

International Leadership Charter School

Financial Statements

June 30, 2012 and 2011

International Leadership Charter School

Financial Statements
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INDEPENDENT AUDITORS' REPORT**The Board of Trustees
International Leadership Charter School**

We have audited the accompanying statements of financial position of International Leadership Charter School (the "Charter School") as of June 30, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Charter School's management. 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 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 the Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2012 and 2011 and the changes in its net assets and its cash flows for the years 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 November 9, 2012 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 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 audits.

Our audit was conducted for the purpose of forming an opinion on the financials statements of the Charter School as a whole. The schedule of functional expenses for the period ending June 30, 2012 is presented for the purposes of additional analysis and is not a required part of the basic financials statements. Such information is the responsibility of management and was derived from and relates directly to 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 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.



New York, New York
November 9, 2012

O'CONNOR DAVIES, LLP
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International Leadership Charter School

Statements of Financial Position

	June 30,	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 895,309	\$ 706,453
Accounts receivable	110,261	24,961
Prepaid expenses	934	3,462
Funds held in escrow and other deposits	<u>142,737</u>	<u>392,737</u>
Total Current Assets	1,149,241	1,127,613
Property and equipment, net	<u>3,279,869</u>	<u>115,277</u>
	<u>\$ 4,429,110</u>	<u>\$ 1,242,890</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 273,564	\$ 234,904
Line of Credit	100,000	-
Short term loan payable - Promesa Enterprises, Ltd.	150,000	-
Short term loan payable - KIMSL 231st Street LLC	<u>1,750,000</u>	<u>-</u>
Total Current Liabilities	2,273,564	234,904
Note payable - Capital One	<u>1,000,000</u>	<u>250,000</u>
Total Liabilities	3,273,564	484,904
Net Assets - Unrestricted	<u>1,155,546</u>	<u>757,986</u>
	<u>\$ 4,429,110</u>	<u>\$ 1,242,890</u>

See notes to financial statements

International Leadership Charter School

Statements of Activities

	Year ended June 30,	
	<u>2012</u>	<u>2011</u>
UNRESTRICTED		
REVENUE AND SUPPORT		
Public School District -		
State and local per pupil operating revenue	\$ 3,999,107	\$ 4,185,474
Government grants and contracts	215,052	398,436
Contributions	130,760	3,156
Other income	<u>60,080</u>	<u>33,312</u>
Total Revenue and Support	<u>4,404,999</u>	<u>4,620,378</u>
EXPENSES		
Education services	3,038,764	3,346,280
Management and general	<u>968,675</u>	<u>966,862</u>
Total Expenses	<u>4,007,439</u>	<u>4,313,142</u>
Change in Net Assets	397,560	307,236
NET ASSETS		
Beginning of year	<u>757,986</u>	<u>450,750</u>
End of year	<u>\$ 1,155,546</u>	<u>\$ 757,986</u>

See notes to financial statements

International Leadership Charter School

Statements of Cash Flows

	Year ended June 30,	
	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 397,560	\$ 307,236
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	62,152	370,146
Changes in operating assets and liabilities		
Accounts receivable	(85,300)	(21,580)
Prepaid expenses	2,528	(1,274)
Accounts payable and accrued expenses	<u>38,660</u>	<u>8,582</u>
Net Cash from Operating Activities	415,600	663,110
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(3,226,744)	(32,380)
Funds held in escrow	<u>250,000</u>	<u>(250,000)</u>
Net Cash from Operating Activities	(2,976,744)	(282,380)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowing	<u>2,750,000</u>	<u>250,000</u>
Net Change in Cash and Cash Equivalents	188,856	630,730
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>706,453</u>	<u>75,723</u>
End of Year	<u>\$ 895,309</u>	<u>\$ 706,453</u>

See notes to financial statements

International Leadership Charter School

Notes to Financial Statements
June 30, 2012 and 2011

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 fiscal year ended June 30, 2012 is the sixth year of operation for the Charter School. During the fiscal year, the Charter School operated classes for students in the 9th, 10th, 11th and 12th grades.

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

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

Use of Estimates and Basis of Presentation

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 contingencies, if any, at the date of the financial statements, and the reported amounts of support and revenue and expenses during the period then ended. Actual results could differ from those estimates.

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, 2012.

International Leadership Charter School

Notes to Financial Statements
June 30, 2012 and 2011

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

Revenue Recognition

Revenue from the 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.

The Charter School follows Financial Accounting Standards Board (FASB) 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.

Contributions and Unconditional Promises to Give

Contributions received and unconditional promises to give are measured at their fair values 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.

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. The Charter School is no longer subject to audits by the applicable taxing jurisdictions for periods prior to 2009.

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.

International Leadership Charter School

Notes to Financial Statements
June 30, 2012 and 2011

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

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.

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 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 education services or fundraising.

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

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 November 9, 2012 and has accounted for or disclosed such events, as appropriate, in these financial statements.

3. Concentration of Credit Risk and Revenue

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.

The Charter School also 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 \$3,999,107 and \$4,195,474 for the years ending June 30, 2012 and 2011. The Charter School is dependent upon this level of funding in order to continue its operations.

International Leadership Charter School

Notes to Financial Statements
June 30, 2012 and 2011

4. Property and Equipment, Net

Property and equipment consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 2,530,000	\$ -
Computers and other equipment	271,750	215,357
Furniture and fixtures	57,642	57,642
Leasehold improvements	836,030	836,030
Pre-construction costs	<u>640,351</u>	<u>-</u>
	4,335,773	1,109,029
Less: Accumulated depreciation	<u>1,055,904</u>	<u>993,752</u>
	<u>\$ 3,279,869</u>	<u>\$ 115,277</u>

Leasehold improvements include a build-out of a science laboratory to support instruction in biology, chemistry and physics. These subjects are critical to students completing their graduation requirements and receiving a Regents–endorsed diploma in accordance with the Charter approved by the New York State Education Department. The improvements also include the build-out of six additional classrooms, which are necessary to build the required capacity for teaching the required courses for the 11th and 12th grades under the requirements of the New York State Regents. Further, an additional class space provided the capacity to accommodate the enrollment requirements for and compliance with the Charter School's goals for expansion at year three.

Leasehold improvements of \$350,000 were funded through a State Stimulus grant awarded in prior years by the State University of New York Charter School Institute.

Land and construction in progress pertain to the parcel of land purchased by the Charter School for the site of its future educational facility.

Depreciation expense for the years ended June 30, 2012 and 2011 were \$62,152 and \$370,146 respectively.

International Leadership Charter School

Notes to Financial Statements
June 30, 2012 and 2011

5. Loans Payable and Line of Credit

The Charter School is currently in pursuit of obtaining private financing to build a state of the art facility that will allow for hundreds of students to follow their dream for a college education and enhance our community. The financing of the land is part of a long term strategic expansion plan to acquire the facility that will benefit the students, staff and community by opening enrollment to approximately 25% additional students and creating new jobs.

The Charter School made a promissory note payable to Capital One, N.A. (the "Bank") on May 31, 2011 wherein the Charter School may borrow and repay, in whole or in part, amounts up to \$1,000,000 until September 1, 2011. As of June 30, 2012 and 2011, the Charter School has borrowed a total of \$1,000,000 and \$250,000, respectively.

Monthly payments of interest commenced on July 1, 2011, due on the first day of each month, at the floating rate equal to the Bank's prime lending rate minus 0.25%. Commencing October 1, 2011 and on the first day of each month thereafter, monthly interest payments shall be due until June 1, 2014, when all principal and interest will be due in full. Prepayment in whole or in part may be made at anytime without penalty. Payments by the Charter School shall be applied first to interest then to reduction of principal.

The note payable is secured by an interest in the Charter School's savings and reserve account, pursuant to the Pledge Agreement entered into by the Charter School and the Bank on May 31, 2011.

On February 8, 2012, the Charter School made a short term promissory note to KIMSL 231 Street LLC., the seller of the purchased parcel of land, for the balance not financed by the Bank, amounting to \$1,750,000, payable in full on November 22, 2012 at a rate of 6.5% per annum from February 8 through August 7, 2012 and 7.5% per annum from August 8 through November 22, 2012. The loan maturity is extended through March 2013.

On June 25, 2012, the Charter School made a short term promissory note to Promesa Enterprises Ltd. for \$150,000 at an interest rate of 5% per annum. The amount is payable 90 days from the date of the note's execution. This note was paid in full on September 23, 2012.

Principal payments due on these notes by fiscal year are as follows:

2013	\$ 1,900,000
2014	<u>1,000,000</u>
	<u>\$ 2,900,000</u>

In addition, the Charter School has an outstanding line of credit with Capital One for \$100,000, with an annual percentage rate of 4%, which is fully utilized as of June 30, 2012.

Interest expense on these promissory notes and line of credit was \$73,332 for the year ended June 30, 2012.

As of the audit date, the Charter School is continuing discussions to obtain the required capital project financing through tax-exempt revenue bonds. Management believes that a financing contract will be achieved within the next 120 days.

International Leadership Charter School

Notes to Financial Statements
June 30, 2012 and 2011

6. Commitments

The Charter School's has an operating lease agreement with an unrelated third party in a commercial facility in the Bronx, New York for its administrative offices and instructional location expired on August 15, 2011. The lease agreement included an option to extend 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.

7. 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 material effect on the accompanying financial statements.

8. Employee Benefit Plan

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, 2012 and 2011, the Charter School had not contributed to the plan.

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**International Leadership Charter School
Additional Information**

International Leadership Charter School

Schedule of Functional Expenses
Year Ended June 30, 2012
(With summarized totals for the year ended June 30, 2011)

	Education Services	Management and General	Totals	
			2012	2011
Salaries	\$ 912,063	\$ 241,042	\$ 1,153,105	\$ 1,320,519
Payroll taxes and benefits	512,798	135,523	648,321	734,786
Curricula and books	55,952	-	55,952	79,153
Instructional supplies and equipment	23,925	-	23,925	40,799
Student meals	149,897	-	149,897	138,836
Contractual services	67,903	17,945	85,848	52,548
Professional services	143,419	37,903	181,322	252,618
Marketing and recruiting	7,123	27,762	34,885	27,762
Office supplies	382	62,619	63,001	62,619
Postage, printing and subscriptions	14,558	3,847	18,405	41,408
Rent	488,779	129,175	617,954	570,948
Utilities	94,493	24,973	119,466	132,335
Security	97,675	25,814	123,489	113,236
Facility maintenance and equipment	154,853	40,925	195,778	92,601
Insurance	25,690	6,790	32,480	36,400
Travel	31,624	8,358	39,982	31,985
Professional development	24,734	144,449	169,183	144,449
Local taxes	51,654	13,651	65,305	-
Depreciation	49,160	12,992	62,152	370,146
Other expenses	132,082	34,907	166,989	69,994
Totals	<u>\$ 3,038,764</u>	<u>\$ 968,675</u>	<u>\$ 4,007,439</u>	<u>\$ 4,313,142</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**

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

We have audited the financial statements of International Leadership Charter School (the "Charter School") as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated November 9, 2012. 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.

Internal Control Over Financial Reporting

Management of the Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Charter School's internal control over financial reporting.

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

Our consideration of internal control 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 deficiencies, 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 previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

O'Connell Davies, LLP

New York, New York
November 9, 2012