

Intellectus Preparatory Charter School

Audited Financial Statements

In Accordance with *Government Auditing Standards*

June 30, 2023

Intellectus Preparatory Charter School

Audited Financial Statements

June 30, 2023

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Independent Auditor's Report

To the Board of Trustees of
Intellectus Preparatory Charter School

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Intellectus Preparatory 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 from inception through June 30, 2023, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2023, and the changes in its net assets and its cash flows from inception through June 30, 2023 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Substantial Doubt about the Organization's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 9 to the financial statements, the School has a net deficiency in net assets, and has stated that substantial doubt exists about the School's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 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 27, 2023

Intellectus Preparatory Charter School

Statement of Financial Position

As of June 30, 2023

ASSETS

Cash and cash equivalents	\$ 793
Government grants receivable	127,442
Prepaid expenses and other assets	38,531
Security deposit	79,063
Fixed assets, net	701,764
Operating lease right-of-use asset	2,254,341
Total assets	<u>\$ 3,201,934</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$ 224,639
Loan payable	1,250,000
Operating lease liability	2,268,859
Total liabilities	<u>3,743,498</u>

Net assets:

Without donor restrictions	<u>(541,564)</u>
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Total liabilities and net assets	<u>\$ 3,201,934</u>
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The attached notes and auditor's report are an integral part of these financial statements.

Intellectus Preparatory Charter School

Statement of Activities

From Inception Through June 30, 2023

PUBLIC SUPPORT AND REVENUE:

Without donor restrictions:

Public school district revenue:

Resident student enrollment

\$ 1,111,512

Students with special education services

32,719

Subtotal public school district revenue

1,144,231

Other government grants

1,309,025

Contributions

62,011

Other income

7,805

Total public support and revenue

2,523,072

EXPENSES

Program services:

Regular education

2,135,348

Special education

190,656

Total program services

2,326,004

Supporting services:

Management and general

738,632

Total expenses

3,064,636

Change in net assets

(541,564)

NET ASSETS - beginning

-

NET ASSETS - ending

\$ (541,564)

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

Intellectus Preparatory Charter School

Statement of Functional Expenses

From Inception Through June 30, 2023

	Program Services			Supporting Services	
	Regular Education	Special Education	Total Program Services	Management and General	Total Expenses
Salaries	\$ 976,428	\$ 87,181	\$ 1,063,609	\$ 196,704	\$ 1,260,313
Payroll taxes and employee benefits	143,344	12,799	156,143	28,876	185,019
Total personnel costs	1,119,772	99,980	1,219,752	225,580	1,445,332
Professional fees	6,748	602	7,350	224,010	231,360
Curriculum and classroom expenses	47,595	4,250	51,845	-	51,845
Occupancy and facility costs	642,318	57,350	699,668	129,396	829,064
Food services	50,799	4,536	55,335	-	55,335
Non-capitalized equipment and furnishings	95,827	8,556	104,383	19,304	123,687
Office expense	30,933	2,762	33,695	6,231	39,926
Professional development	20,448	1,826	22,274	7,785	30,059
Insurance	39,418	3,519	42,937	7,941	50,878
Student and staff recruitment	6,422	573	6,995	12,142	19,137
Interest expense	-	-	-	81,600	81,600
Other expenses	-	-	-	9,520	9,520
Depreciation	75,068	6,702	81,770	15,123	96,893
Total other than personnel costs	1,015,576	90,676	1,106,252	513,052	1,619,304
Total expenses	\$ 2,135,348	\$ 190,656	\$ 2,326,004	\$ 738,632	\$ 3,064,636

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

Intellectus Preparatory Charter School

Statement of Cash Flows

From Inception Through June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (541,564)
Adjustments to reconcile change in net assets to net cash used for operating activities:	
Depreciation	96,893
Change in operating right-of-use asset and liability	14,518
Changes in assets and liabilities:	
Government grants receivable	(127,442)
Prepaid expenses and other assets	(38,531)
Security deposit	(79,063)
Accounts payable and accrued expenses	224,639
Total adjustments	<u>91,014</u>

Net cash flows used for operating activities	<u>(450,550)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of furniture and equipment	<u>(798,657)</u>
Net cash used for investing activities	<u>(798,657)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Advances on loan payable	<u>1,250,000</u>
Net cash provided by financing activities	<u>1,250,000</u>

Net increase in cash and cash equivalents	793
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CASH AND CASH EQUIVALENTS - beginning	<u>-</u>
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CASH AND CASH EQUIVALENTS - ending	<u>\$ 793</u>
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SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid during the year for interest	<u>\$ 81,600</u>
Cash paid during the year for taxes	<u>\$ -</u>

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

Intellectus Preparatory Charter School

Notes to Financial Statements

June 30, 2023

Note 1 - Organization

Intellectus Preparatory Charter School (the "School"), located in Mount Vernon, New York, is a not-for-profit education corporation chartered by the Board of Trustees of the State University of New York ("SUNY Trustees").

The School plans to deliver an equitable educational experience for scholars in grades 6-12. Through experiential learning, restorative practice and personal development, scholars are prepared to compete academically, contribute socially, and choose their pathway to college and career. The School completed the 2022-2023 fiscal year, its first year of operations, with an enrollment of approximately 60 students in grades 6 -7.

On June 15, 2021, the School was granted a provisional charter for a term up to and including July 31, 2027. The School opened in Fall 2022. The financial statements reflect activity from inception through June 30, 2023.

The School has the following programs:

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

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

Note 2 - Summary of Significant Accounting Policies

a. Basis of Accounting

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

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 reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases. The School elected the practical expedient not to separate lease and non-lease components for its leases. As a result of implementing FASB ASU No. 2016-02, the School recognized right-of-use ("ROU") assets and lease liabilities of \$2,663,554 on the statement of financial position as of July 1, 2022.

Intellectus Preparatory Charter School

Notes to Financial Statements

June 30, 2023

Note 2 - Summary of Significant Accounting Policies - Continued

c. Basis of Presentation

The School reports information regarding their financial position and activities in 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 contributions and the net residual of assets with donor-imposed restrictions that are expected to be satisfied by performing certain activities or through the passage of time. The School had no donor restricted net assets at June 30, 2023.

d. Revenue Recognition

The School follows the requirements of the FASB's Accounting Standards Codification ("ASC") 958-605 for recording contributions, which are recognized when a contribution becomes unconditional in nature. Contributions are recorded in the net asset classes referred to above depending on the existence and/or nature of any donor-imposed restriction. When a restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. If donor restricted contributions are satisfied in the same period they were received, they are classified as without donor restrictions.

The School evaluates whether contributions are conditional or unconditional. Contributions are considered to be conditional when both a barrier must be overcome for the School to be entitled to the revenue and a right of return of the asset or right of release from the obligation exists.

The School's public-school district revenue and other government grants are primarily conditional, non-exchange transactions and fall under FASB ASC 958-605. Revenue from these transactions is recognized based on rates established by the School's funding sources and when performance related outcomes are achieved, or qualifying expenditures are incurred as well as other conditions under the agreements are met.

Contributions expected to be received within one year are recorded at net realizable value. Long-term pledges are recorded at fair value, using risk-adjusted present value techniques. Receivables are reviewed for collectability. Based on knowledge of specific donors and factoring in historical experience, no allowance for doubtful accounts exists as of June 30, 2023. All receivables at June 30, 2023 are expected to be received within one year.

e. Cash and Cash Equivalents

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

Intellectus Preparatory Charter School

Notes to Financial Statements

June 30, 2023

Note 2 - Summary of Significant Accounting Policies – Continued

f. Concentration of Credit Risk

Financial instruments that potentially subject the School to a concentration of credit risk consist of checking and money market accounts, and investment securities which are placed with financial institutions that management deems to be creditworthy. There were no balances in excess of insured amounts at June 30, 2023, and the School did not suffer any losses due to bank failure.

g. Fixed Assets

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

Leasehold improvements - *life of lease*

Furniture and fixtures - *7 years*

Computers and equipment - *3 to 5 years*

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. The change in operating lease right-of-use asset and liability on the statement of cash flows includes the amortization of the ROU asset and cash payments for leases offset by the accretion of the discounted lease liability. 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.

i. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the School.

Intellectus Preparatory Charter School

Notes to Financial Statements

June 30, 2023

Note 2 - Summary of Significant Accounting Policies – Continued

i. Functional Allocation of Expenses – Continued

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

- Payroll taxes and employee benefits
- Occupancy and facility costs
- Non-capitalized equipment and furnishings
- Office expense
- Insurance
- Depreciation

Certain program expenses have been allocated between Regular Education and Special Education based on student FTE rates. All other expenses have been charged directly to the applicable program or supporting services.

j. Advertising Costs

Advertising costs are expensed as incurred.

k. Management Estimates

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

l. Contingencies

Government contracts are subject to audit by the grantor. Management does not believe that any audits, if they were to occur, would result in material disallowed costs, and has not established any reserves. Any disallowed costs would be recorded in the period notified, if it is probable that a liability has been incurred.

In the normal course of business, the School is involved in proceedings, lawsuits, and other claims. These matters are subject to many uncertainties, and outcomes are not predictable with a high degree of assurance. Consequently, the ultimate aggregate amount of monetary liability or financial impact with respect to these matters as of June 30, 2023 cannot be ascertained. Management believes that the final outcome of these matters will not have a material impact on the financial statements of the School.

m. Accounting for Uncertainty of Income Taxes

The School does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2022, the School's initial filing, and later are subject to examination by applicable taxing authorities.

Intellectus Preparatory Charter School

Notes to Financial Statements

June 30, 2023

Note 3 - Fixed Assets

Fixed assets consist of the following:

Leasehold improvements	\$ 687,754
Furniture and fixtures	57,749
Computers and equipment	53,154
	<u>798,657</u>
Less: accumulated depreciation	(96,893)
Total fixed assets, net	<u>\$ 701,764</u>

Note 4 - Right-of-Use Asset and Operating Lease Liability

The School evaluated current contracts to determine which met the criteria of a lease. The School leases space in Mount Vernon, NY under a non-cancelable lease which expires on June 30, 2025. The lease term includes three consecutive one year extension options, which the School is reasonably certain to exercise. Therefore, the payments associated with these extensions are included in the ROU asset and lease liability recognized as of June 30, 2023. This lease has been determined to be an operating lease.

The ROU assets represent the School's right to use underlying assets for the lease term, and the lease liabilities represent the School's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities were calculated based on the present value of future lease payments over the lease terms using the School's incremental borrowing rate for this calculation. The weighted-average discount rate applied to calculate lease liabilities as of June 30, 2023 was 3.26%. As of June 30, 2023, the weighted average remaining lease term for the School's operating lease was 60 months.

For the year ended June 30, 2023, the total operating lease cost was \$488,893. Cash paid for the operating lease for the year ended June 30, 2023 totaled \$474,375. There were no noncash investing and financing transactions related to leasing other than the transition entry described in Note 2b. Lease costs for the period from inception through June 30, 2022 totaled \$130,000.

Future maturities of lease liabilities are presented in the following table:

Year ending:

June 30, 2024	\$ 474,375
June 30, 2025	474,375
June 30, 2026	488,606
June 30, 2027	503,264
June 30, 2028	518,375
Total lease payments	<u>2,458,995</u>
Less present value discount	(190,136)
Total lease obligations	<u>\$ 2,268,859</u>

Intellectus Preparatory Charter School

Notes to Financial Statements

June 30, 2023

Note 5 - Loan Payable

On March 11, 2022, the School entered into a loan agreement with Building Hope Finance for the purpose of funding leasehold improvements, rent, the security deposit, and other operating costs of the School. Total proceeds from the loan agreement totaled \$1,250,000, which is fully outstanding at June 30, 2023.

The loan matures on March 11, 2025. Per the terms of the loan, the School will make interest only payments for the first 24 months of the loan. After that period, the School will make monthly payments of principal and interest based on a 25-year amortization schedule and the full outstanding principal balance will be due on the maturity date of March 11, 2025.

Interest accrues on a monthly basis at a rate of 6.5% and is payable each month. Interest expense for the period from inception to June 30, 2023 was \$81,600.

The loan agreement is secured by the School's personal property. Per the terms of the agreement, the School is required to meet reporting and financial covenants. The School did not meet certain financial covenants, which affords the lender the opportunity to call the loan. As of the date the financial statements were available to be issued, the lender has not called this loan.

Note 6 - Significant Concentrations

The School is dependent upon grants from public school districts to carry out its operations. Approximately 45% of the School's total public support and revenue was received from Mount Vernon and other public school districts from inception through June 30, 2023. If the public-school districts were to discontinue funding, this would have a severe economic impact on the School's ability to operate.

Note 7- Availability and Liquidity

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

Cash and cash equivalents	\$ 793
Government grants receivable	127,442
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 128,235</u>

There are no external or internal limits imposed on these balances. As part of its liquidity management, the School operates its programs within a board approved budget and relies on grants and contributions to fund its operations and program activities.

Note 8 - Subsequent Events

Subsequent events have been evaluated through October 27, 2023, the date the financial statements were available to be issued. Adjustments and disclosures have been made for all material subsequent events that have occurred.

Intellectus Preparatory Charter School

Notes to Financial Statements

June 30, 2023

Note 9 - Going Concern

The School had significant losses over the period from inception through June 30, 2023. As a result, the statement of financial position reflects a net asset deficit balance of \$541,564 at June 30, 2023. In addition, cash on hand is not sufficient to meet the amount of current liabilities, including a loan payable in the amount of \$1,250,000, which can be called from the lender due to the School's failure of certain debt covenants.

In the fiscal year 2024, the School adopted a conservative budgeting approach and engaged in multiple iterations to ensure fiscal responsibility. The School conducted sensitivity analyses to assess various enrollment scenarios, enabling management to gauge the School's financial position in the event of enrollment shortfalls. The School's primary focus was on cost reduction measures, and hiring decisions were aligned with enrollment figures. Consequently, the School achieved an overall reduction in staff costs compared to fiscal year 2024 revenues. In addition, the School will no longer incur the startup expenses related to construction, furniture, curriculum, and materials that were necessary for opening the school during the period from inception through June 30, 2023. This has had a positive impact on the School's budget for fiscal year 2024 and moving forward. To further ease the burden on the budget, the School successfully secured a \$200,000 facilities grant in fiscal year 2024, covering costs for facilities improvements that would otherwise have come from the School's own resources.

Recruitment efforts remain an ongoing priority, recognizing that the School's financial success is closely tied to the number of students enrolled. Additionally, the board has set an ambitious fundraising goal for fiscal year 2024. These strategic actions, coupled with consistent cash monitoring through the implementation of a short-term cash management worksheet, monthly expense re-forecasts based on actual revenues, and vigilant oversight from the School's management team, are the School's plan towards improved financial results in the future.

**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
Intellectus Preparatory Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Intellectus Preparatory Charter School (the "School"), which comprise the statement of financial position as of and for the period from inception through June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the period from inception through June 30, 2023, and the related notes to the financial statements, and have issued our report thereon dated October 27, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2023-002.

School's Response to Findings

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

Purpose of this Report

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



New York, NY
October 27, 2023

Intellectus Preparatory Charter School

Schedule of Findings and Questioned Costs

June 30, 2023

Current Year:

2023-001 – Account Analysis

Criteria: Complete and accurate books and records should be maintained in a timely manner throughout the year to enable management to monitor the School's financial situation.

Condition: The books and records were not ready to start the audit in a timely manner.

Cause: Account analyses were not performed on a monthly basis throughout the year.

Effect: A delay in the audit calls into question whether management was able to produce timely and accurate financial statements during the year.

Recommendation: We recommend that the accounting team perform the bank reconciliations, analysis of significant balance sheet accounts, coding of expenses related to grants, and other closing procedures on a monthly basis within three weeks of the following month.

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

2023-002 – Minimum Escrow Account Balances

Criteria: The State University of New York requires every charter school to create a dissolution reserve account for purposes of school closure and/or dissolution. After three years of operation a charter school is required to maintain a minimum balance in its escrow account of \$75,000.

Condition: The School did not have an escrow account as of June 30, 2023.

Cause: The School was unable to fund the escrow account due to operational shortfalls.

Effect: The School was not in compliance with its charter school agreement nor the State University of New York's requirements for minimum escrow deposits.

Recommendation: The School should take steps to ensure its escrow account is properly funded.

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

Prior Year Follow-Up:

None



Audit Corrective Action Plan

2023-001 - Account Analysis

1. **Audit Delays:** Delays in our audit for the first year (from inception to FY23) were primarily attributed to the introduction of the new lease standard. We have established a structured monthly and annual closing process with associated controls. Ongoing enhancements are underway to eliminate the potential for significant adjustments or delays. Additionally, we have implemented an amortization schedule for our leases to ensure prompt and accurate calculation of lease liabilities.
2. **Revenue Recognition:** We maintain a student roster for each district, and we record and recognize payments in the period when the revenue is earned.
3. **Government Grants:** Our approach to government grant management involves continuous tracking of both grant revenues and expenses. We recognize grant revenues as we incur related expenses within the grant period.
4. **Loan Agreement Management:** All loan agreements are accompanied by an amortization schedule and undergo ongoing review by both our management and accounting team to ensure compliance.
5. **Accounts Payable Ledger:** Our accounting team conducts a monthly review of the accounts payable ledger, sharing the findings with the school on a monthly basis.
6. **Payroll Reconciliation:** Salaries are recorded in the general ledger by our accountant after each payroll cycle, and reconciliation is performed to align with payroll reports for each period.
7. **General Ledger Oversight:** Monthly, we thoroughly review the general ledger to confirm that all transactions are accurately recorded and substantiated with adequate documentation.

2023-002 - Escrow

1. **Liquidity Challenges:** In FY23, we encountered challenges in funding our escrow account due to liquidity constraints. As part of our plan to meet the SUNY requirement, we will transfer \$25,000 in FY24 and \$50,000 in FY25.

A handwritten signature in black ink that reads "Kenyah Miller". The signature is fluid and cursive.

Kenyah Miller
CEO/Executive Director

Communication with Those Charged with Governance

To the Board of Trustees of
Intellectus Preparatory Charter School

We have audited the financial statements of Intellectus Preparatory Charter School (the “School”) from inception to June 30, 2023 and have issued our report thereon dated October 27, 2023. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated August 9, 2022, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope of Audit

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

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School are described in Note 2 to the financial statements.

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. This standard requires lessees to recognize leases on the statement of financial position as right-of-use (“ROU”) assets and lease liabilities based on the value of the discounted future lease payments. The School adopted an accounting policy to not report ROU assets and leases 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. The effects of this ASU are summarized in Note 2 to the financial statements.

Effective July 1, 2022, the School also adopted FASB ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU focuses on improving transparency in the reporting of contributed nonfinancial assets and requires a separate line-item presentation on the statement of activities and additional disclosures. Adoption of this standard did not have a material impact on the School’s financial statements.

Other than these ASU’s, no new accounting policies were adopted during the year under audit and the application of existing policies was not changed during the year.

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 9 to the financial statements, the School has a net deficiency in net assets, and has stated that substantial doubt exists about the School's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

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

Accounting Estimates

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

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

- The allocation of expenses into program, management and fundraising categories and to determine use of government grant funds
- Estimate for collectability of receivables
- Fixed asset depreciation methods and useful lives
- Determining balances for right-of-use asset and lease liability under ASC 842

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

Significant Audit Adjustments

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

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

Disagreements with Management

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

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

There were no significant difficulties encountered in performing the audit.

Management Representations

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

Industry Updates

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

To summarize:

Accounting and Auditing Updates – Developments

The Financial Accounting Standards Board (FASB) issued a proposed Accounting Standards Update (ASU), *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*, which is intended to improve the accounting for and disclosure of crypto assets. Many organizations have been accounting for crypto assets as indefinite-lived intangible assets. This proposed ASU would require an entity to measure crypto assets at fair value with changes in fair value recognized in net income or change in net assets. It would also require disclosure about significant crypto asset holdings and restrictions and changes in those holdings.

Many nonprofit organizations hold crypto assets, whether received as a contribution or as an investment of resources. The proposed ASU would apply to all entities holding crypto assets that meet several criteria, including:

- Meet the definition of “intangible asset” in the Accounting Standards Codification
- Do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets
- Are fungible
- Are not created or issued by the reporting entity or its related parties

Accounting and Auditing Updates - Recent Standards

In March 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2023-01, *Leases (Topic 842): Common Control Arrangements* under Topic 842, Leases.

Topic 842 requires that entities determine whether a related party arrangement between entities under common control (hereinafter referred to as a common control arrangement) is a lease. If the arrangement is determined to be a lease, an entity must classify and account for the lease on the same basis as an arrangement with an unrelated party (on the basis of legally enforceable terms and conditions). This ASU provides private companies and not-for-profit entities that are not conduit bond obligors with a practical expedient to use the written terms and conditions of a common control arrangement to determine if a lease exists. An entity applying the practical expedient is not required to determine whether those written terms and conditions are legally enforceable.

The practical expedient may be applied on an arrangement-by-arrangement basis. If no written terms and conditions exist, an entity cannot apply the practical expedient and would continue to use the legally enforceable terms and conditions to apply Topic 842.

The ASU requires that leasehold improvements associated with leases between entities under common control be:

- Amortized by the lessee over the economic life of the leasehold improvements (regardless of the lease term) so long as the lessee controls the use of the underlying asset through a lease
- Accounted for as a transfer between entities under common control through an adjustment to net assets if and when the lessee no longer controls the use of the underlying asset

The ASU is effective for years beginning after December 15, 2023. Early adoption is permitted.

Implementation of Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

When FASB Accounting Standards Update (ASU) 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, was first released, it was aimed particularly at financial institutions. However, this new current expected credit loss (CECL) standard will impact some not-for-profit entities (NFPs). This standard is effective for fiscal years beginning after December 15, 2022, i.e., calendar years ending in 2023 and fiscal years ending in 2024.

Under current U.S. GAAP, credit losses follow loss contingency guidance and are only booked when they are probable. With the issuance of ASU 2016-13, the requirement for credit losses to be probable was removed. Instead, organizations will now measure expected credit losses based on a number of factors, such as historical information, current conditions, and reasonable and supportable forecasts. This new methodology will create a CECL allowance on assets, calculated by noting historical loss and adjusting for current conditions and reasonable and supportable forecasts. For periods beyond which forecasts can be made, the NFP should revert to historical loss information.

ASU 2016-13 applies to loan and debt instruments not measured at fair value through net income, financial guarantees and loan commitments, certain lease receivables, and trade receivables from contracts recognized under the revenue recognition standard (ASC Topic 606). Contributions receivable and government grant receivable if they are following the contribution model for revenue recognition are not included in the scope of the standard. This standard will be applicable for revenue and the related receivables recognized in accordance with Topic 606.

Steps to take to assess the impact of this standard:

1. Evaluate the applicability - review your organization's revenue streams and balance sheets for any trade receivables recognized under Topic 606 and any loan or debt instruments that are not valued at fair value.
2. CECL standard does not require any specific methodology. Consider various options and establish a method for determining the CECL allowance related to those receivables. For example, organizations could use discounted cash flows or methods that utilize an aging schedule. The method an organization uses to estimate the CECL allowance will likely vary based on the type of asset, the organization's ability to predict the timing of cash flows, and the information available.
3. Consider pooling similar assets before performing the analysis and document how the assets are similar in nature.
4. Document the source of the data and how the data is accumulated to determine the CECL allowance. This information will be subject to audit and will also be used in the financial statement disclosures for the credit loss allowance.
5. Establish a CECL policy documenting processes, assumptions, methodology.

Implementation of Lease Standard

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) ASU No. 2016-02 Leases and related ASUs became effective for entities with the years ending December 31, 2022, and later. Under this standard, all leases, including operating leases, with terms of more than twelve months are required to be reflected as assets and liabilities on the statement of financial position. The asset will be for the rights to use the property, equipment or space and the liability will be for the present value of the total obligations created by that lease.

Steps to take when implementing the new lease standard:

1. Review all contracts and determine if they meet the elements of a lease.
2. Prepare a list of all leases including copy machine and storage space.
3. Review capitalization policy
4. Determine technology needs and tools to use for calculations. Depending on how many leases you have, it might be worth investing into a lease tracking software.
5. Create a tracking system for leases that will maintain major terms and conditions, calculations, and journal entries that need be recorded every year.

Donated use of property or equipment and use of property for only de minimis payments are not subject to this standard.

In- kinds Donations of Goods and Services

In September 2020, FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which became effective for the fiscal year ended June 30, 2022. The standard is intended to improve transparency of the information that is critical to various stakeholders including donors. It requires enhanced disclosures about the valuation of those contributions and their use in programs and other activities, including any donor-imposed restrictions on such use.

Best practices for In-kind donations:

1. Establish a gift acceptance policy to determine what your organization will and will not accept as some donations may require too many internal resources to manage or may not align with your organization's mission. Track your in-kind donations through the year by type noting restrictions and quantity (hours of services donated, square footage of space, number of items, etc.)
2. Develop criteria for valuation for each commonly received category of in-kind donations. For example, fair value of in-kind occupancy could be estimated using the average price per square foot of rental listings in the organization's service area. Donated legal services are valued at the standard hourly rates charged for those services.
3. Ensure proper supporting documentation in place to verify the fair value and whether there are any donor restrictions.
4. Develop a formal policy to stipulate when in-kind donations are used for organizational purposes and when they are to be monetized contributed nonfinancial assets that are monetized instead of utilized.

Do You Issue an Annual Report?

If your organization issues an annual report, there might be additional procedures that your auditors would be required to perform with respect to information reported within the annual report.

Statement on Auditing Standards (SAS) No. 137, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports addresses auditor's responsibilities relating to an NFP's annual report providing for performance, documentation, and reporting requirements. The auditor's main responsibility under this standard is to consider whether a material inconsistency exists between the information reported in an annual report and the audited financial statements and to remain alert for indications that a material misstatement of fact exists.

What constitutes an Annual Report?

Under SAS No. 137, an annual report is defined as "a document, or combination of documents, typically prepared on an annual basis by management or those charged with governance in accordance with law, regulation, or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements.

An annual report contains, accompanies, or incorporates by reference **the financial statements and the auditor's report** thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. Annual reports include annual reports of governments and organizations for charitable or philanthropic purposes that are available to the public."

What to expect?

Management is responsible for the information included in the annual report to agree and be consistent with the financial statements. Your organization will be required to provide an annual report along with the reconciliation to the financial statements to the auditors to review in a timely manner **prior to issuance of the annual report**. If you issue an annual report, communicate with your audit team regarding the planned timing and issuance early to allow sufficient time for the audit procedures to be performed before your publishing team produces the final report.

Tax and IRS Updates

NYS CHAR 500

The Charities Bureau of the New York State Attorney General's Office has begun to reject CHAR500 filings when the audited or reviewed financial statements submitted along with the CHAR500 are prepared on the cash basis of accounting. Both New York State law and the instructions to the CHAR500 require the financial statements to be prepared in accordance with GAAP, which includes the accrual basis of accounting.

NYS CHAR 500 – Requirement for Electronic Filing

As of September 19, 2022, all annual filings with the New York Attorney General's Charities Bureau must be submitted electronically. The online filing, which uses electronic signatures and online payment processes, is intended to minimize the Charities Bureau's review time, reduce errors and incomplete submissions, and reduce the time for filings to get posted to the online registry. The online filing can be initiated at:

www.charitiesnys.com/annual_filing.htm

Redacted Schedule B Required with CHAR 500

Initially, in order to comply with the U.S. Supreme Court's decision in *Americans for Prosperity Foundation v. Bonta* (594 U.S. 2021), the New York Attorney General's Charities Bureau suspended its collection of IRS Form 990 Schedule B while it reviewed its policies, procedures, and forms related to disclosure information that identified donors. The Charities Bureau then amended its regulations and now require that registrants other than private foundations that file Schedule B with the IRS to provide a redacted Schedule B that omits the names and street addresses of donors listed on Schedule B.

The Internal Revenue Service published a new Exempt Organizations Technical Guide, "TG 3-3: Exempt Purpose, Charitable IRC 501(c)(3)". This Technical Guide discusses tax law issues related to charitable purposes of organizations exempt under Section 501(c)(3) of the Internal Revenue Code.

IRS Developments

- Received \$80 billion in funding under the Inflation Reduction Act
- Several million unprocessed returns and letters resulting from facility shutdowns early in the pandemic
- Delays remain of 6-9 months or more
- Reorganization of IRS under Taxpayer First Act with the newly created Compliance Division

Other IRS updates

- IRS treats Cryptocurrency as property
- Contributions of cryptocurrency to a NFP must follow rules for any other type of property
 - Donor must obtain an appraisal from a qualified appraiser
 - Difficult to find one for cryptocurrency

Employee Retention Tax Credit (ERTC):

- **General overview:**
 - Available to all employers, but there are certain tests that need to be met and different calculations for the credit based on FTE in 2019.
 - There are also two different versions of the credit for each year it is offered – 2020 and 2021.
- **Eligibility** – To qualify for ERTC, employers must experience **either of the following**:
 - Employer must experience gross receipts reductions of $\geq 50\%$ of the comparable quarter in 2019 and gross receipts reductions of $\geq 20\%$ of the comparable quarter in 2019/2020.
 - Full or partial suspension of business by the government due to COVID-19.
- **Gross receipts defined:**
 - Solely for purposes of determining eligibility for the Employee Retention Credit, gross receipts for a tax-exempt employer include gross receipts from all operations, not only from activities that constitute unrelated trades or businesses. For example, gross receipts for this purpose include amounts received by the organization from total sales (net of returns and allowances) and all amounts received for services, whether or not those sales or services are substantially related to the organization's exercise or performance of the exempt purpose or function constituting the basis for its exemption. Gross receipts also include the organization's investment income, including from dividends, rents, and royalties, as well as the gross amount received as contributions, gifts, grants, and similar amounts, and the gross amount received as dues or assessments from members or affiliated organizations.

- PPP loan forgiveness is not considered part of gross income.
- **Suspension:**
 - What are not considered suspensions?
 - Ability to resume similar activity by telecommuting
 - A reduction of demand for products or services
 - Voluntary suspensions
 - Partial suspension is defined as closure of the workplace that causes the employer to suspend business operations for certain purposes, but not others:
 - Every case is unique
 - Examples of partial suspension: A physical therapy facility is shut down due to government order. Prior to the shutdown, none of the employees provided services via telework and all services were rendered at the workplace. Due to the shutdown, the facility moved to an online format to serve clients remotely, but employees are unable to access specific equipment or tools and not all clients can be served remotely. Due to these factors, this is considered a partial suspension since access to the equipment is essential to the employer's operations and the business operations could not continue in a comparable manner.
- **Credit calculation:**
 - 2020 version: 50% of qualifying wages up to \$10k per employee for the period of 03/13/20 to 12/31/20.
 - 2021 version: 70% of qualifying wages up to \$10k per employee per quarter.
 - ERC applicable for wages paid through September 30, 2021.
- **How do you receive the credit?**
 - Claim the credit on Form 941 or 941-X (if amending a previously filed return for the credit).
 - Request an advance of the credit by filing Form 7200, but there is administrative work needed in reconciling the advance against the credit.
- **Interaction with PPP:**
 - Initially, PPP and ERTC were mutually exclusive when introduced by the CARES Act.
 - With the enactment of the Consolidated Appropriation Act (CAA), the initial restrictions for PPP and ERTC were removed, so employers could qualify for both programs.
 - There is no double benefit on the same eligible expenses, so it becomes an optimization effort.

What is the deadline to file for ERTC?

- The ERTC filing window closes only once for each year of the ERTC: for all quarters in 2020, the deadline to apply for the ERTC is April 15, 2024, and for all quarters in 2021, the deadline is April 15, 2025.
- There is still time to amend previously filed Form 941 and still qualify for retroactive ERC claims. Employment tax returns for the year are deemed to be filed on April 15, so the three-year statute of limitations would apply to the earliest affected returns.

Government Auditing Updates

2023 Compliance Supplement

In May 2023, the Office of Management and Budget (OMB) released the *2023 OMB Compliance Supplement*. This Supplement is effective for audits of fiscal years beginning after June 30, 2022, e.g., fiscal years ending on June 30, 2023, through May 31, 2024.

Some of the most significant highlights are:

- **Overview**
 - The Compliance Supplement is the primary document for the programs that are subject to the Uniform Guidance (UG).
 - Access the Supplement on
 - <https://www.whitehouse.gov/omb/office-federal-financialmanagement/>
- **Part 2, Matrix of Compliance Requirements**
 - Changes to the compliance requirements are identified in bold and yellow highlighting.
 - New programs are identified as “NEW.”
 - Decoupled programs (formerly in a cluster) highlighted in yellow.
 - The six-requirement mandate and its rules continue in effect (only if the program is included in the Supplement). The matrix identifies which six compliance requirements are subject to audit for a particular program.
- **Part 3, Compliance Requirements**
 - Includes the generic program objectives and audit procedures pertaining to the twelve types of compliance requirements.
 - Procurement changes – Build America Buy America Act (“BABAA”) establishes a domestic content procurement preference for all federal financial assistance obligated for infrastructure projects after May 14, 2022
 - Non-federal entities are informed of a requirement to comply with BABAA by federal agencies through award terms and conditions.
 - In some cases, waivers may have been provided.
 - Auditees are responsible for supporting whether waivers in place.
 - New audit procedure to test a sample of procurement agreements for infrastructure subject to BABAA to determine whether the non-federal entity included domestic preference provisions in the agreements or obtained a waiver.
 - Cash Management changes
 - Revisions made to clarify the auditor’s responsibility when testing cash management under the reimbursement method.
 - Previous Supplements asked the auditor to ascertain if the entity “paid” for the costs in reimbursement requests prior to the date of the reimbursement period.
 - The audit objective and related procedure have been revised to ask the auditor to ascertain if the sample of expenditures in cash drawdowns tested were incurred prior to the date of the reimbursement request.

- Performance and special reporting provisions added in 2021 were retained in CY:
 - Testing is only required for key line items that are quantifiable and capable of evaluations against objective criteria.
 - If no key line items are identified, auditor only needs to test that performance/special reports were submitted timely.
 - If key line items are included that are not quantifiable or have no objective criteria, auditors are not required to test.
 - Auditors are required to test key line items and timely submission.
- **Part 4, Agency Program Requirements**
 - There are several program additions and deletions as well as many programs with significant changes.
 - Identifies several programs as higher-risk programs, including the Education Stabilization Fund, the Provider Relief Fund and Medicaid Cluster.
 - If a program has a higher risk designation and it is a type A program, it will most likely need to be audited as a major.
 - If a program has a higher risk designation and it is a type B program, it should go through the standard risk assessment process and might not be selected as major.
- **Appendix V**
 - Provides an overview of the changes made from the 2022 Supplement.
- **Appendix VII**
 - Provides the definition of COVID-19 funding.
 - Provides guidance on how COVID-19 related awards should be reported on SEFA and SF-SAC
 - Federal Audit Clearinghouse (FAC) Transition from Census to GSA:
 - The FAC will transition from the U.S. Census Bureau (Census) to the U.S. General Services Administration (GSA) on October 1, 2023.
 - At that time, all submissions will need to be made through new FAC hosted by GSA.
 - Any draft not fully submitted to the Census FAC by October 1, 2023, may need to be completely re-started at the new GSA FAC.

Amendments to New York Not-for-Profit Corporation Law (N-PCL)

In November 2022, amendments were passed to the New York Not-for-Profit Corporation Law (N-PCL) that impact board governance by providing enhanced modernization. Under one of the amendments, members or directors are now permitted to take action by vote without a meeting, so long as it obtains consent of all of the members entitled to vote. Such consent may be written or electronic. Additionally, board directors who are elected to fill a vacancy of an unexpired term may hold office until either the end of the term of the director they are replacing or until the next annual meeting. Finally, directors who must leave a board meeting as a result of conflict of interest shall still be counted as present for determining if a quorum has been satisfied.

Secure Act 2.0 – Impact on Nonprofit Organizations

Passed at the end of 2022, the SECURE Act 2.0 includes many provisions that impact 403(b) and 401(k) plans. Among the many provisions are the following:

- 403(b) plans are now permitted to participate in pooled employer plans (“PEPS”). MEPs provide an opportunity for small nonprofit organizations to group together with the intent of making the plans more easily attainable and viable as well as to reducing administrative burdens on the organization.
- Part-time employees with two consecutive years of over 500 hours must be eligible to participate in company-sponsored plans
- A new student-loan matching program is created to treat student loan payments as plan contributions for purposes of matching contributions
- New startup plans will be required to have a mandatory automatic enrollment of 3% with annual increases of 1% up to at least 10% (maximum 15%)

Independence Issues

Sax LLP is not aware of any relationships that our firm, or any employees thereof, has with the School or any of its board trustees that, in our professional judgment, may impair our independence.

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

Sax CPAs LLP

New York, NY
October 27, 2023

Management Letter

To the Board of Trustees of
Intellectus Preparatory Charter School

In planning and performing our audit of the financial statements of Intellectus Preparatory Charter School (the "School"), as of and for the period from inception through 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

Account Analysis / Monitoring Books in Timely Manner

We noted that certain account analyses were not performed in a timely manner throughout the year, which led to delays in the start of the audit. These analyses are a critical function needed to ensure that management can produce complete and accurate financial reports throughout the year.

We recommend that the accounting team perform the monthly bank reconciliations within three weeks of the following month. The following closing procedures should then be performed in the same timeframe to ensure that the books are complete and accurate:

- Per Pupil Funding – A roster of all enrolled students by each district should be maintained in one location. This roster should then be analyzed to determine the expected revenue for each billing period as well as the full school year. Payments received and income recorded in the accounting software should be reconciled to this roster as a cross check to identify any potential errors or irregularities.
- Grants and contributions receivable – Grant agreements, donor letters and other supporting documentation for contributions received should be reviewed to verify that they are recorded in the proper account, classification, and period in the books. If the School receives government grants, those award agreements should be reviewed to ensure compliance with its terms and regulations.

- Expenses related to government grants should be tracked within the accounting system throughout the year. As part of the monthly closing process, restricted spending should be compared to the grant revenue and restricted net assets released from restriction for the month to verify that they match.
- Loans payable – All loan agreements should be reviewed by both the management and accounting team so that everyone is aware of all of the terms, conditions, and loan covenants. A loan payable amortization schedule should be maintained and reconciled to the books.
- Accounts payable – The detailed subsidiary ledger should be reviewed monthly and matched to the trial balance. Adjustments should be made for any differences and old outstanding balances should be investigated.
- Salary expense – A reconciliation of the salary expense on the books should be made to the amounts reported on the payroll tax forms (941 forms) or other summarized reports provided by the payroll company on a quarterly basis.
- Overall review of trial balance and general ledger – The trial balance and general ledger should be reviewed each month to determine that all accounts look reasonable and that transactions have been classified properly.

Minimum Balances for Escrow Account

The State University of New York requires every charter school to create a dissolution reserve account for purposes of school closure and/or dissolution. After three years of operation, a charter school is required to maintain a minimum balance in its escrow account of \$75,000. This balance is to be funded in \$25,000 increments over the first three years of operation. At June 30, 2023, the School had yet to establish a reserve account. We recommend that the School take steps to ensure this account is properly funded.

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

Sax CPAs LLP

New York, NY
October 27, 2023



Audit Corrective Action Plan

2023-001 - Account Analysis

1. **Audit Delays:** Delays in our audit for the first year (from inception to FY23) were primarily attributed to the introduction of the new lease standard. We have established a structured monthly and annual closing process with associated controls. Ongoing enhancements are underway to eliminate the potential for significant adjustments or delays. Additionally, we have implemented an amortization schedule for our leases to ensure prompt and accurate calculation of lease liabilities.
2. **Revenue Recognition:** We maintain a student roster for each district, and we record and recognize payments in the period when the revenue is earned.
3. **Government Grants:** Our approach to government grant management involves continuous tracking of both grant revenues and expenses. We recognize grant revenues as we incur related expenses within the grant period.
4. **Loan Agreement Management:** All loan agreements are accompanied by an amortization schedule and undergo ongoing review by both our management and accounting team to ensure compliance.
5. **Accounts Payable Ledger:** Our accounting team conducts a monthly review of the accounts payable ledger, sharing the findings with the school on a monthly basis.
6. **Payroll Reconciliation:** Salaries are recorded in the general ledger by our accountant after each payroll cycle, and reconciliation is performed to align with payroll reports for each period.
7. **General Ledger Oversight:** Monthly, we thoroughly review the general ledger to confirm that all transactions are accurately recorded and substantiated with adequate documentation.

2023-002 - Escrow

1. **Liquidity Challenges:** In FY23, we encountered challenges in funding our escrow account due to liquidity constraints. As part of our plan to meet the SUNY requirement, we will transfer \$25,000 in FY24 and \$50,000 in FY25.

A handwritten signature in black ink that reads "Kenyah Miller".

Kenyah Miller
CEO/Executive Director