

**INTERNATIONAL LEADERSHIP
CHARTER HIGH SCHOOL**

BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2019

(With Comparative Totals For 2018)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
International Leadership Charter High School

Report on the Financial Statements

We have audited the accompanying financial statements of International Leadership Charter High School, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 High School as of June 30, 2019, 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.

Report on Summarized Comparative Information

We have previously audited International Leadership Charter High School's June 30, 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 1, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2019 on our consideration of International Leadership Charter High School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 High School's internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
November 1, 2019

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

(With Comparative Totals For 2018)

| <u>ASSETS</u> | <u>June 30,</u> | |
|---|----------------------|----------------------|
| | <u>2019</u> | <u>2018</u> |
| <u>CURRENT ASSETS</u> | | |
| Cash | \$ 403,873 | \$ 71,488 |
| Grants and other receivables | - | 341,857 |
| Prepaid expenses | <u>34,001</u> | <u>45,208</u> |
| TOTAL CURRENT ASSETS | 437,874 | 458,553 |
| <u>PROPERTY AND EQUIPMENT</u> | | |
| Building | 17,939,969 | 17,910,505 |
| Land | 2,530,000 | 2,530,000 |
| Furniture and fixtures | 292,309 | 292,309 |
| Computers and equipment | <u>149,654</u> | <u>131,801</u> |
| | 20,911,932 | 20,864,615 |
| Less accumulated depreciation and amortization | <u>1,922,573</u> | <u>1,409,022</u> |
| | 18,989,359 | 19,455,593 |
| <u>OTHER ASSETS</u> | | |
| Restricted cash | 3,080,371 | 2,788,286 |
| Cash in escrow | 75,222 | 75,222 |
| Security deposit | <u>130,599</u> | <u>130,599</u> |
| | <u>3,286,192</u> | <u>2,994,107</u> |
| TOTAL ASSETS | <u>\$ 22,713,425</u> | <u>\$ 22,908,253</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| <u>CURRENT LIABILITIES</u> | | |
| Accounts payable | \$ 645,372 | \$ 672,998 |
| Accrued expenses | 126,084 | 118,241 |
| Accrued interest payable | 582,202 | 591,377 |
| Due to officer | - | 4,250 |
| Line of credit | 43,513 | 94,952 |
| Bonds payable - current portion | 425,000 | 365,000 |
| Deferred revenue | <u>169,578</u> | <u>3,334</u> |
| TOTAL CURRENT LIABILITIES | 1,991,749 | 1,850,152 |
| <u>OTHER LIABILITIES</u> | | |
| Bonds payable, net of unamortized bond issuance costs | <u>18,538,071</u> | <u>18,929,304</u> |
| TOTAL LIABILITIES | 20,529,820 | 20,779,456 |
| <u>NET ASSETS</u> , without donor restrictions | <u>2,183,605</u> | <u>2,128,797</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 22,713,425</u> | <u>\$ 22,908,253</u> |

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2019
(With Comparative Totals For 2018)

| | <u>Without donor restrictions</u> | |
|---|-----------------------------------|---------------------|
| | <u>Year ended June 30,</u> | |
| | <u>2019</u> | <u>2018</u> |
| Revenue, gains, and other support: | | |
| Public school district | | |
| Resident student enrollment | \$ 5,418,789 | \$ 4,928,365 |
| Students with disabilities | 250,480 | 474,609 |
| Grants and contracts | | |
| State and local | 2,123 | - |
| Federal - Title and IDEA | 312,870 | 255,394 |
| Federal - Other | 4,339 | - |
| | <u>5,988,601</u> | <u>5,658,368</u> |
| TOTAL REVENUE, GAINS AND OTHER SUPPORT | | |
| Expenses: | | |
| Program services: | | |
| Regular education | 4,008,353 | 3,402,541 |
| Special education | 821,185 | 748,349 |
| | <u>4,829,538</u> | <u>4,150,890</u> |
| TOTAL PROGRAM SERVICES | | |
| Management and general | 1,166,777 | 1,588,867 |
| | <u>5,996,315</u> | <u>5,739,757</u> |
| TOTAL OPERATING EXPENSES | | |
| | (7,714) | (81,389) |
| DEFICIT FROM SCHOOL OPERATIONS | | |
| Support and other revenue: | | |
| Contributions | 21,937 | - |
| Interest income | 35,941 | 5,809 |
| Miscellaneous income | 4,644 | 79,463 |
| | <u>62,522</u> | <u>85,272</u> |
| TOTAL SUPPORT AND OTHER REVENUE | | |
| | 54,808 | 3,883 |
| CHANGE IN NET ASSETS | | |
| Net assets at beginning of year | 2,128,797 | 2,124,914 |
| | <u>\$ 2,183,605</u> | <u>\$ 2,128,797</u> |
| NET ASSETS AT END OF YEAR | | |

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019
 (With Comparative Totals For 2018)

| | Year ended June 30, | | | | | | | | |
|--|---------------------|---------------------|-------------------|------------------------|--------------------------------|-------------|---------------------|---------------------|---------------------|
| | 2019 | | | | | | | 2018 | |
| | Number of positions | Program Services | | | Supporting Services | | | Total | Total |
| Regular Education | | Special Education | Sub-total | Management and general | Fundraising and special events | Sub-Total | | | |
| Personnel services costs: | | | | | | | | | |
| Administrative staff personnel | 12 | \$ 470,781 | \$ 117,695 | \$ 588,476 | \$ 196,159 | \$ - | \$ 196,159 | \$ 784,635 | \$ 692,667 |
| Instructional personnel | 26 | 1,024,212 | 189,078 | 1,213,290 | - | - | - | 1,213,290 | 1,099,509 |
| TOTAL SALARIES AND STAFF | 38 | 1,494,993 | 306,773 | 1,801,766 | 196,159 | - | 196,159 | 1,997,925 | 1,792,176 |
| Fringe benefits & payroll taxes | | 196,592 | 49,148 | 245,740 | 81,913 | - | 81,913 | 327,653 | 296,207 |
| Retirement | | 476 | 119 | 595 | 198 | - | 198 | 793 | 730 |
| Legal Service | | - | - | - | 119,938 | - | 119,938 | 119,938 | 131,142 |
| Accounting / audit services | | - | - | - | 152,129 | - | 152,129 | 152,129 | 124,159 |
| Other purchased / professional / consulting services | | 310,820 | 77,705 | 388,525 | 129,509 | - | 129,509 | 518,034 | 479,828 |
| Building and land rent / lease / facility finance interest | | 818,280 | 151,062 | 969,342 | 242,336 | - | 242,336 | 1,211,678 | 1,224,361 |
| Repairs & maintenance | | 49,564 | 9,150 | 58,714 | 14,678 | - | 14,678 | 73,392 | 131,630 |
| Insurance | | 77,930 | 19,482 | 97,412 | 32,471 | - | 32,471 | 129,883 | 124,296 |
| Utilities | | 59,198 | 10,929 | 70,127 | 17,532 | - | 17,532 | 87,659 | 101,393 |
| Supplies / materials | | 103,506 | 19,108 | 122,614 | - | - | - | 122,614 | 75,719 |
| Equipment / furnishings | | 11,533 | 2,883 | 14,416 | 4,805 | - | 4,805 | 19,221 | 21,012 |
| Staff development | | 65,666 | 16,416 | 82,082 | 27,361 | - | 27,361 | 109,443 | 116,780 |
| Marketing / recruitment | | 38,259 | 7,063 | 45,322 | - | - | - | 45,322 | 26,423 |
| Technology | | 44,991 | 11,248 | 56,239 | 18,747 | - | 18,747 | 74,986 | 83,773 |
| Food service | | 200,486 | 37,012 | 237,498 | - | - | - | 237,498 | 277,452 |
| Student services | | 126,147 | 23,288 | 149,435 | - | - | - | 149,435 | 117,257 |
| Office expense | | 44,845 | 11,211 | 56,056 | 18,686 | - | 18,686 | 74,742 | 96,188 |
| Depreciation | | 346,815 | 64,025 | 410,840 | 102,711 | - | 102,711 | 513,551 | 497,389 |
| Other | | 18,252 | 4,563 | 22,815 | 7,604 | - | 7,604 | 30,419 | 21,842 |
| | | <u>\$ 4,008,353</u> | <u>\$ 821,185</u> | <u>\$ 4,829,538</u> | <u>\$ 1,166,777</u> | <u>\$ -</u> | <u>\$ 1,166,777</u> | <u>\$ 5,996,315</u> | <u>\$ 5,739,757</u> |

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2019
(With Comparative Totals For 2018)

| | <u>Year ended June 30,</u> | |
|---|----------------------------|------------------|
| | <u>2019</u> | <u>2018</u> |
| <u>CASH FLOWS - OPERATING ACTIVITIES</u> | | |
| Change in net assets | \$ 54,808 | \$ 3,883 |
| Adjustments to reconcile change in net assets to net cash provided from operating activities: | | |
| Depreciation | 513,551 | 497,389 |
| Amortization of bond issuance costs included in interest expense | 33,767 | 33,767 |
| Contribution of amount due to officer | (4,250) | - |
| Changes in certain assets and liabilities affecting operations: | | |
| Grants and other receivables | 341,857 | (92,730) |
| Prepaid expenses | 11,207 | (45,208) |
| Accounts payable | (35,440) | 230,064 |
| Accrued expenses | 7,843 | 21,304 |
| Accrued interest payable | (9,175) | (6,854) |
| Deferred revenue | 166,244 | (271,873) |
| NET CASH PROVIDED FROM OPERATING ACTIVITIES | 1,080,412 | 369,742 |
| <u>CASH FLOWS - INVESTING ACTIVITIES</u> | | |
| Purchases of property and equipment | (39,503) | (56,506) |
| (Increase) decrease in restricted cash | (292,085) | 16,978 |
| Increase in cash in escrow | - | (5,172) |
| NET CASH USED FOR INVESTING ACTIVITIES | (331,588) | (44,700) |
| <u>CASH FLOWS - FINANCING ACTIVITIES</u> | | |
| Repayments on line of credit | (51,439) | (3,866) |
| Repayment of bonds payable | (365,000) | (290,000) |
| NET CASH USED FOR FINANCING ACTIVITIES | (416,439) | (293,866) |
| NET INCREASE IN CASH | 332,385 | 31,176 |
| Cash at beginning of year | 71,488 | 40,312 |
| CASH AT END OF YEAR | <u>\$ 403,873</u> | <u>\$ 71,488</u> |

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2019
(With Comparative Totals For 2018)

| | <u>Year ended June 30,</u> | |
|---|----------------------------|---------------------|
| | <u>2019</u> | <u>2018</u> |
| <u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u> | | |
| Cash paid for interest | <u>\$ 1,206,655</u> | <u>\$ 1,188,817</u> |
| <u>NON-CASH OPERATING AND INVESTING ACTIVITY</u> | | |
| Property and equipment purchases included in accounts payable | <u>\$ 7,814</u> | <u>\$ 258,853</u> |
| <u>NON-CASH OPERATING AND FINANCING ACTIVITY</u> | | |
| Contribution of amount due to officer | <u>\$ 4,250</u> | <u>\$ -</u> |

The accompanying notes are an integral part of the financial statements.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2019

(With Comparative Totals For 2018)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

International Leadership Charter High School (the “Charter School”), is an education corporation operating as a charter school in Bronx, New York. The Charter School opened in 2006 with a charter granted by the New York City Department of Education. On June 10, 2015, the New York City Department of Education granted the Charter School a provisional charter valid for a term of five years through June 30, 2020 and renewable upon expiration. In October 2017, the Charter School’s charter was transferred to the Board of Regents of the University of the State of New York. The Charter School’s provisional charter under the Board of Regents of the University of the State of New York is valid through June 30, 2020 and is renewable upon expiration.

The Charter School’s mission is to prepare the young men and women of the Bronx for not only the demands of higher education, but also for leading lives of meaning. This teaching philosophy provides powerful learning experiences that stress engagement, discovery, and the active application of learning to the world around us.

Classification of net assets

To ensure observance of limitations and restrictions placed on the use of resources available to the Charter School, the accounts of the Charter School are maintained in accordance with the principles of accounting for not-for-profit organizations. This is the procedure by which resources are classified for reporting purposes into net asset groups, established according to their nature and purpose. Accordingly, all financial transactions have been recorded and reported by net asset group.

The assets, liabilities, activities, and net assets are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Board of Trustees has discretionary control to use these in carrying on operations in accordance with the guidelines established by International Leadership Charter High School.

Net Assets With Donor Restrictions

Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Charter School had no net assets with donor restrictions at June 30, 2019 or 2018.

Revenue and support recognition

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

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

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Cont'd

Contributions are recognized as revenue in the year the pledge is received and documented.

Contributions

Contributions received are recorded in the appropriate class of net assets depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as revenue without donor restrictions.

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash

Cash balances are maintained at a financial institution located in New York and are insured by the FDIC up to \$250,000 at that institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Cash in escrow

The Charter School maintains cash in an escrow account in accordance with the terms of its charter agreement. The amount in escrow was \$75,222 at both June 30, 2019 and 2018. The escrow funds are restricted to fund legal and other costs related to the dissolution of the Charter School, should this become necessary.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2019 or 2018.

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives which range from five to thirty-nine years.

Security deposits

The Charter School was party to a lease agreement that expired in August 2016. As part of the lease agreement, the Charter School remitted \$142,737 to the landlord as a security deposit. At the conclusion of the lease in August 2016, \$16,338 was applied to various expenses charged by the landlord. The remaining balance of \$126,399 is due from the landlord. The Charter School will pursue legal action for the return of the security deposit, and therefore, no allowance has been recorded.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Cont'd

Bond issuance costs

Bond issuance costs, which consist of deferred financing charges, are stated at cost and are amortized over the term of the bonds which vary from 5 to 30 years through various dates up to July 2046.

Deferred revenue

The Charter School records grant revenue as deferred revenue until it is expended for the purpose of the grant at which time it is recognized as revenue.

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2016 through June 30, 2019 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly, it has not recognized any liability for unrecognized tax benefits.

Contributed services

The Charter School receives contributed services from volunteers to serve on the Board of Trustees. In addition, the Charter School received transportation services that were provided for the students by the local district. The Charter School was unable to determine a value for these services.

Marketing and recruiting costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs were \$45,322 and \$26,423 for the years ended June 30, 2019 and 2018, respectively.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparatives for year ended June 30, 2018

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Cont'd

Change in accounting principle

During August 2016 FASB issued Accounting Standards Update No. 2016-14 “*Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*”. The main provisions of ASU 2016-14 require a Not-For-Profit (NFP) to:

- 1) Present on the face of the balance sheet amounts for two classes of net assets at the end of the period, rather than for the currently required three classes. That is, an NFP will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*, as well as the currently required amount for total net assets.
- 2) Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted in item 1) rather than that of the required three classes as in prior years. An NFP would continue to report the currently required amount of the change in total net assets for the period.
- 3) Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
- 4) Provide enhanced disclosures about:
 - a) Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
 - b) Qualitative information that communicates how an NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.
 - c) Quantitative information, and additional qualitative information, that communicates the availability of an NFP’s financial assets at the balance sheet date to meet cash needs for general expenditures within one year of the balance sheet date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by governing board decisions.
 - d) Amounts of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location.
 - e) Method(s) used to allocate costs among program and support functions.

ASU 2016-14 is effective for financial statements beginning after December 15, 2017 and was applied retrospectively except for disclosures regarding liquidity and availability of resources, which are presented only for the current year. There was no effect on total assets or changes in net assets. The Charter School has adopted the amendments effective July 1, 2018.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

Cont'd

New accounting pronouncements

Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued a new standard related to revenue recognition. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. For nonpublic entities, the guidance in this new standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Charter School is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Charter School's financial position or results of operations.

Leases

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among entities by requiring the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. For nonpublic entities, the guidance in this new standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Recently an exposure draft was issued that would delay the ASU from the initial timetable to take effect for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. The Charter School is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Charter School's financial position or results of operations.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through November 1, 2019, which is the date the financial statements are available to be issued. Except as described in Note G, no subsequent events requiring disclosure were noted.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

NOTE B: LIQUIDITY AND AVAILABILITY

The Charter School regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Charter School's main source of liquidity is its cash accounts.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Charter School considers all expenditures related to its ongoing activities of education and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Charter School operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The Charter School also has available a \$100,000 line of credit, with remaining availability of approximately \$56,000 at June 30, 2019, to use if necessary.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2019:

| | |
|--|-------------------|
| | <u>Amount</u> |
| Cash | <u>\$ 403,873</u> |
| Total financial assets available to management for general expenditures within one year | <u>\$ 403,873</u> |

A portion of the bond fund detailed in Note E will be used to pay the bond payment due in July 2019 as described in Note G.

NOTE C: NET ASSETS

Net assets without donor restrictions are as follows:

| | <u>June 30,</u> | |
|---|---------------------|---------------------|
| | <u>2019</u> | <u>2018</u> |
| Undesignated | \$ 2,157,317 | \$ 1,967,508 |
| Invested in property and equipment, net of related debt | <u>26,288</u> | <u>161,289</u> |
| | <u>\$ 2,183,605</u> | <u>\$ 2,128,797</u> |

NOTE D: RELATED PARTY TRANSACTIONS

The Charter School received an advance of \$8,000 from the chief executive officer during the year ended June 30, 2017. The advance was non-interest bearing and had no set repayment terms. During the year ended June 30, 2019, the related party forgave the remaining amount due as a contribution to the Charter School. At June 30, 2018, \$4,250 was due to the related party.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

NOTE E: RESTRICTED CASH

In accordance with the loan agreements for the 2013 and 2016 Bonds described at Note G, the Charter School is required to maintain certain reserves. The following is a summary of the fund reserves held at June 30, 2019 and 2018:

| | <u>June 30,</u> | |
|-----------------------------|---------------------|---------------------|
| | <u>2019</u> | <u>2018</u> |
| Bond fund | \$ 1,023,074 | \$ 902,370 |
| Earnings fund | 18,388 | 14,372 |
| Project fund | 307,629 | 307,381 |
| Reserve fund | 1,582,308 | 1,564,163 |
| Repair and replacement fund | 148,972 | - |
| | <u>\$ 3,080,371</u> | <u>\$ 2,788,286</u> |

NOTE F: LINE OF CREDIT

The Charter School has a \$100,000 line of credit agreement with a bank. The line of credit calls for an annual interest rate equal to the Wall Street Journal Prime Rate plus .75% for an effective rate of 6.25% at June 30, 2019. At June 30, 2019 and 2018, there was \$43,513 and \$94,952 respectively, outstanding under this arrangement.

NOTE G: BONDS PAYABLE

On March 21, 2013, Build NYC Resource Corporation provided construction and permanent financing through the issuance of \$17,750,000 in Tax-Exempt Revenue Bonds (the "Series 2013 Bonds"). Principal is due at varying amounts annual through maturity on July 1, 2043. The proceeds from the sale of the bonds, together with other available funds were used to: (i) refinance or reimburse the Charter School for certain costs of acquiring, constructing, renovating, equipping, and furnishing its future educational facility; (ii) fund the service reserve fund established under the indenture in an amount equal to the debt service reserve fund requirement of the bonds; (iii) cover interest on the bonds during construction, for a period of 16 months; and (iv) pay certain costs of issuing the Series 2013 Bonds. Interest on the bonds is payable semiannually, computed on the basis of a 360-day year of twelve 30-day months.

On July 15, 2016, Build NYC Resource Corporation provided \$2,905,000 in Tax-Exempt Revenue Bonds (the "Series 2016A Bonds"), with interest calculated at 6.25% per annum, and \$395,000 in Taxable Revenue Bonds (the "Series 2016B Bonds"), with interest calculated at 5%, for a total of \$3,300,000 (collectively, the "2016 Series Bonds"), for renovations and equipment purchases, establishing reserve accounts, and for costs related to the issuance of the bonds. Provisions of the debt provide for payments of interest only on the Series 2016A Bonds through June 2022, then principal and interest payments through maturity (July 1, 2046), payments of interest only on the Series 2016B Bonds through July 2018, and then principal and interest payments through maturity (July 1, 2021).

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

NOTE G: BONDS PAYABLE, Cont'd

Interest payments are due semi-annually on January 1 and July 1 of each year. These 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.

Bonds payable are summarized as follows:

| | <u>June 30,</u> | |
|--|----------------------|----------------------|
| | <u>2019</u> | <u>2018</u> |
| 2013 tax exempt bonds at 5.00% per annum, interest paid semiannually, principal paid annually. Bonds mature July 1, 2023. | \$ 1,780,000 | \$ 2,085,000 |
| 2013 tax exempt bonds at 5.75% per annum, interest only payments through July 2023, then interest and principal payments through maturity in July 2033. | 5,360,000 | 5,360,000 |
| 2013 tax exempt bonds at 6.00% per annum, interest only payments through July 2033, then interest and principal payments through maturity in July 2043. | 9,470,000 | 9,470,000 |
| 2016 taxable revenue bonds at 5.00% per annum, interest only payments through July 2018, then interest and principal payments through maturity in July 2021. | 335,000 | 395,000 |
| 2016 tax exempt bonds at 6.25% per annum, interest only payments through June 2022, then interest and principal payments through maturity in July 2046. | <u>2,905,000</u> | <u>2,905,000</u> |
| | 19,850,000 | 20,215,000 |
| Less unamortized bond issuance costs | <u>(886,929)</u> | <u>(920,696)</u> |
| | 18,963,071 | 19,294,304 |
| Less current portion of bonds payable | <u>425,000</u> | <u>365,000</u> |
| | <u>\$ 18,538,071</u> | <u>\$ 18,929,304</u> |

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

NOTE G: BONDS PAYABLE, Cont'd

Future maturities of bonds payable are as follows:

| <u>Year ending June 30,</u> | <u>Amount</u> |
|-----------------------------|----------------------|
| 2020 | \$ 425,000 |
| 2021 | 450,000 |
| 2022 | 475,000 |
| 2023 | 425,000 |
| 2024 | 445,000 |
| Thereafter | <u>17,630,000</u> |
| | <u>\$ 19,850,000</u> |

Under the terms of the bonds payable, the Charter School is required, among other things, to maintain certain financial covenants and operating ratios. As of June 30, 2019, the Charter School was not in compliance with certain of these covenants. By letter dated November 1, 2019, the Bond Trustee waived the requirements of these covenants for the year ended June 30, 2019.

Total bond issuance costs of \$1,029,890 are being amortized over the life of the bonds. Interest expense, inclusive of bond issuance cost amortization of \$33,767, was \$1,197,480 and \$1,215,735 for the years ended June 30, 2019 and 2018, respectively.

NOTE H: OPERATING LEASE

The Charter School leased office equipment under a non-cancelable lease which expired in December 2018. The Charter School had several other leases which expired at various dates during the year ended June 30, 2018. There was no significant lease expense for the year ended June 30, 2019. Total lease expense for the year ended June 30, 2018 was approximately \$12,000.

NOTE I: RETIREMENT PLAN

The Charter School sponsors a 403(b) retirement plan covering all regular employees. All employees are immediately eligible to begin making voluntary contributions. The Plan allows for the Charter School to make a discretionary contribution to the plan. The Charter School contributed approximately \$1,000 for the years ended June 30, 2019 and 2018.

NOTE J: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2019

(With Comparative Totals For 2018)

NOTE K: CONCENTRATIONS

At June 30, 2019, no grants or other receivables are due from New York State relating to certain grants. As of June 30, 2018, approximately 100% of grants and other receivables are due from New York State relating to certain grants.

For both of the years ended June 30, 2019 and 2018, 95% of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

NOTE L: RENEWAL PROCESS

The Charter School is currently in the process of renewing its charter as granted by the New York State Board of Regents. The charter currently expires effective June 30, 2020. The renewal process includes review by the State University of New York Charter Schools Institute ("CSI") of various operational and governance aspects, including fiscal health and internal controls, board governance, and academic performance. The Charter School has submitted its application for renewal. Upon review of the application and results, CSI will determine if the charter should be renewed and if so, for how long. Successful charter renewals can range from one to five years. At this time, management of the Charter School expects the charter to be renewed.

NOTE M: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. All expenses that are allocated to more than one program or supporting function (including salaries, benefits, purchased services, occupancy costs, and depreciation) are allocated on the basis of estimates of time, effort and usage.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL
REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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*

Board of Trustees
International Leadership Charter High School

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of International Leadership Charter High School, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated November 1, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered International Leadership Charter High 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 International Leadership Charter High School's internal control. Accordingly, we do not express an opinion on the effectiveness of International Leadership Charter High 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 International Leadership Charter High 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*.

We noted certain matters that we reported to management of International Leadership Charter High School in a separate letter dated November 1, 2019.

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.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
November 1, 2019