

# **International Leadership Charter School**

Financial Statements

June 30, 2013 and 2012

# International Leadership Charter School

Financial Statements  
June 30, 2013 and 2012

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## Independent Auditors' Report

### Board of Trustees International Leadership Charter School

We have audited the accompanying financial statements of International Leadership Charter School (the "Charter School"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Leadership Charter School as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Supplemental Information***

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2013 on our consideration of International Leadership Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering International Leadership Charter School's internal control over financial reporting and compliance.

*O'Connor Davies, LLP*

October 22, 2013

## International Leadership Charter School

### Statements of Financial Position

	June 30,	
	2013	2012
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 721,677	\$ 895,309
Accounts receivable	87,441	110,261
Prepaid expenses	54,233	934
Funds held in escrow and other deposits	142,737	142,737
Total Current Assets	1,006,088	1,149,241
Restricted cash held by trustee	14,587,670	-
Property and equipment, net	4,185,856	3,279,869
	\$ 19,779,614	\$ 4,429,110
 <b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable and accrued expenses	\$ 332,090	\$ 273,564
Line of credit payable	100,000	100,000
Short term loan payable to Promesa Enterprises, Ltd.	-	150,000
Short term loan payable to KIMSL 231st Street LLC	-	1,750,000
Total Current Liabilities	432,090	2,273,564
Note payable to Capital One	-	1,000,000
Bonds payable	17,750,000	-
Total Liabilities	18,182,090	3,273,564
Net Assets - Unrestricted	1,597,524	1,155,546
	\$ 19,779,614	\$ 4,429,110

See notes to financial statements

## International Leadership Charter School

### Statements of Activities

	Year ended June 30,	
	<u>2013</u>	<u>2012</u>
<b>REVENUE AND SUPPORT</b>		
Public School District -		
State and local per pupil operating revenue	\$ 4,157,584	\$ 3,999,107
Government grants and contracts	386,657	215,052
Contributions	5,495	130,760
Other income	34,248	60,080
Total Revenue and Support	<u>4,583,984</u>	<u>4,404,999</u>
<b>EXPENSES</b>		
Education services	3,287,158	3,038,764
Management and general	854,848	968,675
Total Expenses	<u>4,142,006</u>	<u>4,007,439</u>
Change in Net Assets	441,978	397,560
<b>NET ASSETS</b>		
Beginning of year	<u>1,155,546</u>	<u>757,986</u>
End of year	<u>\$ 1,597,524</u>	<u>\$ 1,155,546</u>

See notes to financial statements

## International Leadership Charter School

### Statements of Cash Flows

	Year ended June 30,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 441,978	\$ 397,560
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	46,892	62,152
Changes in operating assets and liabilities		
Accounts receivable	22,820	(85,300)
Prepaid expenses	(53,299)	2,528
Accounts payable and accrued expenses	58,526	38,660
Net Cash from Operating Activities	516,917	415,600
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(952,879)	(3,226,744)
Deposits into restricted account held by trustee	(14,587,670)	-
Withdrawal of funds held in escrow	-	250,000
Net Cash from Investing Activities	(15,540,549)	(2,976,744)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from (payment of) short term borrowing	(1,900,000)	2,750,000
Payment of long term borrowing	(1,000,000)	-
Proceeds from bonds	17,750,000	-
Net Cash from Financing Activities	14,850,000	2,750,000
Net Change in Cash and Cash Equivalents	(173,632)	188,856
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	895,309	706,453
End of Year	\$ 721,677	\$ 895,309
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 169,745	\$ 73,332

See notes to financial statements

## International Leadership Charter School

Notes to Financial Statements  
June 30, 2013 and 2012

### 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, 2013 is the sixth year of operation for the Charter School. During the fiscal year, the Charter School operated classes for students in grades 9 through 12.

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

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***

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements, and the amount of support and revenue and expenses recognized during the reporting period. Actual results could differ from those estimates.

#### ***Net Asset Presentation***

The net assets of the Charter School and changes therein are classified as unrestricted, temporarily restricted and permanently restricted based on the existence or absence of donor-imposed restrictions. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets represent contributions with donor imposed restrictions that have not yet been satisfied or are time restricted. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Permanently restricted net assets are those which are established by donor gifts to provide a permanent endowment. There were no temporarily or permanently restricted net assets at June 30, 2013 and 2012.

## International Leadership Charter School

Notes to Financial Statements  
June 30, 2013 and 2012

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

#### ***Revenue Recognition***

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

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

#### ***Contributions and Unconditional Promises to Give***

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

#### ***In-Kind Contributions***

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

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

#### ***Accounting For Uncertainty in Income Taxes***

The Charter School recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Charter School has no uncertain tax positions that would require financial statement recognition. The Charter School is no longer subject to audits by the applicable taxing jurisdictions for periods prior to fiscal 2010.

#### ***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, 2013 and 2012

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

#### ***Allowance for Uncollectible Accounts***

Management evaluates outstanding receivables for collectability on a periodic basis. Where the Charter School is aware of any circumstances that lead to doubt about the collectability of receivables, including the length of time past due, historical payment information, subsequent collections and communications with the grantor or contributor, the Charter School establishes an allowance for bad debts. No such allowance was established for the years ending June 30, 2013 and 2012.

#### ***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.

#### ***Restricted Cash and Cash Equivalents***

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

#### ***Functional Expenses***

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

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

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

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 22, 2013 and has accounted for or disclosed such events, as appropriate, in these financial statements.

## International Leadership Charter School

Notes to Financial Statements  
June 30, 2013 and 2012

### 3. Concentration of Credit Risk

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

### 4. Economic Dependency

The Charter School receives a majority of its revenues from the New York State Education Department through the New York City Department of Education. The New York State Education Department provides general operating support to the Charter School based upon the location and the number of students enrolled. Per pupil General Education and Special Education support provided to the Charter School totaled \$4,157,584 and \$3,999,107 for the years ending June 30, 2013 and 2012. The Charter School is dependent upon this level of funding in order to continue its operations.

### 5. Property and Equipment, Net

Property and equipment consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Land	\$ 2,530,000	\$ 2,530,000
Computers and other equipment	313,601	271,750
Furniture and fixtures	57,642	57,642
Leasehold improvements	-	836,030
Pre-construction costs	<u>1,551,379</u>	<u>640,351</u>
	4,452,622	4,335,773
Accumulated depreciation	<u>(266,766)</u>	<u>(1,055,904)</u>
	<u>\$ 4,185,856</u>	<u>\$ 3,279,869</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 11<sup>th</sup> and 12<sup>th</sup> 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, 2013 and 2012 was \$46,892 and \$62,152 respectively.

## International Leadership Charter School

Notes to Financial Statements  
June 30, 2013 and 2012

### 6. Long Term Debt

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

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

The proceeds from the sale of the Bonds, together with other available funds, are intended to (1) refinance or reimburse the Charter School for certain costs of acquiring, constructing, renovating, equipping and/or furnishing of an approximately 28,500 square foot three-story school facility for grades 9 through 12, with the capacity to accommodate 400 students in the Kingsbridge neighborhood of the Bronx, New York; (2) fund the Debt Service Reserve Fund established under the Indenture in an amount equal to the Debt Service Reserve Fund Requirement of the Bonds; (3) cover interest on the Bonds during construction for a period of sixteen months; and (4) pay certain costs of issuing the Series 2013 Bonds.

The Bonds are secured by the pledge and assignment to the Trustee of the Trust Estate for the benefit of the Holders of the Bonds. The obligations of the Charter School under the Loan Agreement are secured by the mortgages assigned to the Trustee for the benefit of the Holders of the Bonds.

Interest on the bonds is payable initially on July 1, 2013 and semiannually thereafter on each January 1<sup>st</sup> and July 1<sup>st</sup> computed on the basis of a 360-day year of twelve 30-day months.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	\$ 1,022,400	\$ 1,022,400
2015	265,000	1,022,400	1,287,400
2016	280,000	1,009,150	1,289,150
2017	290,000	995,150	1,285,150
2018	305,000	980,650	1,285,650
2019 and thereafter	<u>16,610,000</u>	<u>15,573,763</u>	<u>32,183,763</u>
	<u>\$ 17,750,000</u>	<u>\$ 20,603,513</u>	<u>\$ 38,353,513</u>

The Charter School issued 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, the Charter School had borrowed a total of \$1,000,000, which was fully paid in March 2013.

## International Leadership Charter School

Notes to Financial Statements  
June 30, 2013 and 2012

### 6. Long Term Debt (*continued*)

On February 8, 2012, the Charter School issued a short term promissory note to KIMSL 231 Street LLC., the seller of the purchased parcel of land, for the balance of the purchase price not financed by the Bank, amounting to \$1,750,000, which was repaid on March 2013 from the proceeds of the Bonds.

On June 25, 2012, the Charter School issued 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.

In addition, the Charter School has borrowings on an outstanding line of credit with the Bank for \$100,000, with an annual percentage rate of 4%, which is fully utilized as of June 30, 2013 and 2012.

Interest expense on these bonds, promissory notes and line of credit borrowings was \$169,745 and \$73,332 for the years ended June 30, 2013 and 2012, respectively.

### 6. Commitments

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

### 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 a material effect on the accompanying financial statements.

### 8. Retirement Plans

The Charter School maintains a deferred compensation plan for all qualified employees. The Charter School elects to make contributions to the plan on a discretionary basis. For the years ended June 30, 2013 and 2012, the Charter School had not contributed to the plan.

\* \* \* \* \*

**International Leadership Charter School  
Supplemental Information**

## International Leadership Charter School

Schedule of Functional Expenses  
 Year Ended June 30, 2013  
 (With summarized totals for the year ended June 30, 2012)

	Education	Management	Totals	
	Services	and General	2013	2012
Salaries	\$ 1,017,071	\$ 268,794	\$ 1,285,865	\$ 1,153,105
Payroll taxes and benefits	549,513	145,226	694,739	648,321
Curricula and books	10,327	-	10,327	55,952
Instructional supplies and equipment	62,229	-	62,229	23,925
Student meals	143,961	-	143,961	149,897
Contractual services	26,320	6,956	33,276	85,848
Professional services	224,153	59,239	283,392	181,322
Marketing and recruiting	-	43,334	43,334	34,885
Office supplies	37,006	9,780	46,786	63,001
Postage, printing and subscriptions	21,535	5,691	27,226	18,405
Rent	494,006	130,582	624,588	617,954
Utilities	84,430	22,313	106,743	119,466
Security	57,480	15,191	72,671	123,489
Facility maintenance and equipment	4,580	1,210	5,790	195,778
Insurance	37,054	9,793	46,847	32,480
Travel	26,892	7,107	33,999	39,982
Professional development	155,712	41,152	196,864	169,183
Local taxes	43,880	11,597	55,477	65,305
Interest expense	134,262	35,483	169,745	73,332
Depreciation	37,090	9,802	46,892	62,152
Other expenses	119,657	31,598	151,255	93,657
<b>Totals</b>	<b><u>\$ 3,287,158</u></b>	<b><u>\$ 854,848</u></b>	<b><u>\$ 4,142,006</u></b>	<b><u>\$ 4,007,439</u></b>

See independent auditors' report

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

**Independent Auditors' Report**

**Board of Trustees  
International Leadership Charter School**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of International Leadership Charter School (the "Charter School"), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2013.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness the Charter School's internal control.

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

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

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

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

*O'Connor Davies, LLP*

October 22, 2013