

International Leadership Charter School

Financial Statements

June 30, 2008 and 2007

International Leadership Charter School

June 30, 2008 and 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
International Leadership Charter School

We have audited the accompanying statement of financial position of International Leadership Charter School (a not-for-profit corporation) as of June 30, 2008 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of International Leadership Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of International Leadership Charter School as of and for the fiscal year ended June 30, 2007 were audited by other auditors whose report dated October 30, 2007, expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of International Leadership Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2008 on our consideration of International Leadership Charter School's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

O'Connor Davies Munno & Dobbins, LLP

White Plains, New York
October 16, 2008

International Leadership Charter School

Statements of Financial Position

June 30,

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 18,388	\$ 19,180
Grants Receivable	-	120,984
Due from a related party	-	36,932
Security deposits and other assets	148,850	72,669
Property and equipment, net	<u>187,710</u>	<u>218,943</u>
	<u>\$ 354,948</u>	<u>\$ 468,708</u>
 LIABILITIES AND NET DEFICIT		
Liabilities		
Accounts payable and accrued expenses	\$ 398,017	\$ 312,462
Due to a related party	41,000	-
Refundable advances	-	137,241
Deferred rent obligation	<u>-</u>	<u>80,536</u>
Total Liabilities	<u>439,017</u>	<u>530,239</u>
Net Deficit		
Unrestricted	<u>(84,069)</u>	<u>(61,531)</u>
	<u>\$ 354,948</u>	<u>\$ 468,708</u>

See notes to financial statements.

International Leadership Charter School

Statements of Activities

Years Ended June 30,

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT						
Public School District -						
State and local per pupil operating revenue	\$ 1,999,326	\$ -	\$ 1,999,326	\$ 936,224	\$ -	\$ 936,224
Government grants and contracts	285,083	-	285,083	372,044	-	372,044
Contributions	-	-	-	253,525	-	253,525
Donated services	46,534	-	46,534	100,000	-	100,000
Other income	293	-	293	167	-	167
	<u>2,331,236</u>	<u>-</u>	<u>2,331,236</u>	<u>1,661,960</u>	<u>-</u>	<u>1,661,960</u>
Net assets released from temporary restriction	-	-	-	50,000	(50,000)	-
Total Revenues and Other Support	<u>2,331,236</u>	<u>-</u>	<u>2,331,236</u>	<u>1,661,960</u>	<u>(50,000)</u>	<u>1,661,960</u>
EXPENSES						
Program services	1,748,962	-	1,748,962	1,444,524	-	1,444,524
General and administrative	741,909	-	741,909	271,935	-	271,935
Fundraising	-	-	-	57,032	-	57,032
Total Expenses	<u>2,490,871</u>	<u>-</u>	<u>2,490,871</u>	<u>1,773,491</u>	<u>-</u>	<u>1,773,491</u>
Change in net assets	(159,635)	-	(159,635)	(61,531)	(50,000)	(111,531)
NET ASSETS (DEFICIT)						
Beginning of year	(61,531)	-	(61,531)	-	50,000	50,000
Prior period adjustment (Note 10)	137,097	-	137,097	-	-	-
Beginning of year as restated	<u>75,566</u>	<u>-</u>	<u>75,566</u>	<u>-</u>	<u>50,000</u>	<u>50,000</u>
End of year	<u>\$ (84,069)</u>	<u>\$ -</u>	<u>\$ (84,069)</u>	<u>\$ (61,531)</u>	<u>\$ -</u>	<u>\$ (61,531)</u>

See notes to financial statements.

International Leadership Charter School

Notes to Financial Statements

1. Organization

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

During the period from January 10, 2006 to June 30, 2006, the Charter School was dormant and had no significant revenue and expense activities.

The fiscal year ended June 30, 2008 is the second year of operation for the Charter School. During the fiscal year, the Charter School operated classes for students in the 9th and 10th grades.

The Charter School's mission is to provide a rigorous curriculum, disciplined environment and supportive community, where their students are academically and socially prepared to excel in demanding college and university settings.

2. Summary of Significant Accounting Policies

Contributions and Unconditional Promises to Give

The Charter School reports gifts of cash and other assets 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 time restriction ends or 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 restrictions. The Charter School reports amounts received with donor stipulations that limit the use of the assets for certain purposes as unrestricted net assets if the stipulated purpose restriction is accomplished in the same year. Contributions of assets other than cash are recorded at their estimated fair value.

International Leadership Charter School

Statements of Cash Flows

Years Ended June 30,

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (159,635)	\$ (61,531)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	33,545	16,651
Prior period adjustment	137,097	-
Changes in operating assets and liabilities		
Grants receivable	120,984	(120,984)
Due from a related party	36,932	(36,932)
Security deposit and other assets	(76,181)	(72,669)
Accounts payable and accrued expenses	85,555	312,462
Due to a related party	41,000	-
Refundable advances	(137,241)	137,241
Deferred rent obligation	<u>(80,536)</u>	<u>80,536</u>
Net Cash Provided by Operating Activities	1,520	254,774
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	<u>(2,312)</u>	<u>(235,594)</u>
Net Change in Cash and Cash Equivalents	(792)	19,180
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>19,180</u>	<u>-</u>
End of year	<u>\$ 18,388</u>	<u>\$ 19,180</u>

See notes to financial statements.

International Leadership Charter School

Notes to Financial Statements

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

Revenue Recognition

Revenue from the state and local government 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 are recognized by the Charter School when qualifying expenditures are incurred and billable to the government.

The Charter School recognizes contributed services in accordance with Statement of Financial Accounting Standards ("SFAS") NO. 116, "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. The Charter School received donated legal services that have been recognized at their fair value of \$46,000 for the period ended June 30, 2008.

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.

Property and Equipment

Property and equipment is recorded at cost. Additions and improvements or betterments in excess of \$500 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.

International Leadership Charter School

Notes to Financial Statements

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

Functional Expenses

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

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

Management and general – represents expenses related to the overall administration and operation of the Charter School that are not associated with any program services or fund – raising.

Fundraising – represents expenses related to efforts to raise additional funds for the Charter School not earned by their per pupil revenue and grants from federal, state and local government.

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management. Actual results could differ from these estimates.

Reclassification

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

3. Cash and Cash Equivalents

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.

International Leadership Charter School

Notes to Financial Statements

4. Related Party Transaction

Friends of International Leadership Charter School (the "Friends") is a not-for-profit organization dedicated to specifically support the operations of the Charter School. An officer of the Charter School is also a Board member of Friends.

A shortfall in revenue caused a cash flow deficiency that could have impacted the Charter School's operations. The Charter School requested from the Friends a loan in the amount of \$41,000. On June 30, 2008, the school owed the Friends \$41,000 with no interest and monthly deferred payments until December 31, 2008 in the amount of \$1,400.

5. Property and Equipment, Net

Property and equipment at June 30, consists of following:

	<u>2008</u>	<u>2007</u>	<u>Estimated Useful Life</u>
Computer and other equipment	\$ 66,025	\$ 63,713	5 years
Furniture and fixtures	31,394	31,394	5 years
Leasehold improvements	<u>140,486</u>	<u>140,486</u>	10 years
	237,905	235,593	
Less: Accumulated depreciation and amortization	<u>(50,195)</u>	<u>(16,650)</u>	
	<u>\$ 187,710</u>	<u>\$ 218,943</u>	

6. Commitments

The Charter School entered into a five-year noncancelable operating lease agreement with an unrelated third party for a facility in the Bronx, New York for its administrative office and instructional location. The lease expires in August 15, 2011 and the Charter School has an option to extend the agreement for another five-year period.

Future minimum lease payments under the lease payable in the fiscal years ending June 30 are as follows:

2009	\$ 570,945
2010	570,945
2011	570,945
2012	<u>71,368</u>
	<u>\$ 1,784,203</u>

International Leadership Charter School

Notes to Financial Statements

7. Contingences

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

The Charter School is involved in various claims and legal actions arising in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters would not have a material adverse impact on the financial position of the Charter School or the results of its operations.

8. Employee Benefit Plan

The Charter School maintains a deferred compensation plan for all qualified employees. The Charter School may elect to make contributions to the plan on a discretionary basis, but in 2008 there were no contributions to the plan from the Charter School.

9. Management's Plan to Improve Liquidity and Sustain Long-Term Viability

As of June 30, 2008, the Charter School's liabilities exceeded its total assets by \$84,069. To improve the Charter School's liquidity and ensure long-term viability, Management has implemented its plans to stabilize the Charter School enrollment base. As of the report date, the total enrollment is 264. In addition, Management has been recently approved for a New York State Stimulus Fund Grant Award of \$329,000 for its facilities improvement initiative. Management will continue to look for other grant revenue options and fundraising opportunities and to improve efficiency in operations while continuing to invest in instructor professional development and enhance the quality of the Charter School's academic program. Management projects a surplus at the end of fiscal year 2008/2009.

10. Prior Period Adjustment

The beginning net assets of 2008 has been adjusted by \$137,097 to correct an understatement of revenues in the prior year. This adjustment had no effect on the results of operations in 2008.

**INTERNATIONAL LEADERSHIP CHARTER SCHOOL
ADDITIONAL INFORMATION**

**INDEPENDENT AUDITOR'S REPORT
ON ADDITIONAL INFORMATION**

**To the Board of Trustees
International Leadership Charter School**

Our report on our audit of the basic financial statements of International Leadership Charter School for 2008 appears on pages 1 to 2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Functional Expenses for the fiscal year ended June 30, 2008 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The 2007 summarized information has been derived from financial information that was subject to the auditing procedures of other auditors whose report dated October 30, 2007 stated that such financial information was fairly stated in relation to the basic financial statements taken as a whole.

O'Connor Davico Murino & Dobbins, LLP

White Plains, New York
October 16, 2008

International Leadership Charter School

Schedule of Functional Expenses

Year Ended June 30, 2008
(With summarized information for 2007)

	2008		2007 Total
	Program Services	General & Administrative	
Salaries	\$ 669,188	\$ 282,469	\$ 951,657
Payroll taxes and benefits	113,147	51,420	164,567
Curricula and books	19,082	8,054	27,136
Instructional supplies and equipment	45,515	19,214	64,729
Student meals	37,603	15,873	53,476
Contractual services	18,433	7,782	26,215
Professional services	115,770	48,870	164,640
Marketing and recruiting	40,992	17,303	58,295
Office supplies	11,249	4,748	15,997
Postage, printing & subscriptions	10,076	4,252	14,328
Rent	395,418	166,909	562,327
Utilities	52,251	22,056	74,307
Security	71,065	29,997	101,062
Facility maintenance and equipment	48,633	20,526	69,159
Insurance	24,227	10,226	34,453
Professional development	36,747	15,509	52,256
Local taxes	4,736	1,999	6,735
Depreciation and amortization	23,588	9,957	33,545
Other expenses	11,242	4,745	15,987
	<u>\$ 1,748,962</u>	<u>\$ 741,909</u>	<u>\$ 2,490,871</u>
			<u>\$ 1,773,491</u>

See independent auditors' report on additional information.



**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
International Leadership Charter School

We have audited the financial statements of the International Leadership Charter School as of and for the year ended June 30, 2008, and have issued our report thereon dated September 19, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the International Leadership Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the International Leadership Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of International Leadership Charter School's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the International Leadership Charter School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the International Leadership Charter School's financial statements that is more than inconsequential will not be prevented or detected by the International Leadership Charter School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the International Leadership Charter School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the International Leadership Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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.

We noted certain other matters that we reported to the management of International Leadership Charter School in a separate letter dated October 16, 2008.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, the Department of Education of the City of New York, the State Education Department of the University of the State of New York and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

O'Connor Davieo Munno & Dobbins, LLP

White Plains, New York
October 16, 2008