasehold improvements	(461,789)	(92,735)
Purchase of investments	(108,740)	(289,316)
Net cash provided (used) by investing activities	(570,529)	(382,051)
Cash flows from financing activities:		
Principal payments on notes payable	(248,132)	(460,242)
Net cash provided (used) by financing activities	(248,132)	(460,242)
Net change in cash and cash equivalents	(1,004,575)	695,958
Cash and cash equivalents - beginning of year	2,945,828	2,249,870
Cash and cash equivalents - end of year	\$ 1,941,253	\$ 2,945,828
Supplementary information:		
Interest paid	\$ 69,849	\$ 82,062

NOTES TO FINANCIAL STATEMENTS

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2023 AND 2022

1. Nature of Organization:

Organization and Nature of Activities

Galapagos Rockford Charter School NFP, Inc. (School) is a nonprofit charter school open to all scholars living within the boundaries of Rockford District #205 currently eligible for grades kindergarten through eighth. The School's focus is on providing underserved children with the skills that will allow them to adapt and prosper in an ever-increasing global community. The School is dedicated to preparing scholars to be responsible, productive, college educated adults, capable of adapting and prospering in the challenging global economy.

2. Summary of Significant Accounting Policies:

Classification of Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The only limits on the use of net assets without donor restrictions are reserves designated by the Board for specific purposes.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed and/or when the stipulated purpose for which the resource was restricted has been fulfilled.

Accounting Policies

The School's policy is to prepare its financial statements on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (GAAP) and, accordingly, reflect all significant receivables, payables and other liabilities.

Cash and Cash Equivalents

The School considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the changes in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by the passage of time or by use) in the reporting period in which the income and gains are recognized. Short-term investments consist of debt securities with original maturities of twelve months or less. Long-term investments consist of debt securities with original maturities greater than twelve months.

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

2. Summary of Significant Accounting Policies: (continued)

Concentration of Custodial Risk

The School maintains its cash balances in bank deposits at Byline Bank and Fifth Third Bank, which at times, may exceed federal insured limits. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) whose coverage is \$250,000 per depositor, per insured bank, for each account ownership category. At June 30, 2023 and 2022, deposits in Byline Bank exceeded the federally insured limits by \$1,787,667 and \$2,693,775, and deposits in Fifth Third Bank exceed the federally insured limits by \$0 and \$0, respectively. Management believes the credit risk is minimal.

Concentration of Funding Revenue and Funding Receivables

At June 30, 2023 and 2022, funding receivables were \$1,353,928 and \$493,086, respectively. The funding receivables are comprised of amounts due from Rockford School District #205 and the Illinois State Board of Education. The amounts are determined by reviewing receipts from the District after year end to determine the program period for which the receipts are designated.

The District funding revenue represents 75.9% and 80.8% of support revenues for the fiscal year 2023 and 2022, respectively. Any significant reduction in the level of support from Rockford School District #205 would negatively impact the School's ability to fulfill its mission.

Donated Services

The School utilizes the services of many volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements unless the services received:

- a) Create or enhance nonfinancial assets; or
- b) Require specialized skills which are provided by individuals possessing those skills that would typically need to be purchased if not provided by the contributed service.

The donated services do not meet the criteria for recognition as contributed services.

Contributions and Donor Restrictions

Contributions received are recorded as undesignated without donor restrictions or designated with donor restrictions depending on the existence and/or nature of any donor restrictions. Contributions are generally received from fundraising events and are available for unrestricted use.

Contributions related to special events are recognized in the period that the event occurs.

Contributed Services

No amounts have been reflected in the financial statements for donated services. The School generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the School, but these services do not meet the criteria for recognition as contributed services.

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

2. Summary of Significant Accounting Policies: (continued)

In-Kind Contributions

The School recognizes contributed goods at fair value at the date of donation. For the fiscal years ended June 30, 2023 and 2022, the School recognized In-Kind contributions of \$12,803 and \$8,573, respectively.

Revenue Recognition

The School received the majority of its funding from Rockford Public School District #205. Revenue is recognized over the term of the school year as the School provides services to scholars. Revenue is reported at the amount of consideration that the School expects to be entitled in exchange for providing academic programs. The School District determines the transaction price based on standard charges for the normal tuition rates. Revenue from auxiliary programs and scholar activities is generally recognized when services are provided to the scholars and the School does not believe it is required to provide additional services or activities.

Expense Recognition and Allocation

The cost of providing the various programs and other activities has been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated to the programs and support services benefited.

Functional expenses are classified according to the purpose for which they are incurred, namely program services and management and general. Program service expenses are the direct and indirect costs related to providing educational and community opportunities for the scholars, which is the mission of the School. Management and general expenses provide for the overall support and direction of the School, business management, finance, general recordkeeping, budgeting and informing the public about the School's stewardship.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the School's management evaluates the estimates and assumptions based on historical experience and various other factors and circumstances. The School's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements are defined by the School as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated property, equipment and leasehold improvements, if any, are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add value to the asset or materially extend assets lives are expensed.

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

2. Summary of Significant Accounting Policies: (continued)

Property, Equipment and Leasehold Improvements (continued)

Major outlays for property, equipment and leasehold improvements are capitalized when purchased. Property, equipment and leasehold improvements of the School are depreciated using the straight line method over economic useful lives of: 3 years for software, 5 to 10 years for furniture and equipment, and 15 to 40 years for buildings and leasehold improvements.

The School reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The School evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should an impairment in value be indicated, the carrying value of long-lived assets will be adjusted based on estimates of the fair value of the related assets. No impairments were reported in these financial statements.

District Funding, Federal, State and Private Aid

The School receives funding from the federal government. These funds are to be used only for the designated purpose and not to cover expenses of general operations.

Federal Title I funds can only be used for activities that supplement current programs and not supplant, targeted to at risk students. Funds may also be used for instructional salaries and professional development targeted to these areas.

Federal ESSER funds are to be used to address learning loss, certain building upgrades, technology, sanitation, and PPE necessitated by the pandemic.

Federal IDEA funds are to be used to provide required support services for Special Education including speech, physical and occupational therapy, and staff counselors and nurses.

Income Taxes

The School is a nonprofit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). Contributions to the School are tax deductible to donors under Section 170 of the IRC. The School is not classified as a private foundation.

The School's Form 990, Return of Organization Exempt from Income Tax, for the fiscal years ending June 30, 2020, 2021 and 2022 are subject to examination by the Internal Revenue Service for three years after they were filed. There are no state filing requirements.

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

2. Summary of Significant Accounting Policies: (continued)

Uncertain Tax Positions

The School implemented the generally accepted accounting principle for uncertainty in income taxes. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the tax authorities.

For the years ended June 30, 2023 and 2022, the School has no uncertain tax positions that qualified for either recognition or disclosure in the financial statements. The School recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the years ended June 30, 2023 and 2022, no interest or penalties were incurred.

Compensated Absences

Limitations on personal day policies include probationary periods, excessive days in succession and blocked out periods. Bereavement leave will not result in unpaid time. Non-exempt employees receive some paid holidays. Personal days do not rollover to the next school year; however, staff is compensated for up to four unused personal days at a rate of \$250 per unused day. Only full days are compensated, there is no compensation for fractional days. For the current fiscal year, the amount of unused personal days compensated amounted to \$11,363.

3. Liquidity and Availability of Resources:

The School has \$2,830,049 of financial assets as of the Statement of Financial Position date consisting of cash and investments.

The School manages liquidity needed for operations primarily through budgeted monthly cash inflows and outflows. Inflows are budgeted based on past experiences. Cash outflows are planned accordingly as to not exceed those expected inflows.

4. Fair Value Measurements:

Generally accepted accounting principles provide a framework for measuring fair value and require expanded disclosure about fair value measurements of certain assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity.

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

4. Fair Value Measurements: (continued)

Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorized the inputs as follows:

- Level 1 inputs are quoted prices in active markets for identical investments that the investment manager has the ability to access at the measurement date.
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investment.

The assets or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The School Statements of Financial Position includes the following financial instruments that are required to be on a recurring basis measured at fair value.

Mutual funds: Valued at the net asset value (NAV) of shares held by the School at year end.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table represents the fair value in the School's financial statements. These fair value disclosures include information regarding the valuation of the School's investments as of June 30, 2023 and 2022:

	Level 1 Fair value 6/30/2023	Cost 6/30/2023	Level 1 Fair value 6/30/2022	Cost 6/30/2022
Equities	<u>\$ 898,438</u>	<u>\$ 1,011,906</u>	<u>\$ 733,261</u>	<u>\$ 988,300</u>

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

5. Property, Equipment and Leasehold Improvements:

The following is a summary of property, furniture and equipment, and leasehold improvements at June 30, 2023 and 2022:

	2023	2022
Land	\$ 60,000	\$ 60,000
Building and leasehold improvements	4,438,844	4,053,789
Playground	76,973	52,168
Furniture and equipment	191,018	191,018
Instructional equipment	81,490	81,490
Food service equipment	22,849	22,849
Computer hardware	226,746	226,746
Computer software	41,307	41,307
Parking lot	116,153	116,153
Activity bus	119,750	28,255
	5,375,130	4,873,775
Accumulated depreciation and amortization	(1,394,608)	(1,202,731)
Net property, equipment and leasehold improvements	\$ 3,980,522	\$ 3,671,044

6. Fund raising expenses:

There were no fundraising event costs separately allocated during the years ended June 30, 2023 and 2022. Fundraising revenues of \$27,092 and \$19,587 for 2023 and 2022, respectively, were primarily through donations from individuals and grants from other nonprofit organizations.

7. Retirement plans:

The School is enrolled in two separate retirement plans.

For credentialed staff, the School participates in the Teachers' Retirement System of the State of Illinois (TRS). TRS is a cost-sharing, multiple-employer defined benefit pension plan that was created by the Illinois legislature for the benefit of certified, Illinois public school employees employed outside the City of Chicago.

The Illinois Pension Code outlines the benefit provisions of TRS, and amendments to the plan can be made only by legislative action with the governor's approval. The State of Illinois maintains primary responsibility for the funding of the plan, but contributions from participating employers and members are also required. The TRS Board of Trustees is responsible for the system's administration.

The active member contribution rate for the years ended June 30, 2023 and 2022 was 9.5% of creditable earnings. The same contribution rate applies to members whose first contributing service is on or after January 1, 2011, the effective date of the benefit changes contained in Public Act 96-0889. These contributions, which may be paid on behalf of the employees by the employer, are submitted to TRS by the School. The contributions for years 2023 and 2022 were \$68,333 and \$44,652, respectively.

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

7. Retirement plans: (continued)

TRS financial information, an explanation of TRS's benefits; and descriptions of member, employer and state funding requirements, can be found in the TRS *Comprehensive Annual Financial Report* for the year ended June 30, 2023.

The reports may be obtained by writing to the Teachers' Retirement System of the State of Illinois, P.O. Box 19253, 2815 West Washington Street, Springfield, IL 62794-9253. The most current report is also available on the TRS Web site at <http://trs.illinois.gov>.

For non-credentialed staff, the School provides a Simple IRA (defined contribution plan) through The Vanguard Group which is an individual retirement account or annuity for which employee contributions are allowed under a qualified salary reduction arrangement and meets certain vesting, participation and administrative requirements. Employees' rights to all Simple IRA account contributions must be non-forfeitable. Non-credentialed staff may contribute up to \$15,500 and \$14,000 for tax years 2023 and 2022. Participants who are age fifty or older by the end of the tax year may make additional catch-up contributions up to \$3,500 and \$3,000 for tax years 2023 and 2022 respectively. The School will match up to 3% of salary. Enrollment in the Simple IRA is not mandatory.

The cost to the School for these plans is as follows:

	2023	2022
Defined benefit	\$ 68,333	\$ 44,652
Defined contribution	21,589	13,452
	\$ 89,922	\$ 58,104

8. Notes payable:

On March 4, 2015, the School secured a commitment letter from the Illinois Facility Fund (IFF) for a loan in an amount up to \$1,735,640 for the renovation of the building located at 2605 School Street. Funds from this loan were used to pay off the note payable from North Community Bank. The loan was finalized in May, 2016 with an initial principal of \$1,218,054. Monthly payments of principal and interest of \$9,872 began June 1, 2016 for a term of sixty-one months. A final payment of \$918,943 of principal and interest was due June 1, 2021.

The School during the fiscal year ended June 30, 2021 negotiated a refinance of the loan. Under the new terms, the remaining principal balance of \$914,845 will be amortized over sixty-one months at an interest rate of 5.375% starting June 1, 2021.

The School during the fiscal year ended June 30, 2023 renegotiated a refinance of the loan. Under the new terms, the remaining principal balance of \$738,087 will be amortized over forty-four months at an interest rate of 5.375% starting November 1, 2022. The new amortization schedule requires forty-four monthly payments of \$9,872 of principal and interest, and one final payment of \$429,410 of principal and interest due on June 1, 2026.

June 30, 2024	\$ 83,701
June 30, 2025	88,312
June 30, 2026	512,716
	\$ 684,729

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

8. Notes payable: (continued)

On March 4, 2015, the School secured a commitment letter from the IFF for a loan in an amount up to \$1,450,000 for the renovation of the property located at 3051 Rotary Road. The loan was finalized in July, 2016 with an initial principal of \$698,447. Monthly payments of principal and interest of \$5,661 began August 1, 2016 for a term of sixty-one months. A final payment of \$526,557 of principal and interest was due August 1, 2021.

During the fiscal year ended June 30, 2021, the School negotiated a refinance of the loan. Under the new terms, the remaining principal balance of \$698,447 will be amortized over sixty-one months at an interest rate of 5.375% starting August 1, 2021.

During the fiscal year ended June 30, 2023 the School negotiated a refinance of the loan. Under the new terms, the remaining principal balance of \$398,211 will be amortized over thirty-nine months at an interest rate of 5.375%. The new amortization schedule requires thirty-nine payments of \$5,661 of principal and interest, and one final payment of \$239,060 of principal and interest due on August 1, 2026.

Principal maturities for the next five years:

June 30, 2024	\$ 47,901
June 30, 2025	50,540
June 30, 2026	53,325
June 30, 2027	<u>242,568</u>
	<u>\$ 394,334</u>

On April 29, 2020, the School received a \$428,500 loan under the Paycheck Protection Program administered by the Small Business Administration (SBA) approved partner. The SBA granted loan forgiveness on March 4, 2021.

On June 25, 2020, the School secured a commitment letter from the IFF for a loan in an amount up to \$435,000 for the renovation of the property located at 3051 Rotary Road. The IFF held the funds and distributed the funds to the contractors directly. The project was completed, and the loan was finalized in November, 2020 with an initial principal of \$358,815, and an annual interest rate of 5.5%. Monthly payments of principal and interest of \$2,932 began November 1, 2020 for a term of sixty-one months.

During the fiscal year ended June 30, 2021, the School made two unscheduled principal payments on this loan. A new amortization schedule was computed to amortize the remaining principal balance of \$99,075 using the same payment amount and interest rate. The new schedule started November 1, 2021 and required monthly principal and interest payment of \$2,932 for a term of thirty-seven months.

In January, 2022, another unscheduled principal payment was made. A new amortization schedule was computed to amortize the principal balance of \$39,608 using the same payment and interest rate. This loan was paid off on June 13, 2022.

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

9. Small Business Administration loan:

On June 15, 2020, the School secured a loan from the Small Business Association in the amount of \$150,000. The loan was funded July 9, 2020. Interest began accruing as of the date of the loan but was deferred. Installment payments of principal and interest of \$641 monthly will begin twelve months from the date of the promissory note. The balance of principal and interest will be payable 30 years from the date of the promissory note.

Principal maturities for the next five years:

June 30, 2024	\$	3,705
June 30, 2025		3,808
June 30, 2026		3,914
June 30, 2027		4,023
Thereafter		<u>131,090</u>
	\$	<u>146,540</u>

10. Leases:

The School entered into a lease to purchase the production of power from a solar panel system under a cancelable finance lease agreement. The School determines if a contract is or contains a lease at contract inception. Finance leases right-of-use (ROU) asset and lease liability are recorded on the date of lease commencement based on the present value of the lease payment over the lease term. Short-term leases (leases with an initial term of 12 months or less) are expensed on a straight line basis over the lease term. The measurement of ROU asset and lease liability requires the School to estimate and utilize appropriate discount rates. As the rate implicit in the lease is rarely known, the School has adopted the practical expedient which provides for the use of an applicable risk-free rate. The discount rate use for the School's finance lease was 5.375% at inception.

The School recognizes lease expense including the effects of escalating lease payments and incentives, on a straight line basis over the lease term. Total finance lease expense is included in operating expenses and amounted to \$0 for the year ended June 30, 2023. The lease was placed in service in June of 2023.

The School's lease has a remaining term of 72 months and contains an option to renew for an additional 5 years. The renewal option has not been considered when assessing the value of the ROU asset because the School is not reasonably certain that it will exercise its option to renew the lease.

The School's lease does not contain any material residual value guarantees or restrictive covenants. The School's lease does have a bargain purchase option at the end of the initial term for \$1 which has been considered in assessing the value of the ROU.

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

10. Leases: (continued)

The total below represents lease payment and maturities of lease liabilities:

<u>Year Ending</u>	<u>Minimum Lease Payments</u>	<u>Impact of Discounting</u>	<u>Present Value of Lease Liabilities</u>
June 30, 2024	\$ 4,104	\$ 1,041	\$ 3,063
June 30, 2025	4,104	872	3,232
June 30, 2026	4,104	694	3,410
June 30, 2027	4,104	507	3,597
Thereafter	8,209	750	7,459
	<u>\$ 24,625</u>	<u>\$ 3,864</u>	<u>\$ 20,761</u>

11. Food program:

The School is its own School Food Authority. Under this program, the School is responsible for all decisions and costs related to the School's meal program. The School receives funding for the program through the National School Lunch Program.

12. Food Pantry:

During the current fiscal year, the School partnered with Northern Illinois Food Bank to create and operate a food pantry at the Lower Academy to provide food staples and act as a hub for meal relief in the Rockford community. During the year, the School received contributions in-kind in the amount of \$12,803.

13. GRCS Alumni College Scholarship:

A new scholarship was created during the 2022 fiscal year. This scholarship is a competitive scholarship available to any GRCS scholar who graduated from Galapagos Charter School and is currently a high school senior or a college freshman planning to attend or currently attending a four-year college or university. The scholarship was approved by the GRCS Board, who has approved up to \$16,000 in funding for fiscal year ended June 30, 2023 using various sources of funds originating outside the scope of the school operations. Scholarships awarded during the fiscal years ended June 30, 2023 and 2022 were \$8,500 and \$7,500 respectively. However, some of the scholarship have not yet been fully awarded.

14. Unemployment insurance reserve – undesignated:

The unemployment insurance reserve is included in undesignated net assets without donor restrictions in the amount of \$9,642 for 2023 and \$63 for 2022. The Board of Directors intends for the funds to be used primarily for unemployment benefits. Starting January 1, 2013, Galapagos Rockford Charter School NFP, Inc. withdrew from the state unemployment insurance program and enrolled in a private, self-funded program through First Nonprofit Unemployment Savings Program, LLC.

The annual contributions are calculated by an underwriter based on the size of the School and experience. Contributions are held by First Nonprofit Unemployment Savings Program, LLC in an interest-bearing account. The funds held in the reserve are owned by Galapagos Rockford Charter School NFP, Inc., and can be withdrawn at any time.

GALAPAGOS ROCKFORD CHARTER SCHOOL NFP, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022**

14. Unemployment insurance reserve – undesignated: (continued)

Galapagos Rockford Charter School NFP, Inc. is billed quarterly for the annual contribution. Additionally, an administration fee, based on a percentage of payroll, is included in the quarterly bill.

Contributions of \$8,556 were made in the current fiscal year. Administration fees of \$6,702 and claims of \$0 were paid.

15. Prior Period Adjustment

At June 30, 2023 a \$39,566 prior period adjustment has been recognized in the financial statement to reinstate the balance of fixed assets.

16. Recent Accounting Pronouncements:

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, "Leases (Topic 842)", which is effective for annual reporting periods beginning after December 15, 2021. The ASU requires a lessee to recognize a right-of-use asset and a lease liability on its statement of financial position for most operating leases. In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842) Targeted Improvements", which provided Organizations with an additional optional transition method to apply the new standard to leases in effect at the adoption dates through a cumulative effect adjustment. The School has adopted FASB Topic 842 as of June 30, 2023 using this optional transition method.

The School elected to apply the package of practical expedients provided under the guidance in ASU 2016-02. The practical expedient package allows an entity to forgo reassessing (1) whether expired or existing contracts are or contain a lease, (2) classification of expired or existing leases, and (3) whether costs associated with expired or existing leases should be classified as "initial direct costs" under Topic 842. The School also elected to adopt the practical expedient which exempts leases with an initial lease term of twelve months or less.

17. Subsequent Events:

The School has evaluated subsequent events through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued. There are no material subsequent events that required recognition or additional disclosure in these financial statements.

AUDITOR'S REPORTS

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INDEPENDENT AUDITOR'S 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

To the Board of Directors
Galapagos Rockford Charter School NFP, Inc.
Rockford, Illinois

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Galapagos Rockford Charter School NFP, Inc. (an Illinois nonprofit organization) which comprise the statement of financial position as of June 30, 2023, 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 November 3, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Galapagos Rockford Charter School NFP, Inc.'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 Galapagos Rockford Charter School NFP, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Galapagos Rockford Charter School NFP, Inc.'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 Organization'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 Galapagos Rockford Charter School NFP, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 School'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Grieco & Adelman LLC

Des Plaines, Illinois
November 3, 2023

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS OF APPLICABLE LAWS AND REGULATIONS PRESCRIBED BY ADMINISTERING AGENCY

To the Board of Directors
Galapagos Rockford Charter School NFP, Inc.
Rockford, Illinois

We have relied upon the audit report prepared by Ostrow Reisin Berk & Abrams Ltd., Certified Public Accountants related to the compliance of Galapagos Rockford Charter School NFP, Inc. with requirements of applicable laws and regulations prescribed by the administering agency as described in the Grant of Charter and Charter School Agreement. Their report expressed an unmodified opinion.

Grieco & Adelman LLC

Des Plaines, Illinois
November 3, 2023