

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

FINANCIAL STATEMENTS

June 30, 2019 and 2018

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
International Charter School of New York

Report on the Financial Statements

We have audited the accompanying financial statements of International Charter School of New York (the "School"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, 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.

Auditor's 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 of 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 School'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 School'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.

An independent member of Baker Tilly International

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Charter School of New York as of June 30, 2019 and 2018, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2019, on our consideration of International Charter School of New York'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* in considering International Charter School of New York's internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
October 9, 2019

INTERNATIONAL CHARTER SCHOOL OF NEW YORK
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

| ASSETS | 2019 | 2018 |
|---|---------------------|---------------------|
| Cash and cash equivalents | \$ 1,372,221 | \$ 652,179 |
| Cash - restricted | 75,000 | 75,000 |
| Grants and other receivables | 41,879 | 169,763 |
| Due from NYC Department of Education | - | 5,195 |
| Prepaid expenses and other assets | 720,799 | 693,199 |
| Property and equipment, net | 602,892 | 121,212 |
| Construction in progress | 94,433 | - |
| TOTAL ASSETS | \$ 2,907,224 | \$ 1,716,548 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 378,135 | \$ 75,440 |
| Accrued salary and other payroll related expenses | 320,368 | 240,708 |
| Due to NYC Department of Education | 2,024 | - |
| | 700,527 | 316,148 |
| NET ASSETS | | |
| Net assets - without donor restrictions | 2,206,697 | 1,400,400 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 2,907,224 | \$ 1,716,548 |

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

INTERNATIONAL CHARTER SCHOOL OF NEW YORK
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

| | 2019 | 2018 |
|--|----------------------------|----------------------------|
| OPERATING REVENUE WITHOUT DONOR RESTRICTIONS | | |
| State and local per pupil operating revenue | \$ 5,787,568 | \$ 4,567,966 |
| Government grants and contracts | 1,861,411 | 1,353,274 |
| | <u>7,648,979</u> | <u>5,921,240</u> |
| EXPENSES | | |
| Program services | | |
| General education | 3,975,930 | 3,173,949 |
| Special education | 1,900,220 | 1,238,326 |
| Management and general | 935,719 | 763,734 |
| Fundraising | 57,891 | 48,652 |
| | <u>6,869,760</u> | <u>5,224,661</u> |
| SURPLUS FROM SCHOOL OPERATIONS | <u>779,219</u> | <u>696,579</u> |
| SUPPORT AND OTHER INCOME | | |
| Contributions and other grants | 16,487 | 18,205 |
| Interest income | 10,591 | - |
| Miscellaneous income | - | 15,064 |
| | <u>27,078</u> | <u>33,269</u> |
| CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS | <u>806,297</u> | <u>729,848</u> |
| NET ASSETS - BEGINNING OF YEAR | <u>1,400,400</u> | <u>670,552</u> |
| NET ASSETS - END OF YEAR | <u>\$ 2,206,697</u> | <u>\$ 1,400,400</u> |

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

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

| | No. of Positions | Program Services | | | Supporting Services | | Total 2019 |
|--|---------------------|----------------------|----------------------|---------------------|---------------------------|------------------|---------------------|
| | | General Education | Special Education | Total | Management and General | Fundraising | |
| Personnel service costs | | | | | | | |
| Administrative staff personnel | 9 | \$ 238,682 | \$ 94,659 | \$ 333,341 | \$ 396,540 | \$ 28,199 | \$ 758,080 |
| Instructional personnel | 38 | 1,524,869 | 767,008 | 2,291,877 | - | - | 2,291,877 |
| Non-instructional personnel | 3 | 16,104 | 8,052 | 24,156 | 8,052 | - | 32,208 |
| Total salaries and staff | 50 | 1,779,655 | 869,719 | 2,649,374 | 404,592 | 28,199 | 3,082,165 |
| Payroll taxes and employee benefits | | 401,541 | 196,234 | 597,775 | 91,288 | 6,362 | 695,425 |
| Legal services | | - | - | - | 23,317 | - | 23,317 |
| Accounting and audit services | | - | - | - | 17,025 | - | 17,025 |
| Other purchased, professional, and consulting services | | 86,208 | 65,011 | 151,219 | 64,741 | - | 215,960 |
| Building lease and rent | | 1,164,990 | 569,332 | 1,734,322 | 264,852 | 18,459 | 2,017,633 |
| Repairs and maintenance | | 40,155 | 19,624 | 59,779 | 9,129 | 636 | 69,544 |
| Insurance | | 19,602 | 9,580 | 29,182 | 4,456 | 311 | 33,949 |
| Utilities | | 1,031 | 504 | 1,535 | 234 | 16 | 1,785 |
| Supplies and materials | | 93,454 | 20,351 | 113,805 | 198 | 14 | 114,017 |
| Equipment and furnishings | | 20,467 | 10,002 | 30,469 | 4,653 | 324 | 35,446 |
| Staff development | | 8,445 | 9,601 | 18,046 | 638 | 44 | 18,728 |
| Marketing and recruitment | | 31,864 | 8,780 | 40,644 | 2,603 | 181 | 43,428 |
| Technology | | 55,446 | 27,096 | 82,542 | 12,605 | 879 | 96,026 |
| Student services | | 117,408 | 18,314 | 135,722 | - | - | 135,722 |
| Office expense | | 39,720 | 19,411 | 59,131 | 9,030 | 629 | 68,790 |
| Depreciation | | 114,292 | 55,854 | 170,146 | 25,983 | 1,811 | 197,940 |
| Other | | 1,652 | 807 | 2,459 | 375 | 26 | 2,860 |
| | | \$ 3,975,930 | \$ 1,900,220 | \$ 5,876,150 | \$ 935,719 | \$ 57,891 | \$ 6,869,760 |

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

INTERNATIONAL CHARTER SCHOOL OF NEW YORK
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

| | No. of Positions | Program Services | | | Supporting Services | | Total 2018 |
|--|---------------------|----------------------|----------------------|---------------------|---------------------------|------------------|---------------------|
| | | General Education | Special Education | Total | Management and General | Fundraising | |
| Personnel service costs | | | | | | | |
| Administrative staff personnel | 7 | \$ 231,734 | \$ 79,939 | \$ 311,673 | \$ 303,859 | \$ 26,527 | \$ 642,059 |
| Instructional personnel | 34 | 1,318,549 | 549,835 | 1,868,384 | - | - | 1,868,384 |
| Non-instructional personnel | 2 | 17,319 | 8,660 | 25,979 | 8,660 | - | 34,639 |
| Total salaries and staff | 43 | 1,567,602 | 638,434 | 2,206,036 | 312,519 | 26,527 | 2,545,082 |
| Payroll taxes and employee benefits | | 337,209 | 137,335 | 474,544 | 67,226 | 5,706 | 547,476 |
| Legal services | | - | - | - | 73,051 | - | 73,051 |
| Accounting and audit services | | - | - | - | 19,062 | - | 19,062 |
| Other purchased, professional, and consulting services | | 33,090 | 20,451 | 53,541 | 91,764 | - | 145,305 |
| Building lease and rent | | 690,688 | 281,295 | 971,983 | 137,696 | 11,688 | 1,121,367 |
| Repairs and maintenance | | 73,368 | 29,880 | 103,248 | 14,627 | 1,242 | 119,117 |
| Insurance | | 21,534 | 8,770 | 30,304 | 4,293 | 364 | 34,961 |
| Utilities | | 48,355 | 19,693 | 68,048 | 9,640 | 818 | 78,506 |
| Supplies and materials | | 110,174 | 21,440 | 131,614 | 34 | 3 | 131,651 |
| Equipment and furnishings | | 19,382 | 7,894 | 27,276 | 3,864 | 328 | 31,468 |
| Staff development | | 45,864 | 11,762 | 57,626 | 818 | 69 | 58,513 |
| Marketing and recruitment | | 22,728 | 4,317 | 27,045 | 905 | 77 | 28,027 |
| Technology | | 47,709 | 19,430 | 67,139 | 9,511 | 807 | 77,457 |
| Student services | | 95,762 | 12,992 | 108,754 | - | - | 108,754 |
| Office expense | | 28,137 | 11,459 | 39,596 | 5,609 | 476 | 45,681 |
| Depreciation | | 31,338 | 12,763 | 44,101 | 6,247 | 530 | 50,878 |
| Other | | 1,009 | 411 | 1,420 | 201 | 17 | 1,638 |
| Bad debt expense | | - | - | - | 6,667 | - | 6,667 |
| | | \$ 3,173,949 | \$ 1,238,326 | \$ 4,412,275 | \$ 763,734 | \$ 48,652 | \$ 5,224,661 |

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

INTERNATIONAL CHARTER SCHOOL OF NEW YORK
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

| | 2019 | 2018 |
|---|----------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from operating revenue | \$ 7,782,058 | \$ 5,905,885 |
| Cash received from interest income | 10,591 | - |
| Other cash received | 16,487 | 33,269 |
| Cash paid to employees and suppliers | <u>(6,315,041)</u> | <u>(5,522,664)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>1,494,095</u> | <u>416,490</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (679,620) | (110,138) |
| Construction in progress | <u>(94,433)</u> | <u>-</u> |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(774,053)</u> | <u>(110,138)</u> |
| NET INCREASE IN CASH | 720,042 | 306,352 |
| CASH AND CASH EQUIVALENTS AND CASH - RESTRICTED - BEGINNING OF YEAR | <u>727,179</u> | <u>420,827</u> |
| CASH AND CASH EQUIVALENTS AND CASH - RESTRICTED - END OF YEAR | <u>\$ 1,447,221</u> | <u>\$ 727,179</u> |
| Reconciliation of change in net assets to net cash provided by operating activities: | | |
| Change in net assets | \$ 806,297 | \$ 729,848 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 197,940 | 50,878 |
| Bad debt | - | 6,667 |
| Changes in operating assets and liabilities: | | |
| Grants and other receivables | 127,884 | (17,489) |
| Due from NYC Department of Education | 5,195 | (4,533) |
| Due to NYC Department of Education | 2,024 | - |
| Prepaid expenses and other assets | (27,600) | (446,721) |
| Accounts payable and accrued expenses | 302,695 | (7,230) |
| Accrued salary and other payroll related expenses | <u>79,660</u> | <u>105,070</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 1,494,095</u> | <u>\$ 416,490</u> |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash and Cash Equivalents Consist of: | | |
| Cash and cash equivalents | \$ 1,372,221 | \$ 652,179 |
| Cash - restricted | <u>75,000</u> | <u>75,000</u> |
| Total | <u>\$ 1,447,221</u> | <u>\$ 727,179</u> |

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

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

1. NATURE OF THE ORGANIZATION

International Charter School of New York (the "School") is a New York State, not-for-profit educational corporation that was incorporated on October 16, 2014 to operate a charter school pursuant to Article 56 of the Educational Law of the State of New York. The School was granted a provisional charter on October 16, 2014, valid for a term of five years by the Board of Regents of the State University of New York.

In fiscal year 2019, the School operated classes for students in kindergarten through fourth grade. The fourth grade was added in fiscal year 2019.

The School is exempt from Federal income tax under section 501(a) of the Internal Revenue Code ("IRC") as an organization described in Section 501(c)(3) of the IRC and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the IRC and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii) of the IRC. The School's primary sources of income are government grants, contracts, and per pupil funding. International Charter School of New York, located in Brooklyn, primarily educates children residing in District 13.

The New York City Department of Education ("NYCDOE") provides free lunches and transportation directly to a majority of the School's students.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The classification of the School's net assets and its support, revenues, and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the two classes of net assets – with donor restrictions or without donor restrictions – be displayed in a statement of financial position and that the amount of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Net Assets with Donor Restrictions consist of contributions and other inflows of assets whose use is subject to donor-imposed restrictions that are more specific than broad limits reflecting the nature of the not-for-profit entity, the environment in which it operates and the purposes specified in its articles of incorporation or bylaws or comparable documents. Donor-imposed restrictions may be temporary in nature, such as stipulating that resources may be used only after a specified date or limited to specific programs or services. Certain donor imposed restrictions are perpetual in nature.

Net Assets without Donor Restrictions consist of contributions and other inflows of assets whose use is not subject to donor-imposed restrictions. This net asset category includes both contributions not subject to donor restrictions and exchange transactions, such as state and local per pupil operating revenue.

Cash – Restricted

An escrow account of \$75,000 is held aside for contingency purposes as required by the Board of Regents of the State University of New York.

Grants and Other Receivables

Grants and other receivables represent unconditional promises to give by donors. Grants and other receivables that are expected to be collected within one year are recorded at net realizable value, and amount to \$41,879 and \$169,763 at June 30, 2019 and 2018, respectively.

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bad Debt Expense

The School had no bad debt expense for the year ended June 30, 2019. The School had bad debt expense of \$6,667 for the year ended June 30, 2018. The School determined that no allowance for uncollectible accounts was necessary at June 30, 2019 and 2018. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

Revenue Recognition

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

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred, if any, are reflected as refundable advances from state and local government grants in the accompanying statements of financial position.

Property and Equipment

Property and equipment are stated at cost and are depreciated on the straight-line method over the estimated useful lives of the assets (see Note 5). Leasehold improvements are amortized over the shorter of the life of the asset or the life of the lease. The School has established a \$2,000 threshold above which assets are evaluated to be capitalized. Property and equipment acquired with certain government contract funds is recorded as an expense pursuant to the terms of the contract in which the government funding source retains ownership of the property. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized.

Impairment

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the years ended June 30, 2019 and 2018.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received.

Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The School has evaluated events through October 9, 2019, which is the date the financial statements were available to be issued.

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The School follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, disclosure, and transition.

The School files informational returns in the federal jurisdictions. The School is subject to federal tax examinations for all fiscal years in which informational returns were filed.

The School believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Management believes that its nonprofit status would be sustained upon examination.

Should there be interest on underpayments of income tax, the School would classify as interest expense. The School would classify penalties in connection with underpayments of income tax as other expense.

The School is subject to tax reportable on Form 990T consisting of unrelated business income if they have provided pre-tax transportation benefits to employees.

Adopted Accounting Pronouncement

Financial Statement Presentation

During the year ended June 30, 2019, the School adopted Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The major changes include, but are not limited to: (a) requiring the presentation of two classes of net assets now titled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations on gifts used to acquire or construct long-lived assets absent explicit donor restrictions otherwise, (d) requiring the presentation of an analysis of expenses by function and nature, (e) requiring the disclosure of information regarding liquidity and availability of resources, and (f) presenting investment return net of external and direct internal investment expenses. In addition, the update removes the requirement that statements of cash flows using the direct method also present a reconciliation consistent with the indirect method. The School has applied the update retrospectively to all periods presented and adjusted the presentation of these financial statements accordingly. As a result, the School reclassified amounts formerly classified as unrestricted net assets to net assets without donor restrictions. The adoption of this update had no other material effect on the School’s financial position and changes in net assets. In addition, the School has elected to continue to present a reconciliation in the statement of cash flows consistent with the indirect method.

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted but no earlier than annual reporting periods beginning after December 31, 2016. The School is currently evaluating the effect the update will have on its financial statements.

In June 2018, the FASB issued an accounting standards update in an effort to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The FASB believes the update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (non-reciprocal transactions) within the scope of not-for-profit guidance, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional or not. The update is effective on a modified prospective basis for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019, with early adoption permitted. The School is currently evaluating the potential accounting, transition, and disclosure effects the update will have on its financial statements.

In February 2016, the FASB issued an accounting standards update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Also, the FASB has issued amendments to the update with practical expedients related to land easements and lessor accounting. The School is currently evaluating the effect the update will have on its financial statements but expects upon adoption that the update will have a material effect on the School’s financial condition due to the recognition of a right-of-use asset and related lease liability. The School does not anticipate the update having a material effect on the School’s results of operations or cash flows, though such an effect is possible.

The update originally required transition to the new lease guidance using a modified retrospective approach which would reflect the application of the update as of the beginning of the earliest comparative period presented. A subsequent amendment to the update provides an optional transition method that allows entities to initially apply the new lease guidance with a cumulative-effect adjustment to the opening balance of equity in the period of adoption. If this optional transition method is elected, after the adoption of the new lease guidance, the School’s presentation of comparative periods in the financial statements will continue to be in accordance with current lease accounting. The School is evaluating the method of adoption it will elect. The update is effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021, with early application permitted.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. This reclassification had no effect on previously reported change in net assets.

3. LIQUIDITY MANAGEMENT AND AVAILABILITY OF RESOURCES

The School maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the School invests cash in excess of weekly requirements in money market funds.

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

3. LIQUIDITY MANAGEMENT AND AVAILABILITY OF RESOURCES (CONTINUED)

The School's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

| | 2019 | 2018 |
|--|---------------------|-------------------|
| Cash and cash equivalents | \$ 1,372,221 | \$ 652,179 |
| Cash - restricted | 75,000 | 75,000 |
| Grants and other receivables | 41,879 | 169,763 |
| Due from NYC Department of Education | - | 5,195 |
| Total financial assets | \$ 1,489,100 | \$ 902,137 |
| Less amounts unavailable for general expenditures within one year due to: | | |
| Restricted by contract with time or purpose | (75,000) | (75,000) |
| Total financial assets available to management for general expenditures within one year | \$ 1,414,100 | \$ 827,137 |

At June 30, 2019 and 2018, the School has no board designated net assets.

4. RELATED PARTY TRANSACTIONS

Friends of International Charter School of New York ("Friends of ICSNY") is a not-for-profit organization dedicated to providing assistance to charter schools and other forms of alternative education including, but not limited to the International Charter School of New York. The School has entered into sublease agreements with Friends of ICSNY (see Note 10).

The balance due to Friends of ICSNY at June 30, 2019 amounted to \$259,237, which is comprised of rent and leasehold improvements and is included in accounts payable and accrued expenses in the statements of financial position. There was no balance due to Friends of ICSNY at June 30, 2018.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30,:

| | 2019 | 2018 | Estimated Useful Lives |
|------------------------------------|-------------------|-------------------|------------------------|
| Furniture, fixtures, and equipment | \$ 247,212 | \$ 149,825 | 5 years |
| Computers | 73,418 | 51,123 | 3 years |
| Leasehold improvements | 571,090 | 11,152 | 2 years |
| | 891,720 | 212,100 | |
| Less: accumulated depreciation | (288,828) | (90,888) | |
| | \$ 602,892 | \$ 121,212 | |

Depreciation expense amounted to \$197,940 and \$50,878 for the years ended June 30, 2019 and 2018, respectively.

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

6. CONSTRUCTION IN PROGRESS

On December 27, 2018, Friends of ICSNY entered into a 30-year lease agreement with 30 Clinton LLC, c/o Barone Management (the "Landlord"). The anticipated occupancy date is July 1, 2021.

This will be a new construction of approximately 50,050 square feet. The premises will also include an area in the rear of the building containing approximately 4,000 square feet, at grade, and approximately 3,000 square feet on the roof of the building, to be used for recreation and instruction. The financing and construction of the building is the Landlord's responsibility.

Friends of ICSNY hired an architect to advise the School's management on the Landlord's proposed plans, in such detail as Landlord requires for the development of construction plans for the Landlord's work. Friends of ICSNY retained the School's existing law firm, to represent them in the lease negotiations.

At June 30, 2019, construction in progress was \$94,433 and consists of architectural and legal services for the construction of assets that have not been completed or placed in service as of the end of the year.

7. GRANTS AND OTHER RECEIVABLES

Grants and other receivables consist of federal and state entitlements and grants, as well as unconditional promises to give by donors. The School expects to collect these receivables within one year. Grants and other receivables consist of the following as of June 30,:

| | 2019 | 2018 |
|------------------------|------------------|-------------------|
| E-Rate Reimbursement | \$ - | \$ 4,080 |
| Title I | 3,827 | 22,875 |
| Title II | 200 | 41,611 |
| Title IV | 1,000 | - |
| Facility Assistance | - | 1,035 |
| NYS Additional Funding | 36,636 | 99,769 |
| Other | 216 | 393 |
| | <u>\$ 41,879</u> | <u>\$ 169,763</u> |

8. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to help protect itself from such risks.

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund.

The School's charter is up for renewal on October 16, 2019. Although the School anticipates that this renewal will be granted by the authorizers, no assurance can be provided that this will occur.

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019 AND 2018

9. CONCENTRATIONS

Financial instruments that potentially subject the School to a concentration of credit risk include cash accounts at a major financial institution that, at times, exceeded the Federal Deposit Insurance Corporation insured limit of \$250,000.

The School received approximately 75% and 77% of its total revenue from per pupil funding from the NYCDOE during the years ending June 30, 2019 and 2018, respectively.

The School's grants and other receivables consist of one major grantor accounting for approximately 87% as of June 30, 2019. The School's grants and other receivables consist of two major grantors accounting for approximately 97% as of June 30, 2018.

The School's payables consist of three major vendors accounting for approximately 70% at June 30, 2019. The School's payables consist of three major vendors accounting for approximately 44% at June 30, 2018.

10. COMMITMENTS

In April 2015, the School entered into a sub-lease agreement with Brooklyn Friends School for the premises at 55 Willoughby Street, Brooklyn, NY 11201. The lease was modified and extended through August 31, 2020 with Friends of ICSNY.

In July 2017, the School entered into a lease agreement for additional space at Hanson Place SDA School through July 31, 2018. This lease was not renewed.

On July 31, 2018, the School entered into a sub-lease agreement with Friends of ICSNY for the premises at 522-528 Fulton Street through June 30, 2021.

Future minimum rental lease payments are as follows:

| | |
|----------|----------------------------|
| June 30, | |
| 2020 | \$ 2,478,678 |
| 2021 | <u>1,800,108</u> |
| | <u>\$ 4,278,786</u> |

Rent expense for the year ended June 30, 2019 and 2018 was \$2,017,633 and \$1,121,367, respectively, and is included in building lease and rent on the statements of functional expenses.



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

To the Board of Trustees
International Charter School of New York

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 Charter School of New York (the "School"), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, 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 9, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 School'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 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*.

We noted certain matters that we reported to management of the School in a separate letter dated October 9, 2019.

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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 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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

MBAF CPAs, LLC

New York, NY

October 9, 2019

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

Communication With Those Charged With Governance

OCTOBER 9, 2019

October 9, 2019

To the Audit Committee
International Charter School of New York

We have audited the financial statements of International Charter School of New York (the "School") for the year ended June 30, 2019, and are prepared to issue our report thereon dated October 9, 2019. Professional standards require that we provide you with the following information related to our audit. This letter is divided into two sections: 1) required communications from the auditors to those with audit oversight responsibilities and 2) opportunities for strengthening internal controls or enhancing operating efficiency and our related recommendations.

REQUIRED COMMUNICATIONS

A. Our Responsibility under U.S. Generally Accepted Auditing Standards:

As stated in our engagement letter April 9, 2019, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of International Charter School of New York. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

B. Planned Scope and Timing of the Audit:

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on in May 2019.

C. Auditor Independence:

We affirm that MBAF CPAs, LLC is independent with respect to International Charter School of New York.

D. Qualitative Aspects of Accounting Practices:

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by International Charter School of New York are described in Note 2 to the financial statements.

As described in Note 2 to the financial statements, during the year ended June 30, 2019, the School adopted Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update amends the current reporting model for not-for-profit organizations and enhances their required disclosures. The major changes include, but are not limited to: (a) requiring the presentation of two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions," (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations

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on gifts used to acquire or construct long-lived assets absent explicit donor restrictions otherwise, (d) requiring the presentation of an analysis of expenses by function and nature, (e) requiring the disclosure of information regarding liquidity and availability of resources, and (f) presenting investment return net of external and direct internal investment expenses. In addition, the update removes the requirement that statements of cash flows using the direct method also present a reconciliation consistent with the indirect method. The School has applied the update retrospectively to all periods presented and adjusted the presentation of these financial statements accordingly. As a result, the School reclassified amounts formerly classified as unrestricted net assets to net assets without donor restrictions. The adoption of this update had no other material effect on the School's financial position and changes in net assets. In addition, the School has elected to continue to present a reconciliation in the statement of cash flows consistent with the indirect method.

We noted no transactions entered into by the School during the period for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

E. Accounting Estimates Used in the Financial Statements:

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Allowance for Doubtful Accounts:

As of June 30, 2019, International Charter School of New York recorded grants and other receivables of \$41,879. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's donors, the aged basis of the receivables, as well as economic conditions and historical information. Based on our audit procedures which included a discussion with the school leadership and a review of subsequent collections we concur with management's conclusion.

Functional Statement Allocation:

Management's estimate of the allocation of functional expenses is directly identified with the program or supporting service to which they relate. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Depreciation:

Management's estimate of depreciation is based on estimated useful lives of assets. We evaluated the estimated useful lives of assets in comparison to generally accepted accounting principles in determining that it is reasonable in relation to the financial statements taken as a whole.

F. Sensitive Disclosures Affecting the Financial Statements:

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

The disclosure of Risk Management in Note 8 to the financial statements describes various risks to which the School is exposed.

G. Corrected and Uncorrected Misstatements:

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We will identify those adjustments proposed both corrected and uncorrected:

Proposed and Corrected:

There were three audit adjustments made during the audit. One that decreased net assets by \$2,024 that was proposed and corrected during the period. This adjustment was to reclass a portion of per pupil funding that was received during the year as deferred revenue to agree to the final NYCDOE per pupil reconciliation. The second adjustment had no effect on net assets and was to reverse an entry made to record July 2019 Rent Expense as "Due to Friends of ICSNY". The third adjustment was proposed by management and had no effect on net assets, and was to reclass a portion of rent expense as professional fees.

Proposed and Uncorrected:

There was one uncorrected financial statement misstatement, representing the School's rent expense on a straight-line basis which if corrected, would have resulted in a decrease in net assets of approximately \$38,000, which is immaterial to the financial statements as a whole.

H. Audit Difficulties and Disagreements with Management:

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

I. Management Representations:

We have requested certain representations from management that are included in the management representation letter dated October 9, 2019.

J. Management Consultations with Other Independent Accountants:

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

K. Other Audit Findings or Issues:

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



OPPORTUNITIES FOR STRENGTHENING INTERNAL CONTROLS OR ENHANCING OPERATING EFFICIENCY

We wish to thank management and personnel for their support and assistance during our audit. We would be pleased to further discuss the contents of this report with you at your convenience.

This information is intended solely for the use of the Audit Committee, Board of Trustees, and management of International Charter School of New York and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

MBAF CPAs, LLC
MBAF CPAs, LLC