

International Leadership Charter School

Financial Statements

June 30, 2014 and 2013

International Leadership Charter School

Financial Statements
June 30, 2014 and 2013

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Independent Auditors' Report

**Board of Trustees
International Leadership Charter School**

Report on the Financial Statements

We have audited the accompanying financial statements of International Leadership Charter School (the "Charter School"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Leadership Charter School as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014 on our consideration of International Leadership Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 International Leadership Charter School's internal control over financial reporting and compliance.

O'Connor Davies, LLP

October 22, 2014

International Leadership Charter School

Statements of Financial Position

	June 30,	
	2014	2013
		(Restated)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 754,306	\$ 721,677
Accounts receivable	92,406	87,441
Prepaid expenses	934	54,233
Funds held in escrow and other deposits	142,737	142,737
Total Current Assets	990,383	1,006,088
Restricted cash held by trustee	11,516,495	14,587,670
Property and equipment, net	7,614,455	4,185,856
	\$ 20,121,333	\$ 19,779,614
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 917,647	\$ 332,090
Line of credit payable	100,000	100,000
Bonds payable - short term	265,000	-
Due to Charter School Institute	100,000	100,000
Total Current Liabilities	1,382,647	532,090
Bonds payable - long term	17,485,000	17,750,000
Total Liabilities	18,867,647	18,282,090
Net Assets - Unrestricted	1,253,686	1,497,524
	\$ 20,121,333	\$ 19,779,614

See notes to financial statements

International Leadership Charter School

Statements of Activities

	Year Ended June 30,	
	<u>2014</u>	<u>2013</u>
REVENUE AND SUPPORT		
Public School District -		
State and local per pupil operating revenue	\$ 4,135,551	\$ 4,157,584
Government grants and contracts	211,741	386,657
Contributions	56,432	5,495
Other income	42,549	34,248
Total Revenue and Support	<u>4,446,273</u>	<u>4,583,984</u>
EXPENSES		
Education services	3,687,992	3,287,158
Management and general	1,002,119	854,848
Total Expenses	<u>4,690,111</u>	<u>4,142,006</u>
Change in Net Assets	(243,838)	441,978
NET ASSETS		
Beginning of year, restated	<u>1,497,524</u>	<u>1,055,546</u>
End of year	<u>\$ 1,253,686</u>	<u>\$ 1,497,524</u>

See notes to financial statements

International Leadership Charter School

Statements of Cash Flows

	Year ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (243,838)	\$ 441,978
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	40,025	46,892
Changes in operating assets and liabilities		
Accounts receivable	(4,965)	22,820
Prepaid expenses	53,299	(53,299)
Accounts payable and accrued expenses	585,557	58,526
Net Cash from Operating Activities	430,078	516,917
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(3,468,624)	(952,879)
Deposits into (withdrawals from) restricted account held by trustee	3,071,175	(14,587,670)
Net Cash from Investing Activities	(397,449)	(15,540,549)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of short term borrowing	-	(1,900,000)
Payment of long term borrowing	-	(1,000,000)
Proceeds from bonds	-	17,750,000
Net Cash from Financing Activities	-	14,850,000
Net Change in Cash and Cash Equivalents	32,629	(173,632)
CASH AND CASH EQUIVALENTS		
Beginning of year	721,677	895,309
End of Year	\$ 754,306	\$ 721,677
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid, including capitalized interest	\$ 466,860	\$ 169,745
Capitalized interest	\$ 332,340	\$ -

See notes to financial statements

International Leadership Charter School

Notes to Financial Statements
June 30, 2014 and 2013

1. **Organization and Tax Status**

The International Leadership Charter School (the "Charter School") is an educational corporation that operates in the borough of the Bronx, New York City. On January 10, 2006, the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration. On January 11, 2011, the Board of Regents of the University of the State of New York extended the provisional charter, and any amendments thereto, up to and including June 30, 2015.

The Charter School's mission is to provide a rigorous curriculum in a disciplined environment and supportive community where students are academically and socially prepared to excel in demanding college and university settings. During the fiscal year ended June 30, 2014, the Charter School operated classes for students in grades 9 through 12.

The Charter School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

2. **Summary of Significant Accounting Policies**

Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") as applicable to not-for-profit organizations.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Charter School considers all highly liquid investments, with a maturity of three months or less at the time of purchase to be cash equivalents. Included in cash and cash equivalents is a reserve fund of \$70,000 to cover debts in the event of the Charter School's dissolution.

Restricted Cash and Cash Equivalents

Bond proceeds are deposited into an interest bearing account and are stated at cost which approximates fair value. The restricted account is held by an independent trustee, and disbursements are made in accordance with the provisions of the bond issue.

International Leadership Charter School

Notes to Financial Statements
June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (*continued*)

Allowance for Uncollectible Accounts

Management evaluates outstanding receivables for collectability on a periodic basis. Where the Charter School is aware of any circumstances that lead to doubt about the collectability of receivables, including the length of time past due, historical payment information, subsequent collections and communications with the grantor or contributor, the Charter School establishes an allowance for uncollectible. No such allowance was established for the years ended June 30, 2014 and 2013.

Property and Equipment

Property and equipment is recorded at cost. Additions and improvements or betterments in excess of \$1,000 with an estimated useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or term of the related lease. Property and equipment acquired with certain government contract funds are recorded as expenses when the government retains title to such assets. Construction costs are accumulated while a construction project is in progress, and is not depreciated until such project is completed and ready for occupancy.

Net Asset Presentation

The net assets of the Charter School and changes therein are classified as unrestricted, temporarily restricted and permanently restricted based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets represent contributions with donor imposed restrictions that have not yet been satisfied or are time restricted. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Permanently restricted net assets are those which are established by donor gifts to provide a permanent endowment. There were no temporarily or permanently restricted net assets at June 30, 2014 and 2013.

Revenue Recognition

Revenue from state and local governments resulting from the Charter School's charter status is based on the number of students enrolled, and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts is recognized by the Charter School when qualifying expenditures are incurred.

International Leadership Charter School

Notes to Financial Statements
June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (*continued*)

Contributions and Unconditional Promises to Give

Contributions received and unconditional promises to give are measured at their fair values when received and are classified as unrestricted, temporarily restricted, or permanently restricted support. If donor restrictions are met within the same reporting period as when the contribution was made, those contributions are recorded as unrestricted support.

In-Kind Contributions

The Charter School follows U.S. GAAP guidance on accounting for contributions received and contributions made. Accordingly, contributed services are recognized as revenue and assets or expenses at fair value if those services (a) create or enhance nonfinancial assets, (b) would typically need to be purchased by the Charter School if they had not been provided by contribution; or (c) require specialized skills and are provided by individuals with those skills.

A number of volunteers have made a contribution of their time to the Charter School to develop its programs and to serve on the Charter School's board of trustees. The value of such contributed time is not reflected in these financial statements because it does not meet the criteria for recognition.

Accounting For Uncertainty in Income Taxes

The Charter School recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Charter School has no uncertain tax positions that would require financial statement recognition or disclosure. The Charter School is no longer subject to audits by the applicable taxing jurisdictions for periods prior to fiscal 2011.

Functional Expenses

Expenses are classified according to the functional categories for which they are incurred, as follows:

Education services – expenses directly associated with general education and special education for certain students requiring additional attention and guidance.

Management and general – expenses related to the overall administration and operation of the Charter School that are not associated with any education services or fundraising.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 22, 2014 and has accounted for or disclosed such events, as appropriate, in these financial statements.

International Leadership Charter School

Notes to Financial Statements
June 30, 2014 and 2013

3. Concentration of Credit Risk

The Charter School maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. The Charter School has not experienced any losses in these accounts.

4. Economic Dependency

The Charter School receives a majority of its revenues from the New York State Education Department through the New York City Department of Education. The New York State Education Department provides general operating support to the Charter School based upon the location and the number of students enrolled. Per pupil General Education and Special Education support provided to the Charter School totaled \$4,135,551 and \$4,157,584 for the years ended June 30, 2014 and 2013. The Charter School is dependent upon this level of funding in order to continue its operations.

5. Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 2,530,000	\$ 2,530,000
Computers and other equipment	145,121	313,601
Furniture and fixtures	57,642	57,642
Leasehold improvements	836,030	836,030
Construction in progress	<u>5,007,753</u>	<u>1,551,379</u>
	8,576,546	5,288,652
Accumulated depreciation	<u>(962,091)</u>	<u>(1,102,796)</u>
	<u>\$ 7,614,455</u>	<u>\$ 4,185,856</u>

Land pertains to two contiguous parcels of land on 322 West 231st Street in the Bronx, New York, which will house the site of the Charter School's future educational facility, which is currently under construction and is recorded as construction in progress above, with targeted completion and occupancy in academic year 2015-2016. The facility, which will be a 28,500 square foot, three-story state-of-the-art building that will contain 17 classrooms and nine flex rooms, supporting student activities and development space, and with the capacity to accommodate approximately 400 students, increasing the school's current enrollment capacity by 28%.

Depreciation expense for the years ended June 30, 2014 and 2013 was \$40,025 and \$46,892, respectively.

International Leadership Charter School

Notes to Financial Statements
June 30, 2014 and 2013

6. Long Term Debt

On March 21, 2013, Build NYC Resource Corporation issued Build NYC Resource Corporation Revenue Bonds, Series 2013 (International Leadership Charter School Project) (the "Bonds") to the Charter School in the amount of \$17,750,000, with principal amounts, interest rates and maturity dates as follows:

<u>Principal Amounts</u>	<u>Interest Rates</u>	<u>Due Dates</u>
\$ 2,920,000	5.00%	July 1, 2023
5,360,000	5.75%	July 1, 2033
9,470,000	6.00%	July 1, 2043
<u>\$ 17,750,000</u>		

The proceeds from the sale of the Bonds, together with other available funds, were used to (1) refinance or reimburse the Charter School for certain costs of acquiring, constructing, renovating, equipping and furnishing its future educational facility; (2) fund the Debt Service Reserve Fund established under the indenture in an amount equal to the Debt Service Reserve Fund Requirement of the Bonds; (3) cover interest on the Bonds during construction for a period of sixteen months; and (4) pay certain costs of issuing the Series 2013 Bonds.

The Bonds are secured by the pledge and assignment to the Trustee of the Trust Estate for the benefit of the holders of the Bonds. The obligations of the Charter School under the loan agreement are secured by the mortgages assigned to the Trustee for the benefit of the holders of the Bonds.

Interest on the bonds is payable initially on July 1, 2013 and semiannually thereafter on each January 1st and July 1st computed on the basis of a 360-day year of twelve 30-day months. The amount of interest that was capitalized as it related to the financing of the Charter School's facility was \$332,340 for the year ended June 30, 2014.

Principal and interest payments due on the Bonds by fiscal year are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 265,000	\$ 1,022,400	\$ 1,287,400
2016	280,000	1,009,150	1,289,150
2017	290,000	995,150	1,285,150
2018	305,000	980,650	1,285,650
2019	320,000	965,400	1,285,400
2020 and thereafter	<u>16,290,000</u>	<u>14,608,363</u>	<u>30,898,363</u>
	<u>\$ 17,750,000</u>	<u>\$ 19,581,113</u>	<u>\$ 37,331,113</u>

In addition, the Charter School has borrowings on an outstanding line of credit with the Bank for \$100,000, with an annual percentage rate of 4%, which is fully utilized as of June 30, 2014 and 2013.

Interest expense on these bonds, promissory notes and line of credit borrowings was \$694,060 and \$169,745 for the years ended June 30, 2014 and 2013, respectively.

International Leadership Charter School

Notes to Financial Statements
June 30, 2014 and 2013

7. Commitments

The Charter School had an operating lease in a commercial facility in the Bronx, New York, for its administrative offices and instructional location that expired on August 15, 2011. The lease agreement included an option to extend the lease for another five-year period. Since August 16, 2011, the Charter School entered into a month-to-month arrangement while in the process of negotiating an agreement to extend the lease for an additional eighteen months. The monthly lease payment is \$52,049, which is subject to an annual consumer price index escalation adjustment until a new lease is negotiated and finalized.

8. Contingencies

Certain grants and contracts are subject to audit by funding sources. Such audits may result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements.

The reported amount due to the Charter School Institute ("CSI") is a loss contingency that arose regarding an assessment made by CSI in 2009. The assessment relates to a grant that the Charter School received from CSI in 2008. In 2009, CSI sought repayment of the grant due to an error on the part of the Charter School in the grant application, which error was made in good faith. Following settlement discussions between the Charter School and CSI, the parties have reached a tentative oral agreement pursuant to which the Charter School would pay \$100,000 to CSI to resolve this matter. The foregoing settlement is not binding and is subject to final approval on the part of CSI. As of October 22, 2014, there has been no executed settlement agreement.

9. Retirement Plans

The Charter School maintains a deferred compensation plan for all qualified employees. The Charter School elects to make contributions to the plan on a discretionary basis. For the years ended June 30, 2014 and 2013, the Charter School had not contributed to the plan.

10. Prior Period Adjustment

The accompanying financial statements for the year ended June 30, 2013 have been restated to adjust for amounts due to CSI. The net effect of the restatement on each financial statement category is as follows:

	<u>Previously Reported</u>	<u>Prior Period Adjustments</u>	<u>Restated Amount</u>
<u>Statement of Financial Position</u>			
Due to Charter School Institute	\$ -	\$ 100,000	\$ 100,000
Net Assets - unrestricted	1,597,524	(100,000)	1,497,524
<u>Statement of Activities</u>			
Net Assets - beginning of year	1,255,546	(100,000)	1,155,546

* * * * *

**International Leadership Charter School
Supplementary Information**

International Leadership Charter School

Schedule of Functional Expenses
 Year Ended June 30, 2014
 (With summarized totals for the year ended June 30, 2013)

	Education	Management	Totals	
	Services	and General	2014	2013
Salaries	\$ 942,351	\$ 249,047	\$ 1,191,398	\$ 1,285,865
Payroll taxes and benefits	512,832	135,532	648,364	694,739
Curricula and books	90,925	-	90,925	10,327
Instructional supplies and equipment	63,415	-	63,415	62,229
Student meals	141,483	-	141,483	143,961
Contractual services	57,890	15,299	73,189	33,276
Professional services	186,553	49,302	235,855	283,392
Marketing and recruiting	-	105,630	105,630	43,334
Office supplies	39,530	10,447	49,977	46,786
Postage, printing and subscriptions	18,490	4,887	23,377	27,226
Rent	494,025	130,562	624,587	624,588
Utilities	93,952	24,830	118,782	106,743
Security	50,296	13,292	63,588	72,671
Facility maintenance and equipment	98,464	26,022	124,486	5,790
Insurance	77,508	20,484	97,992	46,847
Travel	23,796	6,289	30,085	33,999
Professional development	134,878	35,646	170,524	196,864
Local taxes	-	-	-	55,477
Interest expense	548,976	145,084	694,060	169,745
Depreciation	31,658	8,367	40,025	46,892
Other expenses	80,970	21,399	102,369	151,255
Totals	<u>\$ 3,687,992</u>	<u>\$ 1,002,119</u>	<u>\$ 4,690,111</u>	<u>\$ 4,142,006</u>

See independent auditors' report

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

Independent Auditors' Report

**Board of Trustees
International Leadership 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 International Leadership Charter School (the "Charter School"), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Charter School's internal control over financial reporting (internal control) to determine the 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 Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness the Charter School's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

O'Connor Davies, LLP

October 22, 2014