

**INTERNATIONAL LEADERSHIP
CHARTER HIGH SCHOOL**

BRONX, NEW YORK

AUDITED FINANCIAL STATEMENTS

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2020

(With Comparative Totals For 2019)



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, 2020, 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, 2020, 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, 2019 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 1, 2019. In our opinion, except as described in the "Other Matter" paragraph below, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

As part of our audit of the June 30, 2020 financial statements, we also audited the adjustments described in Note O that were applied to restate the 2019 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2020 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.

Emphasis of Matters

As discussed in Note A to the financial statements, in 2020, International Leadership Charter High School adopted new accounting guidance for recognition of revenue, contributions received, and statement of cash flow presentation. Our opinion is not modified with respect to these matters.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 28, 2020

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

(With Comparative Totals For 2019)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
		(As Restated)
<u>CURRENT ASSETS</u>		
Cash	\$ 741,447	\$ 403,873
Grants and other receivables	173,583	-
Prepaid expenses	<u>19,639</u>	<u>34,001</u>
TOTAL CURRENT ASSETS	934,669	437,874
 <u>PROPERTY AND EQUIPMENT</u>		
Building	18,012,956	17,939,969
Land	2,530,000	2,530,000
Furniture and fixtures	292,309	292,309
Computers and equipment	<u>188,017</u>	<u>149,654</u>
	21,023,282	20,911,932
Less accumulated depreciation and amortization	<u>2,448,160</u>	<u>1,922,573</u>
	18,575,122	18,989,359
 <u>OTHER ASSETS</u>		
Restricted cash	3,182,178	3,080,371
Cash in escrow	75,449	75,222
Security deposit	<u>-</u>	<u>130,599</u>
	3,257,627	3,286,192
TOTAL ASSETS	<u>\$ 22,767,418</u>	<u>\$ 22,713,425</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 <u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 484,502	\$ 814,950
Accrued expenses	283,729	296,434
Accrued interest payable	571,231	582,202
Line of credit	-	43,513
Note payable - current portion	141,518	-
Bonds payable - current portion	<u>450,000</u>	<u>425,000</u>
TOTAL CURRENT LIABILITIES	1,930,980	2,162,099
 <u>OTHER LIABILITIES</u>		
Note payable	226,982	-
Bonds payable, net of unamortized bond issuance costs	<u>18,121,838</u>	<u>18,538,071</u>
	18,348,820	18,538,071
TOTAL LIABILITIES	20,279,800	20,700,170
 <u>NET ASSETS, without donor restrictions</u>	<u>2,487,618</u>	<u>2,013,255</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 22,767,418</u>	<u>\$ 22,713,425</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, 2020
(With Comparative Totals For 2019)

	<u>Without donor restrictions</u>	
	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
		(As Restated)
Revenue, gains, and other support:		
Public school district:		
Resident student enrollment	\$ 5,665,786	\$ 5,418,789
Students with disabilities	564,153	250,480
Grants and contracts:		
State and local	-	2,123
Federal - Title and IDEA	285,951	312,870
Federal - Other	-	4,339
	<u>6,515,890</u>	<u>5,988,601</u>
TOTAL REVENUE, GAINS AND OTHER SUPPORT		
Expenses:		
Program services:		
Regular education	4,080,216	4,018,609
Special education	1,146,613	823,138
	<u>5,226,829</u>	<u>4,841,747</u>
TOTAL PROGRAM SERVICES		
Management and general	878,345	1,166,777
	<u>6,105,174</u>	<u>6,008,524</u>
TOTAL OPERATING EXPENSES		
SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	410,716	(19,923)
Support and other revenue:		
Contributions	34,502	21,937
Interest income	29,145	35,941
Miscellaneous income	-	4,644
	<u>63,647</u>	<u>62,522</u>
TOTAL SUPPORT AND OTHER REVENUE		
CHANGE IN NET ASSETS	474,363	42,599
Net assets at beginning of year	2,013,255	1,970,656
NET ASSETS AT END OF YEAR	<u>\$ 2,487,618</u>	<u>\$ 2,013,255</u>

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

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2020
(With Comparative Totals For 2019)

	Year ended June 30,							2019 (As Restated)
	2020				2019			
	Number of positions	Program Services		Sub-total	Supporting Services		Total	
Regular Education		Special Education	Management and general		Sub-Total			
Personnel services costs:								
Administrative staff personnel	10	\$ 504,890	\$ 126,168	\$ 631,058	\$ 209,853	\$ 209,853	\$ 840,911	\$ 784,635
Instructional personnel	20	1,000,262	205,976	1,206,238	-	-	1,206,238	1,225,499
TOTAL SALARIES AND STAFF	30	1,505,152	332,144	1,837,296	209,853	209,853	2,047,149	2,010,134
Fringe benefits & payroll taxes		257,459	56,763	314,222	35,421	35,421	349,643	327,653
Retirement		10,619	2,341	12,960	1,461	1,461	14,421	793
Legal Service		-	-	-	74,679	74,679	74,679	119,938
Accounting / audit services		-	-	-	146,043	146,043	146,043	152,129
Other purchased / professional / consulting services		258,969	74,965	333,934	31,718	31,718	365,652	518,034
Building and land rent / lease / facility finance interest		737,333	273,527	1,010,860	178,387	178,387	1,189,247	1,211,678
Repairs & maintenance		73,467	27,254	100,721	17,774	17,774	118,495	73,392
Insurance		84,158	31,220	115,378	20,361	20,361	135,739	129,883
Utilities		58,115	21,559	79,674	14,060	14,060	93,734	87,659
Supplies / materials		97,548	20,088	117,636	-	-	117,636	122,614
Equipment / furnishings		6,352	2,356	8,708	1,537	1,537	10,245	19,221
Staff development		54,468	13,672	68,140	3,600	3,600	71,740	109,443
Marketing / recruitment		69,318	25,715	95,033	16,770	16,770	111,803	45,322
Technology		58,344	21,644	79,988	14,115	14,115	94,103	74,986
Food service		150,164	30,922	181,086	-	-	181,086	237,498
Student services		193,474	39,841	233,315	-	-	233,315	149,435
Office expense		45,427	16,852	62,279	10,990	10,990	73,269	74,742
Depreciation		325,864	120,885	446,749	78,838	78,838	525,587	513,551
Other		93,985	34,865	128,850	22,738	22,738	151,588	30,419
		<u>\$ 4,080,216</u>	<u>\$ 1,146,613</u>	<u>\$ 5,226,829</u>	<u>\$ 878,345</u>	<u>\$ 878,345</u>	<u>\$ 6,105,174</u>	<u>\$ 6,008,524</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, 2020
(With Comparative Totals For 2019)

	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
		(As Restated)
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 474,363	\$ 42,599
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation	525,587	513,551
Amortization of bond issuance costs included in interest expense	33,767	33,767
Write-off of security deposit	130,599	-
Contribution of amount due to officer	-	(4,250)
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(173,583)	341,857
Prepaid expenses	14,362	11,207
Accounts payable	(330,448)	130,804
Accrued expenses	(12,705)	20,052
Accrued interest payable	(10,971)	(9,175)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	650,971	1,080,412
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(111,350)	(39,503)
NET CASH USED FOR INVESTING ACTIVITIES	(111,350)	(39,503)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Repayments on line of credit	(43,513)	(51,439)
Repayment of bonds payable	(425,000)	(365,000)
Borrowings on note payable	368,500	-
NET CASH USED FOR FINANCING ACTIVITIES	(100,013)	(416,439)
NET INCREASE IN CASH AND RESTRICTED CASH	439,608	624,470
Cash and restricted cash at beginning of year	3,559,466	2,934,996
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 3,999,074</u>	<u>\$ 3,559,466</u>

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

STATEMENT OF CASH FLOWS, Cont'd

YEAR ENDED JUNE 30, 2020
(With Comparative Totals For 2019)

	<u>Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
		(As Restated)
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u>		
Reconciliation of cash reported within the statement of financial position that sum to the total amounts shown in the statement of cash flows:		
Cash	\$ 741,447	\$ 403,873
Restricted cash	3,182,178	3,080,371
Cash in escrow	75,449	75,222
	<u>\$ 3,999,074</u>	<u>\$ 3,559,466</u>
Cash paid for interest	<u>\$ 1,153,087</u>	<u>\$ 1,206,655</u>
<u>NON-CASH OPERATING AND INVESTING ACTIVITY</u>		
Property and equipment purchases included in accounts payable	<u>\$ -</u>	<u>\$ 7,814</u>
<u>NON-CASH OPERATING AND FINANCING ACTIVITY</u>		
Contribution of amount due to officer	<u>\$ -</u>	<u>\$ 4,250</u>

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

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

(With Comparative Totals For 2019) (As Restated)

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 was valid through June 30, 2020. On March 10, 2020, the Charter School’s charter was renewed for a five-year term through June 30, 2025.

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, 2020 or 2019.

Revenue and support recognition

Revenue from Exchange Transactions: The Charter School recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019) (As Restated)

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

The Charter School records substantially all revenues over time as follows:

Public school district revenue

The Charter School recognizes revenue as educational programming is provided to students throughout the year. The Charter School earns public school district revenue based on the approved per pupil tuition rate of the public school district in which the pupil resides. The amount received each year from the resident district is the product of the approved per pupil tuition rate and the full-time equivalent student enrollment of the School. Each NYS school district has a fixed per pupil tuition rate which is calculated annually by NYSED in accordance with NYS Education Law. Amounts are billed in advance every other month and payments are typically received in six installments during the year. At the end of each school year, a reconciliation of actual enrollment to billed enrollment is performed and any additional amounts due or excess funds received are agreed upon between the Charter School and the district(s) and are paid or recouped. Additional funding is available for students requiring special education services. The amount of additional funding is dependent upon the length of time and types of services provided by the Charter School to each student, subject to a maximum amount based upon a set rate for each district as calculated by NYSED.

The following table summarizes contract balances at their respective statement of financial position dates:

	<u>June 30,</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Grants and other receivables	\$ 68,858	\$ -	\$ 123,473

Contributions

The Charter School recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Contributions and unconditional promises to give are recorded as revenue 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 period 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.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019) (As Restated)

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

Grant revenue

Some of the Charter School's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Charter School has incurred expenditures in compliance with specific contract or grant provisions. Certain grants are subject to audit and retroactive adjustments by its funders. Any changes resulting from these audits are recognized in the year they become known. Qualifying expenditures that have been incurred but are yet to be reimbursed are reported as grants receivable in the accompanying statement of financial position. There were no amounts received prior to incurring qualifying expenditures, which would be reported as deferred revenue in the accompanying statement of financial position at June 30, 2020 and 2019. The Charter School received cost-reimbursement grants of \$45,312 and \$31,923 that have not been recognized at June 30, 2020 and 2019, respectively, because qualifying expenditures have not yet been incurred.

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 \$75,449 and \$75,222 at June 30, 2020 and 2019, respectively. 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, 2020 or 2019.

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 was due from the landlord. The Charter School was unsuccessful in its attempt to recoup the security deposit and in 2020 wrote off this amount.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019) (As Restated)

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, 2017 through June 30, 2020 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 \$111,803 and \$45,322 for the years ended June 30, 2020 and 2019, 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.

Reclassifications

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

Comparatives for year ended June 30, 2019

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, 2019, from which the summarized information was derived.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019) (As Restated)

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

Adoption of new accounting standards

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 adopted ASC 606 with the date of initial application of July 1, 2019.

The Charter School applied ASC 606 using the cumulative effect method, which generally requires the recognition of the cumulative effect of initially applying the new guidance as an adjustment to the opening balance of net assets, at July 1, 2019. There was no adjustment to the opening balance of net assets at July 1, 2019, as a result of this new accounting standard. In addition, the comparative information has not been adjusted and continues to be reported under existing revenue guidance. The Charter School does not expect the adoption of the new revenue standard to have a material impact on its income on an ongoing basis.

As part of the adoption of ASC 606, the Charter School elected to use the following transition practical expedients: (1) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligation, determining the transaction price, and allocating the transaction price have been reflected in the aggregate; and (2) ASC 606 is applied only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

Contributions received and contributions made

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, “Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made”. ASU 2018-08 assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. For most resource recipients, this standard is effective for annual reporting periods beginning after December 15, 2018. The Charter School adopted the provisions of ASU 2018-08 applicable to contributions received with a date of initial application of July 1, 2019 under a modified prospective basis. Accordingly, there is no effect on net assets.

Statement of cash flows

In November 2016, the FASB issued new guidance related to the statement of cash flows (ASC 230), which requires entities to include restricted cash in the reconciliation of the beginning-of-year to the end-of-year balance of cash in the statement of cash flows. ASC 230 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Charter School adopted this standard as of July 1, 2019 using the retrospective transition method.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 28, 2020, which is the date the financial statements are available to be issued. Except as disclosed in Note G and Note N, no subsequent events requiring disclosure were noted.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019) (As Restated)

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 the entire amount available at June 30, 2020, to use if necessary. The Charter School had approximately \$56,000 of remaining availability on the line of credit at June 30, 2019.

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, 2020 and 2019:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Cash	\$ 741,447	\$ 403,873
Grants and other receivables	<u>173,583</u>	<u>-</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 915,030</u>	<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 2020 as described in Note G.

NOTE C: NET ASSETS

Net assets without donor restrictions are as follows:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Undesignated	\$ 2,484,334	\$ 1,986,967
Invested in property and equipment, net of related debt	<u>3,284</u>	<u>26,288</u>
	<u>\$ 2,487,618</u>	<u>\$ 2,013,255</u>

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019) (As Restated)

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.

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, 2020 and 2019:

	<u>June 30,</u>	
	<u>2020</u>	<u>2019</u>
Bond fund	\$ 1,043,550	\$ 1,023,074
Earnings fund	21,744	18,388
Project fund	307,629	307,629
Reserve fund	1,598,591	1,582,308
Repair and replacement fund	<u>210,664</u>	<u>148,972</u>
	<u>\$ 3,182,178</u>	<u>\$ 3,080,371</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 4.00% at June 30, 2020. There were no amounts outstanding on the line of credit at June 30, 2020. There was \$43,513 outstanding on the line of credit at June 30, 2019.

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.

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019) (As Restated)

NOTE G: BONDS PAYABLE, Cont'd

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).

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>2020</u>	<u>2019</u>
2013 tax exempt bonds at 5.00% per annum, interest paid semiannually, principal paid annually. Bonds mature July 1, 2023.	\$ 1,460,000	\$ 1,780,000
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.	230,000	335,000
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>
	19,425,000	19,850,000
Less unamortized bond issuance costs	<u>(853,162)</u>	<u>(886,929)</u>
	18,571,838	18,963,071
Less current portion of bonds payable	<u>450,000</u>	<u>425,000</u>
	<u>\$ 18,121,838</u>	<u>\$ 18,538,071</u>

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019) (As Restated)

NOTE G: BONDS PAYABLE, Cont'd

Future maturities of bonds payable are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 450,000
2022	475,000
2023	425,000
2024	445,000
2025	465,000
Thereafter	<u>17,165,000</u>
	<u>\$ 19,425,000</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, 2020, the Charter School was not in compliance with certain of these covenants. By letter dated October 23, 2020, the Bond Trustee waived the requirements of this covenant for the year ended June 30, 2020.

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 \$1,175,883 and \$1,197,480 for the years ended June 30, 2020 and 2019, respectively.

NOTE H: 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 \$14,000 and \$1,000 for the years ended June 30, 2020 and 2019, respectively.

NOTE I: 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, 2020

(With Comparative Totals For 2019) (As Restated)

NOTE J: CONCENTRATIONS

At June 30, 2020, approximately 100% of grants and other receivables are due from New York State relating to certain grants. As of June 30, 2019, no grants or other receivables are due from New York State relating to certain grants.

For the years ended June 30, 2020 and 2019, 96% and 95%, respectively, of total operating revenue and support came from per-pupil funding. 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 K: 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.

NOTE L: NOTE PAYABLE

In response to the COVID-19 outbreak, in May 2020, the Charter School applied for and was approved by a bank for a loan of \$368,500 through the Paycheck Protection Program established by the Small Business Administration. The loan has a maturity of 2 years and an interest rate of 1%. The loan has the potential for forgiveness provided certain requirements are met by the Charter School. The loan was funded in May 2020.

Estimated annual future maturities of the note payable are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 141,518
2022	<u>226,982</u>
	<u>\$ 368,500</u>

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019) (As Restated)

NOTE M: ACCOUNTING IMPACT OF COVID-19 OUTBREAK

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Charter School’s financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Charter School is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

NOTE N: SUBSEQUENT EVENT

In September 2020, the Charter School was notified it was a recipient of an award in the amount of \$975,000 from a Foundation to assist in the potential growth and replication of the Charter School. The grant requires compliance with certain matching grant requirements and specific operational objectives to receive the funds. Amounts will be recognized as these milestones are achieved.

NOTE O: RESTATEMENT

The Charter School restated its previously issued 2019 financial statements for matters related to the accrual of summer payroll for employees who work ten and a half months during the year.

The effect on the Charter School’s previously issued 2019 financial statements is summarized as follows:

	<u>Previously Reported</u>	<u>Increase (Decrease)</u>	<u>As Restated</u>
Current assets	\$ 437,874	\$ -	\$ 437,874
Property and equipment, net	18,989,359	-	18,989,359
Other assets	<u>3,286,192</u>	<u>-</u>	<u>3,286,192</u>
Total assets	<u>\$ 22,713,425</u>	<u>\$ -</u>	<u>\$ 22,713,425</u>
Current liabilities	\$ 1,991,749	\$ 170,350	\$ 2,162,099
Other liabilities	18,538,071	-	18,538,071
Net assets without donor restrictions	<u>2,183,605</u>	<u>(170,350)</u>	<u>2,013,255</u>
Total liabilities and net assets	<u>\$ 22,713,425</u>	<u>\$ -</u>	<u>\$ 22,713,425</u>

INTERNATIONAL LEADERSHIP CHARTER HIGH SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2020

(With Comparative Totals For 2019) (As Restated)

NOTE O: RESTATEMENT, Cont'd

	<u>Previously Reported</u>	<u>Increase (Decrease)</u>	<u>As Restated</u>
Revenue, gains and other support:			
Public school district	\$ 5,669,269	\$ -	\$ 5,669,269
Grants and contracts	319,332	-	319,332
Total revenue, gains and other support	<u>\$ 5,988,601</u>	<u>\$ -</u>	<u>\$ 5,988,601</u>
Expenses			
Program services:			
Regular Education	4,008,353	10,256	4,018,609
Special Education	821,185	1,953	823,138
Management and general	1,166,777	-	1,166,777
Total operating expenses	<u>5,996,315</u>	<u>12,209</u>	<u>6,008,524</u>
Deficit from school operations	(7,714)	(12,209)	(19,923)
Support and other revenue	62,522	-	62,522
Change in net assets	54,808	(12,209)	42,599
Net assets without donor restrictions at beginning of year	<u>2,128,797</u>	<u>(158,141)</u>	<u>1,970,656</u>
Net assets without donor restrictions at end of year	<u>\$ 2,183,605</u>	<u>\$ (170,350)</u>	<u>\$ 2,013,255</u>

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, 2020, 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 October 28, 2020.

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 October 28, 2020.

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
October 28, 2020