

# **INTERNATIONAL CHARTER SCHOOL OF NEW YORK**

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FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE PERIOD FROM  
OCTOBER 16, 2014 (DATE OF INCEPTION) TO JUNE 30, 2016)

# 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 statement of financial position as of June 30, 2017, and the related statements of activities, 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 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.

## ***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, 2017, 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 Charter School of New York's 2016 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated October 22, 2016. In our opinion, the summarized comparative information presented herein as of June 30, 2016 and for the period from October 16, 2014 (date of inception) to June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2017, 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  
September 20, 2017

**INTERNATIONAL CHARTER SCHOOL OF NEW YORK**  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2017  
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2016)

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
Cash	\$ 370,827	\$ 43,518
Cash - restricted	50,000	25,000
Grants and other receivables	152,274	374,473
Due from NYC Department of Education	7,329	6,592
Prepaid expenses and other assets	246,478	120,354
Property and equipment, net	61,952	54,764
	<b>\$ 888,860</b>	<b>\$ 624,701</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 82,670	\$ 159,661
Accrued salary and other payroll related expenses	135,638	87,656
Fund for the City of New York loan	-	288,300
	<b>218,308</b>	<b>535,617</b>
<b>NET ASSETS</b>		
Unrestricted	670,552	(138,172)
Temporarily restricted	-	227,256
	<b>670,552</b>	<b>89,084</b>
	<b>\$ 888,860</b>	<b>\$ 624,701</b>

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

**INTERNATIONAL CHARTER SCHOOL OF NEW YORK**  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017  
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE PERIOD  
FROM OCTOBER 16, 2014 (DATE OF INCEPTION) TO JUNE 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
<b>OPERATING REVENUE</b>				
State and local per pupil operating revenue	\$ 3,262,649	\$ -	\$ 3,262,649	\$ 1,716,127
Government grants and contracts	1,006,949	-	1,006,949	1,189,647
	<u>4,269,598</u>	<u>-</u>	<u>4,269,598</u>	<u>2,905,774</u>
<b>EXPENSES</b>				
Program services				
General education	2,403,755	-	2,403,755	1,854,826
Special education	741,410	-	741,410	466,622
Management and general	522,208	-	522,208	768,784
Fundraising	44,716	-	44,716	65,809
	<u>3,712,089</u>	<u>-</u>	<u>3,712,089</u>	<u>3,156,041</u>
<b>SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS</b>	<u>557,509</u>	<u>-</u>	<u>557,509</u>	<u>(250,267)</u>
<b>SUPPORT AND OTHER INCOME</b>				
Contributions and other grants	22,825	-	22,825	339,351
Miscellaneous income	1,134	-	1,134	-
Net assets released from restrictions	227,256	(227,256)	-	-
	<u>251,215</u>	<u>(227,256)</u>	<u>23,959</u>	<u>339,351</u>
<b>CHANGE IN NET ASSETS</b>	<u>808,724</u>	<u>(227,256)</u>	<u>581,468</u>	<u>89,084</u>
<b>NET ASSETS - BEGINNING OF PERIOD</b>	<u>(138,172)</u>	<u>227,256</u>	<u>89,084</u>	<u>-</u>
<b>NET ASSETS - END OF PERIOD</b>	<u>\$ 670,552</u>	<u>\$ -</u>	<u>\$ 670,552</u>	<u>\$ 89,084</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, 2017  
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE PERIOD  
FROM OCTOBER 16, 2014 (DATE OF INCEPTION) TO JUNE 30, 2016)

	No. of Positions	Program Services			Supporting Services		Total 2017	Total 2016
		General Education	Special Education	Total	Management and General	Fundraising		
Personnel service costs								
Administrative staff personnel	5	\$ 86,389	\$ 55,489	\$ 141,878	\$ 202,716	\$ 24,892	\$ 369,486	\$ 539,233
Instructional personnel	22	914,067	279,573	1,193,640	-	-	1,193,640	863,111
Non-instructional personnel	3	178,843	50,736	229,579	7,001	-	236,580	134,168
Total salaries and staff	30	1,179,299	385,798	1,565,097	209,717	24,892	1,799,706	1,536,512
Payroll taxes and employee benefits		214,452	70,156	284,608	38,137	4,527	327,272	206,283
Legal services		-	-	-	21,920	-	21,920	13,546
Accounting and audit services		-	-	-	24,603	-	24,603	25,500
Other purchased, professional, and consulting services		61,190	19,524	80,714	98,961	1	179,676	156,242
Building lease and rent		415,006	135,766	550,772	73,801	8,760	633,333	550,000
Repairs and maintenance		101,862	33,323	135,185	18,114	2,150	155,449	182,262
Insurance		18,575	6,077	24,652	3,303	392	28,347	29,059
Utilities		105,025	34,358	139,383	18,677	2,217	160,277	124,548
Supplies and materials		146,373	18,689	165,062	6	1	165,069	107,159
Equipment and furnishings		11,465	3,751	15,216	2,039	242	17,497	64,349
Staff development		7,270	2,710	9,980	406	48	10,434	10,035
Marketing and recruitment		9,058	1,170	10,228	122	15	10,365	30,666
Technology		33,110	10,832	43,942	5,888	699	50,529	44,855
Food service		7,264	820	8,084	-	-	8,084	2,336
Student services		57,182	6,455	63,637	-	-	63,637	30,690
Office expense		20,865	6,826	27,691	3,711	440	31,842	25,692
Depreciation		15,609	5,106	20,715	2,776	329	23,820	16,190
Other		150	49	199	27	3	229	117
		<b>\$ 2,403,755</b>	<b>\$ 741,410</b>	<b>\$ 3,145,165</b>	<b>\$ 522,208</b>	<b>\$ 44,716</b>	<b>\$ 3,712,089</b>	<b>\$ 3,156,041</b>

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

**INTERNATIONAL CHARTER SCHOOL OF NEW YORK**  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2017  
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE PERIOD  
FROM OCTOBER 16, 2014 (DATE OF INCEPTION) TO JUNE 30, 2016)

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from operating revenue	\$ 4,491,060	\$ 2,524,709
Other cash received	23,959	339,351
Cash paid to employees and suppliers	(3,868,402)	(3,037,888)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>646,617</u>	<u>(173,828)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(31,008)	(70,954)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Fund for the City of New York loan	-	288,300
Repayment of Fund for the City of New York loan	(288,300)	-
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>(288,300)</u>	<u>288,300</u>
NET INCREASE IN CASH	327,309	43,518
CASH - BEGINNING OF PERIOD	<u>43,518</u>	<u>-</u>
CASH - END OF PERIOD	<u><b>\$ 370,827</b></u>	<u><b>\$ 43,518</b></u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ 581,468	\$ 89,084
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	23,820	16,190
Changes in operating assets and liabilities:		
Cash - restricted	(25,000)	(25,000)
Grants and other receivables	222,199	(374,473)
Due from NYC Department of Education	(737)	(6,592)
Prepaid expenses and other assets	(126,124)	(120,354)
Accounts payable and accrued expenses	(76,991)	159,661
Accrued salary and other payroll related expenses	47,982	87,656
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u><b>\$ 646,617</b></u>	<u><b>\$ (173,828)</b></u>

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

# INTERNATIONAL CHARTER SCHOOL OF NEW YORK

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

## 1. NATURE OF THE ORGANIZATION

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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.

The School opened its doors in the fall of 2015 in Brooklyn to kindergarten and first grade students. The second grade was added in fiscal year 2017.

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.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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### 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 three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently Restricted - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by the School are limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported as such in the statement of activities.

Unrestricted - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

### Cash - restricted

An escrow account of \$50,000 is held aside for contingency purposes at June 30, 2017 as required by the Board of Regents of the State University of New York.

# INTERNATIONAL CHARTER SCHOOL OF NEW YORK

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## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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#### **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 \$152,274 and \$374,473 at June 30, 2017 and 2016, respectively. The School had no bad debt expense for the year ended June 30, 2017 and the period ended June 30, 2016. The School determined that no allowance for uncollectible accounts was necessary at June 30, 2017 and 2016. 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 is recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Contributions of assets other than cash are recorded at their estimated fair value.

Revenue from the state and local government 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 when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred would be reflected as refundable advances from state and local government grants in the accompanying statement 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. 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 year ended June 30, 2017 and the period ended June 30, 2016.

#### **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.

# INTERNATIONAL CHARTER SCHOOL OF NEW YORK

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### Subsequent Events

The School has evaluated events through September 20, 2017, which is the date the financial statements were available to be issued.

### 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 and New York State jurisdictions. The School is subject to Federal, state, or local income tax examination 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 it as "Interest Expense." The School would classify penalties in connection with underpayments of income tax as "Other Expense."

### 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 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. Accounting by lessors remains largely unchanged from current U.S. GAAP. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The School is currently evaluating the effect the update will have on its financial statements.

In August 2016, the FASB issued an accounting standards update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. The School is currently evaluating the effect the update will have on its financial statements.

# INTERNATIONAL CHARTER SCHOOL OF NEW YORK

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Recent Accounting Pronouncements (continued)

In November 2016, the FASB issued an accounting standards update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The School is currently evaluating the effect the update will have on its financial statements.

### 3. PROPERTY AND EQUIPMENT

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

	2017	2016	Estimated Useful Lives
Furniture, fixtures, and equipment	\$ 69,539	\$ 49,029	5 years
Computers	<u>32,423</u>	<u>21,925</u>	3 years
	101,962	70,954	
Less: accumulated depreciation	<u>(40,010)</u>	<u>(16,190)</u>	
	<b><u>\$ 61,952</u></b>	<b><u>\$ 54,764</u></b>	

Depreciation expense amounted to \$23,820 and \$16,190 for the year ended June 30, 2017 and the period ended June 30, 2016, respectively.

### 4. 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,:

	2017	2016
CSP	\$ 42,437	\$ 39,227
E-Rate Reimbursement	8,386	7,066
Title I	6,799	3,371
Title II	1,441	1,387
Facility Assistance	1,035	1,526
DYCD	-	288,300
NYS Additional Funding	89,844	23,879
Other	<u>2,332</u>	<u>9,717</u>
	<b><u>\$ 152,274</u></b>	<b><u>\$ 374,473</u></b>

### 5. FUND FOR THE CITY OF NEW YORK LOAN

The School received an interest-free loan from the Fund for the City of New York amounting to \$288,300 during fiscal year 2016. The School was also awarded a grant during the same year from New York City Department of Youth and Community Development ("DYCD") to cover start-up expenses. In July 2016, the School received the grant proceeds and repaid the interest-free loan.

# INTERNATIONAL CHARTER SCHOOL OF NEW YORK

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## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

### 6. RISK MANAGEMENT

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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. The accompanying financial statements make no provision for the possible disallowance or refund.

### 7. CONCENTRATIONS

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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 76% and 53% of its total revenue from per pupil funding from the NYCDOE during the year ending June 30, 2017 and the period ending June 30, 2016, respectively.

The School's grants and other receivables consist of two major grantors accounting for approximately 87% at both June 30, 2017 and 2016.

The School's payables consist of three major vendors accounting for approximately 64% at June 30, 2017. The School's payables consist of three major vendors accounting for approximately 44% at June 30, 2016.

### 8. COMMITMENTS

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In April 2015, the School entered into a lease agreement with Brooklyn Friends School for the premises at 55 Willoughby Street, Brooklyn, NY 11201. The original lease term was from August 1, 2015 to August 29, 2016. The lease was renewed through August 30, 2017. Subsequent to year end, the lease at 55 Willoughby Street was renewed through August 30, 2020. A second lease was signed for additional space at Hanson Place SDA School through July 31, 2018. Future minimum rental lease payments are as follows:

June 30,	
2018	\$ 1,114,167
2019	798,887
2020	787,174
2021	<u>131,939</u>
	<b><u>\$ 2,832,167</u></b>

Rent expense for the year ended June 30, 2017 and for the period ended June 30, 2016 was \$633,333 and \$550,000, respectively, and is included in building lease and rent on the statement of functional expenses.

### 9. TEMPORARILY RESTRICTED NET ASSETS

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There were no temporarily restricted net assets at June 30, 2017. Net assets were released from restrictions during the year ended June 30, 2017 by incurring expenses, thus satisfying the purpose restrictions as follows:

Various start-up costs - Walton Foundation Grant	\$ 222,000
Tapestry grant	4,256
Physical education program	<u>1,000</u>
	<b><u>\$ 227,256</u></b>



**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, 2017, 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 September 20, 2017.

**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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as finding 2017-01.

We noted certain matters that we reported to management of the School in a separate letter dated September 20, 2017.

### **International Charter School of New York's Response to Finding**

The International Charter School of New York's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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  
September 20, 2017

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

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SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2017

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

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***Financial Statements***

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

Material weakness (es) identified?

\_\_\_yes '1\_\_\_no

Significant deficiency (ies) identified that are not  
considered to be material weaknesses?

\_\_\_yes '1\_\_\_no

Noncompliance material to financial statements noted?

'1 yes\_\_\_no

# INTERNATIONAL CHARTER SCHOOL OF NEW YORK

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SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2017

## SECTION II - FINANCIAL STATEMENT FINDING

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### **Finding: 2017-01**

Criteria and condition: The School is required to be in compliance with the New York State Education Department ("NYSED") requirements. NYSED requires the School to obtain and maintain proof of fingerprinting clearance for all employees who are in contact with the students.

Context: The School did not meet the requirement of fingerprinting clearance for 4 of the 25 employee files tested.

Cause: Inadequate management oversight of NYSED requirements.

Effect: The School could be in a position to lose funding from NYSED for hiring an ineligible person. NYSED requires all employees fingerprint clearance to be maintained by the School.

Recommendation: We recommended for the School to be in compliance with the NYSED fingerprinting requirements.

**INTERNATIONAL CHARTER SCHOOL OF NEW YORK**

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SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2017

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION:**

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**Finding: 2017-01**

The School agrees and understands the finding regarding the noncompliance with fingerprinting requirements during fiscal year 2017. The School has obtained the missing fingerprinting clearances for the employees subsequent to audit testing. All employees are now eligible to work at the School.

# **International Charter School of New York**

## ***Communication With Those Charged With Governance***

September 20, 2017





September 20, 2017

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") as of and for the year ended June 30, 2017, and are prepared to issue our report thereon dated September 20, 2017. 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 25, 2017, 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 2017.

### **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. 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, 2017, International Charter School of New York recorded grants and other receivables of \$152,274. 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 6 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 no audit adjustments proposed and corrected during the period.

**Proposed and Uncorrected:**

There were no audit adjustments proposed and uncorrected during the period.

**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 September 20, 2017.

**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**

**Personnel File Testing (See separate letter)**

Our review of personnel records has revealed that there were four instances of a missing fingerprint clearance. Accordingly, we recommend that policies be implemented to ensure compliance with the School's established protocol as well as the regulator's requirements.

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



## **INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURES**

To the Board of Trustees of International Charter School of New York:

We have performed the procedures identified below, which were agreed to by the Board of Trustees and management of International Charter School of New York (the "School") and the New York State Education Department ("NYSED") solely to assist the specified parties in evaluating the School's assertion that it has complied with the requirements of the Charter School Program ("CSP") grant and Federal and NYSED guidelines in managing the CSP grant for the year ended June 30, 2017.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specific users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our results are as follows:

Procedure #1: We will obtain the detail of expenditures incurred for the period under review relating to the CSP grant from the School's accounting software and reconcile to the grant revenue recorded by the School. If the CSP grant revenue does not equal the grant expenditures, we will investigate the differences.

Result: MBAF obtained detail of grant expenditures and reconciled to the grant revenue recorded without exception.

Procedure #2: We will obtain the NYSED approved CSP grant award information, including the budget and any amendments, to determine if the revenue and expenditures recorded for the year appear reasonable.

Result: MBAF obtained the NYSED approved CSP grant award information, including the budget and any amendments. MBAF noted the revenue and expenditures recorded for the year appear reasonable.

Procedure #3: We will select a sample of expenditures from the detail obtained in Procedure #1.

- a. Payroll – We will select 10 items or 10% of the total number of payroll items charged to the grant, whichever is less.
- b. Other expenses – We will select 10 items or 10% of the total number of other expenses charged to the grant, whichever is less.
- c. Using the above selected items, we will:
  - i. Determine if the expenditure is in accordance with the purpose of the grant and that pre-opening expenditures are charged to pre-opening periods.
  - ii. Determine if the expenditure falls into an approved budget category.
  - iii. Determine if the expenditure was charged to the appropriate fiscal period.

Result: MBAF determined that each tested payroll and other expenditure was in accordance with the purpose of the grant, falls into an approved budget category, and was charged to the appropriate fiscal period, without exception.

Procedure #4: We will obtain FS-25 form(s) submitted to NYSED during the period under review and perform the following.

- a. Trace expenditures selected in Procedure #3 to requests for reimbursement. Determine that items requested for reimbursement had previously been expended or were expended within a month following the request for reimbursement. If items have not yet been requested for reimbursement, inquire of the responsible School officials as to the plan for requesting reimbursement, and determine if a receivable is recorded, if appropriate.
- b. If FS-25 forms included amounts on Line four (Cash Expenditures Anticipated During Next Month), we will select one FS-25 and determine if funds were expended within one month following the date of the request.

Result: MBAF traced the sample expenditures mentioned above to requests for reimbursement, without exception. The School spent the funds prior to receipt. Accordingly, no determination that funds were expended within one month was necessary.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on International Charter School of New York's compliance with the requirements of the CSP grant. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Trustees and management of International Charter School of New York and the New York State Education Department, and it is not intended to be and should not be used by anyone other than the specified parties.

MBAF CPAs, LLC

MBAF CPAs, LLC  
September 20, 2017



MBAF CPAs, LLC  
440 Park Avenue South, 3<sup>rd</sup> Floor  
New York, NY 10016

This representation letter is provided in connection with your audit of the financial statements of International Charter School of New York (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief as of the date of this letter as signed below, the following representations made to you during your audit.

### **Financial Statements**

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated April 25, 2017 for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
- We acknowledge our responsibility for 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.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- With regard to non-audit services performed by you, we acknowledge our responsibility to:
  - Assume all management responsibilities;
  - Oversee the services by designating an individual who possesses suitable skill, knowledge, or experience;
  - Evaluate the adequacy and results of the services performed; and
  - Accept responsibility for the results of the services.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
- We have complied with all contractual agreements, grants, and donor restrictions.
- We have accurately presented the entity's position regarding taxation and tax-exempt status.
- The bases used for allocation of functional expenses are reasonable and appropriate.
- We have included in the financial statements all assets and liabilities under the entity's control.
- Material concentrations have been appropriately disclosed in accordance with U.S. GAAP.
- Reclassifications between net asset classes are proper.



## Information Provided

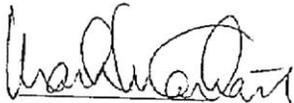
- We have provided you with:
  - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others when the fraud could have a material effect on the financial statements.
- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators, or others.
- We have no knowledge of any noncompliance or suspected noncompliance with laws, regulations, contracts, and grant agreements whose effects should be considered when preparing financial statements.
- There were no designations of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.
- We have complied with all restrictions on resources (including donor restrictions) and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
- We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- We have approved the allocation of functional expense between program service performances, management and general and fundraising expenses. This allocation has been properly disclosed in the financial statements.
- The school has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
- International Charter School of New York is an exempt organization under Section 501 (c) (3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Organization's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
- We acknowledge our responsibility for presenting the financial statements in accordance with U.S. GAAP, and we believe the financial statements, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the financial statements have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
- We have approved all standard, adjusting or correcting journal entries to our financial statements proposed to you
- We have approved a draft of the financial statements.
- We acknowledge the communication to the board of trustees that includes your recommendations.



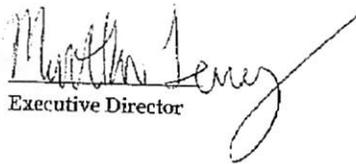
- We are aware that Marc Taub is the engagement partner and is responsible for supervising the engagement and signing the report.

Very truly yours,

International Charter School of New York

  
Treasurer

9/20/17  
(Date)

  
Executive Director

September 20, 2017  
(Date)

55 Willoughby Street | Brooklyn, New York 11201 | 718 305 4199



MBAF CPAs, LLC  
440 Park Avenue South, 3<sup>rd</sup> Floor  
New York, NY 10016

We are providing this letter in connection with your agreed-upon procedures performed over the International Charter School of New York (the "School") compliance with the requirements of the charter school program grant and related federal and New York State Education Department ("NYSED") programs as of and for the year ended June 30, 2017, for the purpose of reporting your findings to the specified parties in regards to the subject matter.

We confirm, to the best of our knowledge and belief, as of the date of this letter as signed below, the following representations made to you during your engagement:

1. We are responsible for the fair presentation of the School's expenditures in conformity with NYSED guidelines.
2. As of June 30, 2017, the agreed-upon procedures are presented in accordance with the NYSED guidelines.
3. We are responsible for determining that the criteria are appropriate for our purposes.
4. We represent that the School's expenditures as of and for the year ended June 30, 2017 is presented in conformity with NYSED guidelines.
5. We have communicated and disclosed all matters to you that may contradict our compliance with NYSED guidelines.
6. We have communicated and disclosed to you all correspondence or other communications we have received from regulatory authorities regarding our compliance with NYSED guidelines.
7. We have made all records applicable to the NYSED guidelines available to you in the conduct of your engagement.
8. We represent that use of your report will be restricted to the specified parties to the engagement as follows: The Board of Trustees and management of International Charter School of New York and the New York State Education Department.
9. To the best of our knowledge and belief, we have disclosed all events that have occurred subsequent to June 30, 2017 and through the date of this letter that would affect the presentation of the subject matter, or your report.

Very truly yours,

International Charter School of New York

  
Treasurer

9/20/17  
(Date)

  
Executive Director

September 20, 2017  
(Date)