

Intellectus Preparatory Charter School

Audited Financial Statements

In Accordance with *Government Auditing Standards*

June 30, 2024

Intellectus Preparatory Charter School

Audited Financial Statements

June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Intellectus Preparatory Charter School

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, 2024 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Report on Summarized Comparative Information

The financial statements of the School as of and for the year ended June 30, 2023, were audited by other auditors whose report dated October 27, 2023, 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, 2023, is consistent, in all material respects with the audited financial statements 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 January 14, 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.

RLN US LLP

New York, New York
January 14, 2025

Intellectus Preparatory Charter School

Statement of Financial Position

As of June 30, 2024

(With comparative totals as of June 30, 2023)

ASSETS

| | <u>6/30/2024</u> | <u>6/30/2023</u> |
|------------------------------------|----------------------------|----------------------------|
| Cash and cash equivalents | \$ 38,163 | \$ 793 |
| Government grants receivable | 321,644 | 127,442 |
| Prepaid expenses and other assets | 12,896 | 38,531 |
| Security deposit | 79,063 | 79,063 |
| Fixed assets, net | 611,020 | 701,764 |
| Operating lease right-of-use asset | 1,832,067 | 2,254,341 |
| Total assets | <u>\$ 2,894,853</u> | <u>\$ 3,201,934</u> |

LIABILITIES AND NET ASSETS

Liabilities:

| | | |
|---------------------------------------|----------------------------|----------------------------|
| Accounts payable and accrued expenses | \$ 415,587 | \$ 224,639 |
| Loan payable | 1,250,000 | 1,250,000 |
| Operating lease liability | 1,861,103 | 2,268,859 |
| Total liabilities | <u>\$ 3,526,690</u> | <u>\$ 3,743,498</u> |

Net assets:

| | | |
|---|----------------------------|----------------------------|
| Without donor restrictions | (631,837) | (541,564) |
| Total liabilities and net assets | <u>\$ 2,894,853</u> | <u>\$ 3,201,934</u> |

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

Intellectus Preparatory Charter School

Statement of Activities

For the year ended June 30, 2024

(With comparative totals for the year ended June 30, 2023)

PUBLIC SUPPORT AND REVENUE:

| | <u>6/30/2024</u> | <u>6/30/2023</u> |
|--|------------------|------------------|
| Without donor restrictions: | | |
| Public school district revenue: | | |
| Resident student enrollment | \$ 1,663,356 | \$ 1,111,512 |
| Students with special education services | 56,284 | 32,719 |
| Subtotal public school district revenue | 1,719,640 | 1,144,231 |
| Other government grants: | 464,967 | 1,309,025 |
| Contributions | 16,467 | 62,011 |
| Other income | 2,957 | 7,805 |
| Total public support and revenue | 2,204,031 | 2,523,072 |

EXPENSES

| | | |
|-------------------------------|---------------------|---------------------|
| Program services: | | |
| Regular education | 1,471,910 | 2,135,348 |
| Special education | 263,723 | 190,656 |
| Total program services | 1,735,633 | 2,326,004 |
| Supporting services: | | |
| Management and general | 558,671 | 738,632 |
| Total expenses | 2,294,304 | 3,064,636 |
| Change in net assets | (90,273) | (541,564) |
| NET ASSETS - beginning | (541,564) | - |
| NET ASSETS - ending | \$ (631,837) | \$ (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 For the year ended June 30, 2024 (With comparative totals for the year ended June 30, 2023)

| | No. of positions | Program Services | | | Supporting Services | 2024 Total Expenses | 2023 Total Expenses |
|---|---------------------|----------------------|----------------------|------------------------------|------------------------------|---------------------------|---------------------------|
| | | Regular Education | Special Education | Total Program Services | Management And General | | |
| Salaries: | | | | | | | |
| Administrative staff personnel | 6 | \$209,102 | \$62,022 | \$271,124 | \$318,920 | \$590,044 | \$697,832 |
| Instructional personnel | 6 | 388,712 | 26,500 | 415,212 | - | 415,212 | 491,062 |
| Non-Instructional personnel | 1 | 44,865 | - | 44,865 | 15,522 | 60,387 | 71,419 |
| Total personnel costs | | 642,679 | 88,522 | 731,201 | 334,442 | 1,065,643 | 1,260,313 |
| Payroll taxes and employee benefits | | 76,766 | 20,715 | 97,481 | 24,370 | 121,851 | 185,019 |
| Professional fees | | 1,500 | 1,500 | 3,000 | 79,412 | 82,412 | 231,360 |
| Curriculum and classroom expenses | | 22,845 | 4,679 | 27,524 | - | 27,524 | 51,845 |
| Occupancy and facility costs | | 499,323 | 102,271 | 601,594 | - | 601,594 | 829,064 |
| Food services | | 76,802 | 15,731 | 92,533 | - | 92,533 | 55,335 |
| Non-capitalized equipment and furnishings | | 15,743 | 3,788 | 19,531 | - | 19,531 | 123,687 |
| Office expense | | 10,812 | - | 10,812 | 22,941 | 33,753 | 39,926 |
| Professional development | | - | - | - | - | - | 30,059 |
| Insurance | | 12,674 | 3,420 | 16,094 | 4,023 | 20,117 | 50,878 |
| Student and staff recruitment | | 21,466 | 4,397 | 25,863 | - | 25,863 | 19,137 |
| Interest expense | | - | - | - | 81,250 | 81,250 | 81,600 |
| Other expenses | | - | - | - | 12,233 | 12,233 | 9,520 |
| Depreciation | | 91,300 | 18,700 | 110,000 | - | 110,000 | 96,893 |
| Total other than personnel costs | | 829,231 | 175,201 | 1,004,432 | 224,229 | 1,228,661 | 1,804,323 |
| Total expenses | | \$1,471,910 | \$263,723 | \$1,735,633 | \$558,671 | \$2,294,304 | \$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

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

| CASH FLOWS FROM OPERATING ACTIVITIES | 6/30/2024 | 6/30/2023 |
|--|------------------|------------------|
| Change in net assets | \$ (90,273) | \$ (541,564) |
| Adjustments to reconcile change in net assets to net cash used for operating activities: | | |
| Depreciation | 110,000 | 96,893 |
| Change in operating right-of-use asset and liability | 14,518 | 14,518 |
| Changes in assets and liabilities: | | |
| Government grants receivable | (194,202) | (127,442) |
| Prepaid expenses and other assets | 25,635 | (38,531) |
| Security deposit | - | (79,063) |
| Accounts payable and accrued expenses | 190,948 | 224,639 |
| Total adjustments | 146,899 | 91,014 |
| Net cash flows used for operating activities | 56,626 | (450,550) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of furniture and equipment | (19,256) | (798,657) |
| Net cash used for investing activities | (19,256) | (798,657) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances on loan payable | - | 1,250,000 |
| Net cash provided by financing activities | - | 1,250,000 |
| Net increase in cash and cash equivalents | 37,370 | 793 |
| CASH AND CASH EQUIVALENTS - beginning | 793 | - |
| CASH AND CASH EQUIVALENTS - ending | \$ 38,163 | \$ 793 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the year for interest | \$ 81,250 | \$ 81,600 |
| Cash paid during the year for taxes | \$ - | \$ - |

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, 2024

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 2023-2024 school year, with an enrollment of approximately 70 students in grades 6, 7 and 8. (2022-2023: 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 comparative data of 2023 financial statements reflects 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

FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (ASU 2016-13), which requires entities to use a new impairment model referred to as the current expected credit losses (CECL) model rather than incurred losses. The new standard affects accounting for loans, accounts (trade) receivable, held-to-maturity debt securities, and other financial assets included in the scope. For non-public entities, the new standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The School adopted the ASU 2016-13 with the date of initial application of July 1, 2023 and the adoption did not have a material impact on the financial statements.

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, 2024.

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, 2024. 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.

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, 2024, 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 - *3 years*

Computers and equipment - *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.

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, 2024 cannot be ascertained. Management believes that the final outcome of these matters will not have a material impact on the financial statements of the School.

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, 2024, the School's initial filing, and later are subject to examination by applicable taxing authorities.

Note 3 - Fixed Assets

Fixed assets consist of the following:

| | 6/30/2024 | 6/30/2023 |
|--------------------------------|-------------------|-------------------|
| Leasehold improvements | \$ 687,754 | \$ 687,754 |
| Furniture and fixtures | 71,405 | 57,749 |
| Computers and equipment | 58,753 | 53,154 |
| | 817,912 | 798,657 |
| Less: accumulated depreciation | (206,892) | (96,893) |
| Total fixed assets, net | \$ 611,020 | \$ 701,764 |

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, 2024. 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, 2024, was 3.26%. As of June 30, 2024, the weighted average remaining lease term for the School's operating lease was 12 months.

For the year ended June 30, 2024, the total operating lease cost was \$488,893. Cash paid for the operating lease for the year ended June 30, 2024, totaled \$474,375.

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

| | | |
|--------------------------------|-----------|------------------|
| Year ending: | | |
| June 30, 2025 | \$ | 474,375 |
| June 30, 2026 | | 488,606 |
| June 30, 2027 | | 503,264 |
| June 30, 2028 | | 518,362 |
| Total lease payments | | 1,984,607 |
| Less present value discount | | (123,504) |
| Total lease obligations | \$ | 1,861,103 |

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, security deposit, and other operating costs of the School. Total proceeds from the loan agreement totaled \$1,250,000, which is fully outstanding on June 30, 2024.

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 year ended June 30, 2024 was \$81,250.

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. The School is in negotiations to extend the loan for another year.

Note 6 - Significant Concentrations

The School is dependent upon grants from public school districts to carry out its operations. Approximately 78% of the School's total public support and revenue was received from Mount Vernon and other public school districts for the year ended June 30, 2024. 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 | \$ 38,163 |
| Government grants receivable | 321,644 |
| Financial assets available to meet cash needs for general expenditures within one year | <u><u>\$ 359,807</u></u> |

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

Note 8 - Subsequent Events

Subsequent events have been evaluated through January 14, 2025, the date the financial statements were available to be issued. Adjustments and disclosures have been made for all material subsequent events that have occurred.

Note 9 - Going Concern

The School had significant losses over the periods. As a result, the statement of financial position reflects a net asset deficit balance of \$631,837 at June 30, 2024. 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.

Management acknowledges the significant losses from inception through June 30, 2024, as well as the net asset deficit of \$673,248 and the insufficient cash on hand to meet current liabilities. These financial challenges primarily stem from initial investments in program development, operational startup costs and higher facility costs, and consistent enrollment shortfalls, year over year. To address these concerns and ensure the School's financial stability moving forward, management has implemented the following measures:

The School is actively expanding student enrollment through targeted outreach programs, enhanced marketing strategies, and community partnerships, which will directly increase state funding and reduce per-student operational costs. Simultaneously, management has initiated a comprehensive expense review, identifying cost-saving opportunities without compromising educational quality. Efforts are underway to manage and refinance existing debt through lender negotiations aimed at securing favorable terms to meet debt covenants and stabilize cash flow. Additionally, management is pursuing new funding sources, including grants, philanthropic contributions, and federal/state funding, while implementing a fundraising strategy to build financial reserves for future contingencies. Operational efficiencies are being enhanced through optimized staffing models, streamlined administrative processes, and technology integration to reduce overhead costs while maintaining program excellence.

Management remains committed to addressing these financial challenges and has confidence that the strategic actions outlined above will enable the School to achieve financial stability and fulfill its mission.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of 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 year ended June 30, 2024, and the related statements of activities, functional expenses, and cash flows for year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 14, 2025.

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 2024-002 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2024-001 and 2024-003.

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.

RLN US LLP

New York, New York
January 14, 2025

Intellectus Preparatory Charter School
Schedule of Findings and Questioned Costs
June 30, 2024

Current Year:

2024-001 – Timely submission of Audited Financial Statements

Criteria: The School is required to complete and submit its audited financial statements by the established deadline of November 1, to ensure compliance with reporting timelines and regulatory expectations.

Condition: The audited financial statements were not completed and submitted by the required deadline.

Cause: The School has formally engaged us, as auditors, on October 8, 2024, which made it impossible to fulfill the deadline.

Effect: The School was not in compliance with the established reporting deadlines, which could result in regulatory non-compliance.

Recommendation: The School should finalize the books by July 31 and initiate the audit process by August 1. This timeline adjustment will facilitate the timely completion and submission of the audited financial statements in accordance with established deadlines.

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

2024-002 – 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. Several audit adjustments were needed to clean and correct accounts.

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.

Repeat finding: 2023:001

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.

Intellectus Preparatory Charter School

Schedule of Findings and Questioned Costs

June 30, 2024

2024-003 – 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.

Repeat finding: 2023:002

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

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



Corrective Action Plan

Audit Finding: 2024-001 – Timely Submission of Audited Financial Statements

Action Plan:

1. **Timeline Adjustment:**
 - Finalize the School's books by July 31 of each fiscal year.
 - Engage auditors by August 1 to initiate the audit process and allow adequate time for completion.
2. **Engagement of New Back-Office Provider:**
 - Contract with a new back-office service provider by June 2025 to ensure timely financial reporting, compliance with accounting standards, and adherence to established timelines.
3. **Transition from Former Auditor:**
 - The School's former auditor, Sax LLP, informed the School of their disengagement via email on August 22, 2024, citing increased audit fee costs and their inability to conduct the audit at "a fee that makes sense for the School's budget and financial circumstances." This unexpected timing contributed to delays in engaging a new auditor and completing the audit process.
 - To prevent similar situations in the future, the School will:
 - Require any external service provider to provide a minimum of 90 days' notice before disengagement.
 - Confirm engagement services for auditors no later than **June 30th** of each fiscal year to allow adequate preparation time.
4. **Resource Allocation:**
 - Designate a dedicated finance team member to coordinate with the back-office provider and oversee the preparation of financial statements.
5. **Monitoring and Compliance:**
 - Establish an internal timeline and checklist to monitor progress against deadlines, ensuring timely submission.
 - Hold bi-weekly meetings with the finance team and back-office provider to track audit progress.
6. **Training and Support:**
 - Provide training for finance staff to collaborate effectively with the new back-office provider.

Anticipated Completion date: June 30, 2025

Official Responsible: Kenyah Miller, CEO/Executive Director



Audit Finding: 2024-002 – Account Analysis

Action Plan:

1. **Monthly Reconciliation:**
 - Perform monthly bank reconciliations, review balance sheet accounts, and close accounts within three weeks of month-end.
 - Ensure all expenses are properly coded to grants and other appropriate categories.
2. **Engagement of New Back-Office Provider:**
 - Partner with a new back-office service provider by June 2025 to ensure monthly reconciliations and account analyses are performed accurately and on time. The provider will take responsibility for managing critical financial processes such as balance sheet reviews, bank reconciliations, and grant expense coding.
3. **Standard Operating Procedures (SOPs):**
 - Develop SOPs for financial close processes, including a detailed checklist for account analyses and reconciliations.
4. **System and Process Enhancements:**
 - Leverage the expertise and tools of the new back-office provider to streamline monthly reconciliations and reporting.
5. **Staff Accountability:**
 - Assign specific tasks to finance team members with clear deadlines in collaboration with the back-office provider.
 - Introduce a tracking system for monthly reconciliations and adjustments.
6. **Oversight:**
 - Conduct monthly reviews by senior management to ensure compliance and address discrepancies.

Anticipated Completion date: June 30, 2025

Official Responsible: Kenyah Miller, CEO/Executive Director



Audit Finding: 2024-003 – Minimum Escrow Account Balances

Action Plan:

1. **Financial Planning:**
 - Incorporate the required \$75,000 escrow account balance into the 2025-2026 budget.
 - Identify cost-saving measures and revenue-generating opportunities to fund the account.
2. **Gradual Funding Approach:**
 - Deposit \$6,250 monthly into the escrow account starting no later than September 2025, ensuring the \$75,000 minimum balance is achieved by August 31, 2026.
3. **Compliance Monitoring:**
 - Establish regular monitoring of the escrow account to ensure compliance with State University of New York requirements.
 - Include the escrow account in monthly financial reviews and board reports.
4. **Communication with Stakeholders:**
 - Notify the State University of New York of the funding plan and provide quarterly updates until the account is fully funded.

Anticipated Completion date: June 30, 2025

Official Responsible: Kenyah Miller, CEO/Executive Director