

**Elm Community Charter School**

Audited Financial Statements

In Accordance with *Government Auditing Standards*

June 30, 2023

# Elm Community Charter School

## Audited Financial Statements

June 30, 2023

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## **Independent Auditor's Report**

Board of Trustees  
Elm Community Charter School

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the accompanying financial statements of Elm Community Charter School (the "School"), 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the School as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Report on Summarized Comparative Information**

The financial statements of the School as of and for the year ended June 30, 2022, were audited by other auditors whose report dated October 20, 2022, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects with the audited financial statement from which it was derived.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2023, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



New York, NY  
October 23, 2023

# Elm Community Charter School

## Statement of Financial Position

At June 30, 2023  
(With comparative totals at June 30, 2022)

	June 30,	
	2023	2022
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,949,283	\$ 2,284,975
Government grants receivable - per pupil	3,360	16,646
Government grants receivable - New York City rental assistance	300,080	-
Government grants receivable - other	197,953	95,710
Prepaid expenses and other assets	853	142,439
Security deposit	259,800	483,500
Fixed assets, net	666,091	632,191
Right of use asset	60,759,946	-
Restricted cash	75,032	75,018
<b>TOTAL ASSETS</b>	<b>\$ 65,212,398</b>	<b>\$ 3,730,479</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 388,987	\$ 199,327
Government grant advances	35,695	67,460
Lease liability	62,739,322	-
Total liabilities	63,164,004	266,787
<b>NET ASSETS</b>		
Net assets without donor restrictions	2,048,394	3,463,692
Total net assets	2,048,394	3,463,692
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 65,212,398</b>	<b>\$ 3,730,479</b>

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

# Elm Community Charter School

## Statement of Activities

For the Year Ended June 30, 2023  
(With comparative totals for the year ended June 30, 2022)

	<b>Total 6/30/23</b>	<b>Total 6/30/22</b>
<b>WITHOUT DONOR RESTRICTIONS:</b>		
<b>Public support and revenue:</b>		
Public school district revenue:		
Resident student enrollment	\$ 6,748,663	\$ 4,721,508
Students with special education services	692,774	434,316
Total public school district revenue	7,441,437	5,155,824
Government grants:		
New York City rental assistance	2,010,480	1,332,375
Other government grants	321,888	158,231
Contributions	9,456	35,900
Other income	15	16
<b>Total public support and revenue</b>	<b>9,783,276</b>	<b>6,682,346</b>
<b>EXPENSES</b>		
Program services:		
Regular education	8,341,443	3,695,984
Special education	1,235,408	543,128
Total program services	9,576,851	4,239,112
Supporting services - management and general	1,621,723	1,332,592
<b>Total expenses</b>	<b>11,198,574</b>	<b>5,571,704</b>
<b>Change in net assets</b>	<b>(1,415,298)</b>	<b>1,110,642</b>
<b>NET ASSETS, <i>beginning of year</i></b>	<b>3,463,692</b>	<b>2,353,050</b>
<b>NET ASSETS, <i>end of year</i></b>	<b>\$ 2,048,394</b>	<b>\$ 3,463,692</b>

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

# Elm Community Charter School

## Statement of Functional Expenses

For the Year Ended June 30, 2023  
(With comparative totals for the year ended June 30, 2022)

	Program Services			Supporting Services		
	Regular Education	Special Education	Total Program Services	Management and General	Total Expenses 6/30/23	Total Expenses 6/30/22
Salaries	\$ 3,236,349	\$ 538,258	\$ 3,774,607	\$ 452,525	\$ 4,227,132	\$ 2,586,876
Payroll taxes and benefits	564,231	93,841	658,072	78,896	736,968	507,715
Total personnel costs	3,800,580	632,099	4,432,679	531,421	4,964,100	3,094,591
Professional fees	43,847	7,292	51,139	391,125	442,264	382,406
Curriculum and classroom expenses	228,815	37,958	266,773	-	266,773	215,107
Facilities expense	3,646,520	472,074	4,118,594	429,323	4,547,917	1,204,452
Office expenses	226,997	29,387	256,384	26,726	283,110	146,961
Professional development	83,821	13,941	97,762	539	98,301	127,884
Insurance	93,733	12,135	105,868	11,036	116,904	78,618
Recruitment	-	-	-	205,213	205,213	153,158
Other expenses	65,467	10,888	76,355	8,484	84,839	55,218
Depreciation	151,663	19,634	171,297	17,856	189,153	113,309
<b>Total expenses</b>	<b>\$ 8,341,443</b>	<b>\$ 1,235,408</b>	<b>\$ 9,576,851</b>	<b>\$ 1,621,723</b>	<b>\$ 11,198,574</b>	<b>\$ 5,571,704</b>

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

# Elm Community Charter School

## Statement of Cash Flows

For the Year Ended June 30, 2023  
(With comparative totals for the year ended June 30, 2022)

	June 30,	
	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (1,415,298)	\$ 1,110,642
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	189,153	113,309
Changes in assets and liabilities:		
Government grants receivable - per pupil	13,286	(5,818)
Government grants receivable - New York City rental assistance	(300,080)	-
Government grants receivable - other	(102,243)	23,892
Prepaid expenses and other assets	141,586	(142,439)
Security deposit	223,700	-
Accounts payable and accrued expenses	189,660	1,240
Government grant advances - other	(31,765)	67,460
Lease liability	1,979,376	-
Deferred rent	-	(128,323)
Total adjustments	2,302,673	(70,679)
<b>Net cash flows provided by operating activities</b>	<b>887,375</b>	<b>1,039,963</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(223,053)	(469,303)
<b>Net cash flows used for operating activities</b>	<b>(223,053)</b>	<b>(469,303)</b>
<b>Net increase in cash, cash equivalents and restricted cash</b>	<b>664,322</b>	<b>570,660</b>
<b>Cash, cash equivalents and restricted cash, <i>beginning of year</i></b>	<b>2,359,993</b>	<b>1,789,333</b>
<b>Cash, cash equivalents and restricted cash, <i>end of year</i></b>	<b>\$ 3,024,315</b>	<b>\$ 2,359,993</b>
<b>Cash, cash equivalents and restricted cash consists of:</b>		
Cash and cash equivalents	\$ 2,949,283	\$ 2,284,975
Restricted cash	75,032	75,018
<b>Total cash, cash equivalents and restricted cash</b>	<b>\$ 3,024,315</b>	<b>\$ 2,359,993</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	\$ -	\$ 428
Taxes paid	\$ -	\$ -

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



# Elm Community Charter School

## Notes to Financial Statements

June 30, 2023

### Note 1 - Nature of Activities

Elm Community Charter School (the "School"), located in Flushing, New York, is a not-for-profit education corporation chartered by the Board of Regents of the University of the State of New York. The charter was authorized by the SUNY Charter Schools Institute. The School provides a full range of educational services appropriate for elementary school. The School aims to foster an interdisciplinary and collaborative learning environment focused on cultivating civically engaged student leaders. The School's primary source of revenue is per-pupil public school district revenue.

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 completed the 2022-2023 fiscal year with an average enrollment of approximately 380 students. The School is a publicly funded, privately managed school, which is independent of the New York City Department of Education ("NYCDOE"). On July 14, 2017, the School was granted a charter for a term up to and including through July 31, 2023. In April 2023, the School was granted a charter renewal for an additional five years.

The School is affiliated with the Friends of Elm Community Charter School, Inc. ("Friends of Elm") through the use of shared members of their respective Board of Trustees. Friends of Elm is a not-for-profit corporation established to support the creation of the School and function as the fundraising arm of the School. As the School does not have control over Friends of Elm, the financial statements are not permitted to be consolidated. See Notes 4 and 6 for a description of related party transactions.

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

### Note 2 - Summary of Significant Accounting Policies

#### *a. Basis of Accounting*

The accompanying 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.

# Elm Community Charter School

## Notes to Financial Statements

June 30, 2023

### Note 2 - Summary of Significant Accounting Policies - Continued

#### *b. Recently Adopted Accounting Standards*

Effective July 1, 2022, the School adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2016-02, *Leases*, which requires lessees to recognize leases on the statement of financial position and disclose key information about leasing arrangements. The School elected not to restate the comparative period (year ended June 30, 2022). It also elected not to reassess at adoption (i) expired or existing contracts to determine whether they contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. The School also elected the practical expedient to not separate lease and non-lease components for all leases. As a result of implementing FASB ASU No. 2016-02, the School recognized right-of-use ("ROU") assets of \$62,785,278 and lease liabilities of \$62,785,278 on the statement of financial position as of July 1, 2022. The adoption did not result in a significant effect on amounts reported in the statement of activities for the year ended June 30, 2023.

#### *c. Basis of Presentation*

The School reports information regarding their financial position and activities according to the following classes of net assets:

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

*Net Assets With Donor Restrictions* - represents 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, 2023 or June 30, 2022.

#### *d. Revenue Recognition*

The School follows the requirements of FASB's Accounting Standards Codification ("ASC") 958-605 for recording contributions, which are recognized at the time a contribution becomes unconditional in nature. Contributions that do not contain donor restrictions are recorded in the class of net assets without donor restrictions. Contributions that do contain donor restrictions are recorded in the class of net assets with donor restrictions. 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 of payments or release from obligations and are recognized as income once the 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 based on rates established by the School's funding sources and when performance related outcomes are achieved as well as other conditions under the agreements are met.

# Elm Community Charter School

## Notes to Financial Statements

June 30, 2023

### **Note 2 - Summary of Significant Accounting Policies – Continued**

#### *d. Revenue Recognition - Continued*

Government grants that have been awarded to the School but have not been recognized as revenue amounted to \$356,956 at June 30, 2023. Of that amount \$35,695 has been received in cash, which was recognized as government grant advances on the statement of financial position.

Contributions and grants expected to be received within one year are recorded at net realizable value. Long-term pledges are recorded at fair value, using risk-adjusted present value techniques. At June 30, 2023 and 2022, all contributions and grants are expected to be collected within one year.

All receivables are reviewed for collectability. Based on knowledge of specific donors and factoring in historical experience, no allowance for doubtful accounts exists as of June 30, 2023 or June 30, 2022. Write-offs will be made directly to operations in the period the receivable is deemed to be uncollectable.

#### *e. Cash and Cash Equivalents*

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

#### *f. Concentration of Credit Risk*

Financial instruments, which potentially subject the School to a concentration of credit risk, consist of cash accounts, which have been placed with financial institutions that management deems to be creditworthy. At times, balances may exceed federally insured limits. While at year end the School had uninsured balances, management feels they have little risk, and has not experienced any losses due to bank failure.

#### *g. Fixed Assets*

Computer hardware, furniture, equipment, and leasehold improvements 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 the respective assets.

#### *h. Leases*

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

# Elm Community Charter School

## Notes to Financial Statements

June 30, 2023

### Note 2 - Summary of Significant Accounting Policies – Continued

#### *i. 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.

#### *j. Functional Allocation of Expenses*

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

Expense	Method of Allocation
Salaries	Time and effort
Payroll taxes and benefits	Salary allocation
Curriculum and classroom expenses	Student FTE's
Facilities expense	Staff FTE's
Office expenses	Staff FTE's
Professional development	Student FTE's
Insurance	Staff FTE's
Other expenses	Student FTE's
Depreciation	Staff FTE's

Certain program expenses have been allocated between Regular Education and Special Education based on student full-time equivalent ("FTE") rates. All other expenses have been charged directly to the applicable program or supporting services.

#### *k. Advertising*

The cost of advertising is expensed as incurred.

#### *l. 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.

# Elm Community Charter School

## Notes to Financial Statements

June 30, 2023

### Note 2 - Summary of Significant Accounting Policies – Continued

#### *m. 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.

#### *n. 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, and later are subject to examination by applicable taxing authorities.

#### *o. 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. According, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

### Note 3 - Government Grants Receivable - Per Pupil

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

	6/30/23	6/30/22
Beginning grant receivable	\$ 16,646	\$ 10,828
Per pupil funding:		
Funding based on allowable FTEs	7,441,437	5,155,824
Advances received	(7,454,723)	(5,150,006)
Ending grant receivable	<u>\$ 3,360</u>	<u>\$ 16,646</u>

### Note 4 - New York City Rental Assistance

The School was entitled to receive a rent subsidy, that is calculated at the lower of 30% of the per pupil amount or actual lease costs. During the years ended June 30, 2023 and 2022, the amount of rent subsidy recognized was \$2,010,480 and \$1,332,375, respectively, based on the lease costs. These amounts included base rents of \$1,800,000 and \$1,100,000 and facility costs of \$210,480 and \$232,375, for the years ended June 30, 2023 and 2022 under the sublease with the related party discussed in Note 6.

# Elm Community Charter School

## Notes to Financial Statements

June 30, 2023

### Note 5 - Fixed Assets

Fixed assets consist of the following:

	6/30/23	6/30/22
Furniture and equipment (3-5 years)	\$ 701,551	\$ 478,498
Computer equipment (3 years)	325,777	325,777
Leasehold improvements (Life of lease)	167,000	167,000
	<u>1,194,328</u>	<u>971,275</u>
Less accumulated depreciation	<u>(528,237)</u>	<u>(339,084)</u>
Total fixed assets, net	<u>\$ 666,091</u>	<u>\$ 632,191</u>

### Note 6 - Right-of-Use Assets and Financing Lease Liabilities

The School evaluated current contracts to determine which met the criteria of a lease. The ROU assets represent the School's right to use underlying assets for the lease term, and the lease liabilities represent the School's obligation to make lease payments arising from these leases.

The School occupies space in Queens, New York under a sub-lease agreement with Friends of Elm (see Note 1) that expires on June 30, 2053. Under the terms of the lease held by Friend of Elm with the landlord, the School acts as guarantor. The maximum potential amount that the school can be required to pay in connection with this guarantee is \$101,729,055.

The School evaluated current contracts to determine which met the criteria of a lease. The ROU assets represent the School's right to use underlying assets for the lease term, and the lease liabilities represent the School's obligation to make lease payments arising from this lease. The ROU asset and lease liability, all of which arise from a financing lease, were calculated based on the present value of future lease payments over the lease terms. The School has made an accounting policy election to use a risk-free rate in lieu of its incremental borrowing rate to discount future lease payments. The weighted-average discount rate applied to calculate lease liabilities and the weighted average lease term as of June 30, 2023 was 3.13% and 31 years.

Total lease costs for the year ended June 30, 2023 are as follows:

Financing lease cost	
Interest expense	\$ 1,964,524
Amortization of right-of-use assets	\$ 2,025,332

The following table summarizes supplemental cash flow information for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for financing leases	\$ 1,964,524
Financing cash flows for financing leases	\$ 45,956

# Elm Community Charter School

## Notes to Financial Statements

June 30, 2023

### Note 6 - Operating Lease Right-of-Use Assets and Operating Lease Liabilities - Continued

Future minimum payments under the sublease with Friends of Elm are as follows:

For the years ending June 30,

2024	\$ 2,308,281
2025	2,371,513
2026	2,436,602
2027	2,633,511
2028	2,731,704
2029 and thereafter	<u>89,247,444</u>
Total lease payments	101,729,055
Less: present value discount	<u>(38,989,733)</u>
Total lease obligations	<u><u>\$ 62,739,322</u></u>

### Note 7 - Restricted Cash

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

### Note 8 - Significant Concentration

The School is depending upon grants from the NYCDOE to carry out its operations. Approximately 97% of the School's total public support and revenue was from the NYCDOE for the year ended June 30, 2023 and 2022. If the NYCDOE were to discontinue funding, it would have a severe economic impact on the School's ability to operate.

### Note 9 - Retirement Plan

The School has a retirement plan under Section 403(b) of the Internal Revenue Code. All employees are eligible to participate and may elect to defer a portion of their salary and contribute to this plan up to statutory amounts. The School provides matching contributions on a discretionary basis and contributed \$46,210 and \$34,498 for the years ended June 30, 2023 and June 30, 2022, respectively. Salary deferrals and matching contributions are immediately 100% vested.

### Note 10 - Availability and Liquidity

At June 30, 2023, the School's financial assets available to meet cash needs for general expenditures within one year are \$3,450,676, which consist of cash and cash equivalents of \$2,949,283 and government grants receivable of \$501,393. 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 23, 2023, 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.



**Report on Internal Control over Financial Reporting and on Compliance  
and other Matters Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

**Independent Auditor's Report**

To the Board of Trustees of  
Elm Community 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 Elm Community Charter School (the "School"), 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 October 23, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a significant deficiency.

**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*.



### **School's Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Sax CPAs LLP".

New York, NY  
October 23, 2023

# Elm Community Charter School

## Schedule of Findings and Questioned Costs

June 30, 2023

Current Year:

### 2023-001 - Significant Audit Adjustments

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

Condition: The auditor proposed two significant adjustments. One was related to accruing payroll at year-end. The other was to adjust New York City rental assistance revenue.

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

Effect: Significant audit adjustments were required to accurately record payroll and revenue properly.

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

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

Prior Year:

None



October 23, 2023

## 2023-001 – Significant Audit Adjustments

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

Condition: The auditor proposed two significant adjustments. One was related to accruing payroll at year-end. The other was to adjust New York City rental assistance revenue.

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

Effect: Significant audit adjustments were required to accurately record payroll and revenue properly.

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

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

## Management Response:

The accounting entries in question were included in the year-end financials and communicated to the board and school management, so the school was operating off of the correct financials. However, regrettably, these two items were incorrectly accrued in the final trial balance provided to the auditors as a result of an internal error. In the future, EdTec will diligently review the final trial balance and ensure it aligns with the year-end financials before delivering to the auditors.

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Priscilla Walton

Founder and Principal

## Management Letter

To the Board of Trustees of  
Elm Community Charter School

In planning and performing our audit of the financial statements of Elm Community Charter School, Inc. (the "School") as of and for the year ended June 30, 2023 in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies, as outlined below. 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.

### **I – Significant Deficiencies**

#### Significant Audit Adjustments

All entities have the responsibility of maintaining the books and records in accordance with U.S. generally accepted accounting principles including the preparation of audited, financial statements. We proposed adjustments, which management agreed to and posted to the books, so that the financial statements would be considered free of material error. These adjustments were related to accruing payroll expense and New York City rental revenue at year-end. We recommend that the School implement processes to ensure that full account analysis is performed as part of the year-end closing of the books.

### **II – Other Matters – Follow-up to prior year comments – not resolved**

#### Reviewing facility costs for sublease with related party

We have noted previously that the School has a lease for rent with a related party, Friends of Elm ("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.

***Follow-up for June 30, 2023:*** We continue our recommendation. It should be noted that in April of 2023, the NYC Department of Education issued a new Chart School Rental Assistance Policy which is effect for years ended June 30, 2024. We recommend that the School perform a full review to ensure full compliance with the most recent policy.

## **II – Other Matters – Follow-up on prior year comments:**

### Segregation of Duties over Cash Disbursements

Last year, we noted that the accounts payable clerk, an employee of EdTec, who has access to the general ledger and vendor file, adds a digital signature of the Principal and the Board Chair 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.

The process identified above would **not prevent** an error from occurring but there are several compensating controls designed **to detect** an error. First, the accounts payable clerk receives approval from one of the authorized check signers, (the Principal or Board Chair) before providing the digital signature. 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.

We noted at that time that 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 recommended 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.

***Follow-up for year ended June 30, 2023:*** This matter has been resolved as internal controls were changed and updated to address this area.

### Internal Controls over Payroll Processing

We noted last year that the Principal did not document the review of the payroll journal indicating their approval. The review performed by the Principal is the key control as the Director of Operations is responsible for entering the payroll to the payroll company.

We recommend the Principal formally document their review and approval each pay period.

***Follow-up for year ended June 30, 2023:*** This matter has been resolved as internal controls were changed and updated to address this area.

### Internal Control over Credit Card Charges

Last year we noted that the School's Financial Policies and Procedures indicate that use of credit cards is authorized with a maximum credit limit of \$10,000 per card holder. During our testing we noted that the credit limit was \$88,700, however the School's Financial Policies and Procedures state that any charge in excess of \$5,000 requires approval by the Treasurer.

We did note that as a compensating control the Treasurer and Chair are notified of the monthly credit card purchases. However, there is no formal documentation of review and approval for the purchases.

We recommend the School either update its Financial Policies and Procedures for the higher credit limit and include a requirement for the Treasurer to review and formally approve the monthly credit card statements; or lower the credit limit on the credit cards and require formal approval of charges in excess of \$5,000.

***Follow-up for year ended June 30, 2023:*** This matter has been resolved as internal controls were changed and updated to address area.

#### Update Financial Policies and Procedures

We noted other deviations from the Financial Policies and Procedures in addition to those outlined above. To summarize:

1. Payroll is entered into the payroll processing system by the Director of Operations and no longer by the financial consultants at Edtec.
2. ACH payments were permitted without Board Treasurer approval.
3. Payments over \$10,000 did not require Board Chair or Treasurer approval.

We recommend the School's Financial Policies and Procedures be reviewed and updated to be in line with practice.

***Follow-up for year ended June 30, 2023:*** This matter has been resolved as the School's financial policies and procedures have been updated.

#### Payroll Reconciliation

We noted the outside accounting consultant does not perform payroll reconciliations as part of their closing procedures. We recommend that a quarterly reconciliation be performed to ensure that the salary expenses recorded on the books matches the payroll submitted to the payroll company.

***Follow-up for year ended June 30, 2023:*** This matter has been resolved. A payroll reconciliation was provided as part of the initial audit package.

This information is intended solely for the information of and use by management, the Board of Directors, and others within the School, and is not intended to be and should not be used by anyone other than these specific parties.



New York, NY  
October 23, 2023



# Elm Community

## CHARTER SCHOOL

October 23, 2023

### **2023-001 – Significant Audit Adjustments**

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

Effect: Significant audit adjustments were required to accurately record payroll and revenue properly.

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

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

### **Management Response:**

The accounting entries in question were included in the year-end financials and communicated to the board and school management, so the school was operating off of the correct financials. However, regrettably, these two items were incorrectly accrued in the final trial balance provided to the auditors as a result of an internal error. In the future, EdTec will diligently review the final trial balance and ensure it aligns with the year-end financials before delivering to the auditors.

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Priscilla Walton

Founder and Principal

