SCHALL & ASHENFARB Certified Public Accountants, LLC

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INTEGRATION CHARTER SCHOOLS

(formerly New Ventures Charter School)

Audited Financial Statements In Accordance
With Government Auditing Standards

June 30, 2018

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INTEGRATION CHARTER SCHOOLS
(formerly New Ventures Charter School)

Table of Contents

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IRA L. SCHALL, CPA
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Independent Auditor's Report

To the Board of Trustees of
Integration Charter Schools (formerly New Ventures Charter School)

Report on the Financial Statements

We have audited the accompanying financial statements of Integration Charter Schools (formerly New Ventures Charter School) ("ICS"), which comprise the statement of financial position as of June 30, 2018, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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.

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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 Integration Charter Schools as of June 30, 2018, 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 Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining schedule of activities on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018 on our consideration of ICS' 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 solely 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 effectiveness of the ICS' 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 the ICS' internal control over financial reporting and compliance.

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

October 29, 2018

INTEGRATION CHARTER SCHOOLS
(formerly New Ventures Charter School)
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2018

Assets

Cash and cash equivalents	$4,921,356
Restricted cash (Note 3)	120,509
Grants and pledges receivable (Note 4)	1,048,380
Prepaid expenses	427,515
Fixed assets, net (Note 6)	2,402,082
Lease acquisition costs (Note 7)	283,280
Security deposits	110,426
Total assets	$9,313,548

Liabilities and Net Assets

Liabilities:	
Accounts payable and accrued expenses	$2,050,636
Grant advance - New York City Department of Education (Note 5)	255,877
Loans payable (Note 8)	817,291
Deferred rent	2,018,104
Total liabilities	5,141,908
Net Assets:	
Unrestricted	3,746,494
Temporarily restricted (Note 9)	425,146
Total net assets	4,171,640
Total liabilities and net assets	$9,313,548

The attached notes and auditor's report
are an integral part of these financial statements.

INTEGRATION CHARTER SCHOOLS
(formerly New Ventures Charter School)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue:			
Public school district: (Note 5)			
Revenue - resident student enrollment	$11,564,480		$11,564,480
Revenue - students with special education services	5,088,444		5,088,444
Total public school district revenue	16,652,924	0	16,652,924
Government grants	3,496,324		3,496,324
Contributions	44,214	$30,316	74,530
Benefit income (net of expenses with a direct benefit to donors) (Note 12)	30,019		30,019
Other income	18,037		18,037
Net assets released from restrictions	27,959	(27,959)	0
Total public support and revenue	20,269,477	2,357	20,271,834
Expenses:			
Program services:			
Regular education	10,675,770		10,675,770
Special education	6,236,948		6,236,948
Total program services	16,912,718	0	16,912,718
Supporting services:			
Management and general	2,093,809		2,093,809
Fundraising	184,494		184,494
Total expenses	19,191,021	0	19,191,021
Change in net assets from operations	1,078,456	2,357	1,080,813
Non-operating income:			
Inherent contribution received in acquisition of John W. Lavelle Preparatory Charter School (Note 13)	1,851,493	175,272	2,026,765
Total change in net assets	2,929,949	177,629	3,107,578
Net assets - beginning of year	816,545	247,517	1,064,062
Net assets - ending ofyear	$3,746,494	$425,146	$4,171,640

The attached notes and auditor's report
are an integral part of these financial statements.

INTEGRATION CHARTER SCHOOLS
(formerly New Ventures Charter School)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services			Supporting Services		
	Regular Education	Special Education	Total Program Services	Management and General	Fundraising	Total Expenses
Personnel services:						
Administrative staff personnel	$476,556	$248,019	$724,575			$724,575
Instructional staff personnel	5,505,546	3,127,838	8,633,384			8,633,384
Non-instructional staff personnel	232,804	132,262	365,066	$1,257,168	$92,272	1,714,506
Total personnel services	6,214,906	3,508,119	9,723,025	1,257,168	92,272	11,072,465
Fringe benefits and payroll taxes	1,641,749	926,714	2,568,463	332,100	24,372	2,924,935
Retirement	215,145	121,443	336,588	43,521	3,194	383,303
Supplies and materials	318,760	181,095	499,855			499,855
Legal services			0	56,000		56,000
Accounting and audit services			0	50,063		50,063
Other purchased professional and consulting services	95,790	55,294	151,084	80,921	378	232,383
Occupancy and facility costs	1,226,245	818,064	2,044,309	78,294	15,659	2,138,262
Repairs and maintenance	133,643	94,764	228,407	12,147	2,431	242,985
Insurance	76,641	54,345	130,986	6,966	1,394	139,346
Utilities	123,972	87,908	211,880	11,269	2,255	225,404
Equipment and furnishings	20,979	11,919	32,898	473		33,371
Staff development	88,479	50,267	138,746	615		139,361
Marketing and recruitment			0	42,822		42,822
Technology	11,175	7,924	19,099	1,015	203	20,317
Food services	201,263	114,342	315,605			315,605
Student services	91,906	52,214	144,120			144,120
Office expense	32,912	23,337	56,249	2,993	598	59,840
Bad debt			0	19,456		19,456
Depreciation and amortization	182,205	129,199	311,404	16,564	3,313	331,281
Other			0	81,422	38,425	119,847
Total expenses	$10,675,770	$6,236,948	$16,912,718	$2,093,809	$184,494	$19,191,021

The attached notes and auditor's report are an integral part of these financial statements.

INTEGRATION CHARTER SCHOOLS
(formerly New Ventures Charter School)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

Cash Flows from Operating Activities:	
Change in net assets	$3,107,578
Adjustments to reconcile change in net assets	
to net cash provided by operating activities:	
Inherent contribution from John W. Lavelle Preparatory Charter School	(2,026,765)
Depreciation and amortization	331,281
Changes in assets and liabilities:	
Restricted cash	(70,454)
Grants and pledges receivable	444,602
Prepaid expenses	(354,491)
Lease acquisition costs	0
Security deposits	0
Accounts payable and accrued expenses	309,873
Grant receivable/advance - New York City Department of Education	254,898
Due to related party	(314,120)
Deferred rent	(48,547)
Total adjustments	(1,473,723)
Net cash provided by operating activities	1,633,855
Cash Flows from Investing Activities:	
Fixed asset acquisitions	(200,282)
Cash from acquisition of John W. Lavelle Preparatory Charter School	2,847,854
Net cash used for investing activities	2,647,572
Cash Flows from Financing Activities:	
Repayment of loans	(2,709)
Net cash provided by financing activities	(2,709)
Net increase in cash and cash equivalents	4,278,718
Cash and cash equivalents - beginning of year	642,638
Cash and cash equivalents - end of year	$4,921,356
Supplemental disclosures:	
Interest paid	$73,663
Taxes paid	$0

The attached notes and auditor's report
are an integral part of these financial statements.

INTEGRATION CHARTER SCHOOLS
(formerly New Ventures Charter School)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1 - Organization and Nature of Activities

Integration Charter Schools ("ICS"), located in Staten Island, New York, is a not-for-profit corporation which administers several schools which are chartered by the Board of Regents of the State of New York. ICS is dedicated to providing innovative pathways to college that fully integrate students living with emotional challenges and others with special needs. In fostering both the academic and emotional growth of all students, ICS serves as an innovative, holistic educational model for other high-performing schools.

John W. Lavelle Preparatory Charter School ("LPCS") was established in 2009 and is a not-for-profit educational corporation chartered by the Board of Regents of the State of New York. LPCS provides a college preparatory education curriculum that equips and empowers students for success. During the year ended June 30, 2018, the Board of Regents of the State of New York approved the charter renewal for LPCS for a term of five years, expiring on June 30, 2023.

New Ventures Charter School ("NVCS") was established in 2015 and is a not-for-profit educational corporation chartered by the Board of Regents of the State of New York. NVCS is a transfer high school which promotes college and career readiness for over age and under-credited, at risk youth, aged 16-21 living on Staten Island, enabling then to graduate from high school prepared to excel in their academic, professional, and personal lives. On November 18, 2014, NVCS was granted a provisional charter by the Board of Regents of the University of the State of New York for a term of five years, expiring on June 30, 2020. Such provisional charter may be extended upon application for a term of up to five years in accordance with the provisions of Article 56 of the Education law.

On July 1, 2017, LPCS merged into and with NVCS, that created a surviving entity, Integration Charter School . Each school continues to operate based on their own charter. Activity for all schools have been combined into the accompanying financial statements ICS.

The Lois and Richard Nicotra Early College Charter School ("NECCS") is the most recent development from ICS. NECCS is designed to provide an innovative pathway to college graduation for all students including those living with emotional challenges as well as those with other disabilities in all classes and activities. NECCS is currently in the pre-opening period and was granted a provisional charter by the Board of Regents of the University of the State of New York for a term of five years, expiring June 30, 2023. Such provisional charter may be extended upon application for a term of up to five years in accordance with the provisions of Article 56 of the Education law.

Richmond Preparatory Charter School ("RPCS") is the fourth school under the Integration Charter Schools umbrella. RPCS is designed to fully integrate students from grades 6 to 12, on the autism spectrum as well as those living with other disabilities in all classes and activities. RPCS was granted a provisional charter by the Board of Regents of the University of the State of New York in June 2018 and is expected to open in September 2020.

Note 2 - Significant Accounting Policies

a. Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting, which is the process of recognizing revenue and expenses when earned or incurred rather than received or paid.

The net assets of ICS are classified based upon the existence or absence of donor-imposed restrictions as follows:

- *Unrestricted* – represent those resources for which there are no restrictions by donors as to their use.

- *Temporarily restricted* – represent those resources, the uses of which have been restricted by donors to specific purposes or the passage of time. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor. Temporarily restricted contributions, the requirements of which are met in the year of donation, are reported as unrestricted. (See Note 9 for more details.)

b. Cash and Cash Equivalents

ICS considers all liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

c. Concentration of Credit

Financial instruments, which potentially subject ICS to concentration of credit risk, consist of cash accounts, which have been placed with financial institutions that management deems to be creditworthy. At times, balances may exceed federally insured limits. ICS has not experienced any losses due to failure of any financial institution.

d. Grants and Pledges Receivables

Grants and pledges that are expected to be received in less than one year are recorded at net realizable value. Those that are due in greater than one year are recorded at fair value which is calculated using risk-adjusted present value techniques.

ICS reviews receivables for collectability using factors such as historical experience and a review of activity subsequent to the balance sheet date. Based on this review, no allowance for doubtful accounts was deemed necessary as of June 30, 2018. Write-offs will be made directly to operations in the period a receivable is deemed to be uncollectable.

e. Capitalization Policy

Leasehold improvements, as well as equipment and furniture that exceed pre-determined amounts and that have a useful life of greater than one year are recorded at cost or at fair value at the date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

Furniture and fixtures – *7 years*
Computer hardware and software – *3 years*
Office equipment – *5 years*
Leasehold improvements – *Life of lease*

f. Deferred Rent

Rent expense is recognized evenly over the life of the lease using the straight-line method. In the earlier years of the lease, as rent expense exceeds amounts paid, a deferred rent liability is created. In later years, as payments exceed the amount of expense recognized, deferred rent will be reduced until it is zero at the end of the lease.

g. Contributions

Contributions are recorded as revenue at the earlier of the receipt of cash or when pledges are considered unconditional in nature. Contributions are available for unrestricted use, unless specifically restricted by the donor, in which case they are recorded in one of the restricted classes of net assets, depending on the nature of the restriction. Conditional contributions are recognized as income when the conditions have been substantially met.

h. Revenue – Public School District

ICS receives grants from the New York City, Department of Education ("NYCDOE") to carry out its operations. Program revenues are recognized based on rates established by the School's funding sources and the amount realizable on the accrual basis in the period during which services are provided.

i. Government Grants

Government grants are recognized as income when a reimbursable expense is incurred. The difference between revenue recognized and cash received is reflected as government grants receivable or refundable advances.

j. Donated Services

Donated services are recognized in circumstances where those services create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided in-kind.

Board members and other individuals volunteer their time and perform a variety of tasks that assist ICS. These services do not meet the criteria outlined above and have not been recorded in the financial statements.

k. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

l. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

m. Contingencies
Government contracts are subject to audit by the grantor. Management does not believe that any audits, if they were to occur, would result in material disallowed costs, and has not established any reserves. Any disallowed costs would be recorded in the period notified.

n. Taxes
ICS has been notified by the Internal Revenue Service that they are exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code and has not been determined to be a private foundation as defined in Section 509(a).

ICS does not believe its financial statements include any material, uncertain tax positions. Tax returns for periods ending June 30, 2015 and later are subject to examination by applicable taxing authorities.

o. Subsequent Events
Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 29, 2018, the date the financial statements were available to be issued. All events that have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or further disclosure in the financial statements have been made.

p. New Accounting Pronouncement
The Financial Accounting Standards Board (FASB) issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU, which becomes effective for the June 30, 2019 year, focuses on improving the current net asset classification requirements and information presented in the financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows.

FASB issued an Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU which becomes effective for the June 30, 2020 year, provides guidance on whether a receipt from a third-party resource provider should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions.

In addition, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The ASU, which becomes effective for the June 30, 2020 year, focuses on a principle-based model. It highlights the identification of performance obligations of the contract, determining the price and allocating that price to the performance obligation so that revenue is recognized as each performance obligation is satisfied.

Lastly, FASB issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the June 30, 2021 year, requires the full obligation of long-term leases to be recorded as a liability with a corresponding "right to use asset" on the statement of financial position.

ICS is in the process of evaluating the impact these standards will have on future financial statements.

Note 3 - Restricted Cash

An escrow account has been established to meet the requirement of NYCDOE. The purpose of this account is to ensure sufficient funds are available for an orderly dissolution or transition process in the event of termination of the charter or school closure.

Note 4 - Grants and Pledges Receivable

Grants and pledges receivable are anticipated to be collected in the following periods:

Year ending:	June 30, 2019	$953,205
	June 30, 2020	50,000
	June 30, 2021	50,000
		1,053,205
Less: present value discount (2%)		(4,825)
Total		$1,048,380

Note 5 - Grant Receivable/Advance Payable – New York City Department of Education

Grants receivable/advances on the contract with NYCDOE at June 30, 2018 can be summarized as follows:

	LPCS	NVCS	Total
Beginning grant advance payable	($54,087)	($979)	($55,066)
Funding based on allowable FTE's	14,279,019	2,373,905	16,652,924
Advances received	(14,263,589)	(2,590,146)	(16,853,735)
Ending grant payable	($38,657)	($217,220)	($255,877)

Note 6 - Fixed Assets

Fixed assets consisted of the following:

Furniture and fixtures	$296,295
Computer hardware and software	59,907
Office equipment	135,093
Leasehold improvements	2,281,082
	2,772,377
Less: accumulated depreciation	(370,295)
Total fixed assets, net	$2,402,082

Note 7 - Lease Commitments

ICS occupies space in Staten Island under a lease agreement that expires on August 31, 2031. The lease agreement contains two phases, and consists of the following:

Phase One

Phase one is for the third floor of the space, which commenced on May 1, 2011 and terminates on August 31, 2031.

Phase Two

Phase two was an option that the School exercised for additional space in the same facility. A non-refundable reservation fee of $412,060 is reflected as an asset (lease acquisition costs) and is amortized over the life of the phase two portion of the lease on a straight-line basis. The balance is $283,280 for the year ended June 30, 2018.

The phase two space also requires a security deposit of $500,000. As of June 30, 2018, total security deposits made are $100,000. Remaining payments are due as follows:

Year ending:	June 30, 2019	$100,000
	June 30, 2020	100,000
	June 30, 2021	100,000
	June 30, 2022	100,000
Total		$400,000

On August 31, 2016, ICS entered into a lease agreement with the landlord to rent additional land where ICS will place trailers for temporary classrooms, while the landlord is in process of construction of a new building for ICS. This lease expires on July 31, 2019. A security deposit of $10,046 was paid to the landlord.

On March 16, 2018, ICS entered into an additional lease agreement with the landlord to rent the space that is currently under construction. The lease does not commence until the first day of the month after the issuance of the temporary or permanent Certificate of Occupancy and expires on the last day of the month twenty years thereafter. Future minimum rental payments on this lease will total $119,179,638 over the twenty years. In addition to the rental payments, ICS is required to make payments for the initial improvements totaling $3,000,000 making annual payments of $231,480 each September 1st starting in 2021.

Future minimum rental payments for both phases and the additional trailers are due as follows:

		Phase One and Two	Trailer Land	Total
Year ending:	June 30, 2019	$1,466,397	62,340	1,528,737
	June 30, 2020	1,466,397	5,213	1,471,610
	June 30, 2021	1,466,397	0	1,466,397
	June 30, 2022	1,466,397	0	1,466,397
	June 30, 2023	1,466,397	0	1,466,397
	Thereafter	13,116,112	0	13,116,112
Total		$20,448,097	$67,553	$20,515,650

Note 8 - Loans Payable

ICS has entered into several loans with its landlord for the renovation of the School's space. All of the loans are secured by the ICS' property and are cross-collateralized with phases one and two of the lease.

A summary of the loans is as follows:

First loan from landlord – due 8/31/31 at 8.75%	$413,697
Second loan from landlord – due 8/31/31 at 8.9%	220,639
Third loan from landlord – due 8/31/31 at 8.9%	182,955
Total	$817,291

As of June 30, 2018, future minimum principal payments on the loans payable are as follows:

Year ending:	June 30, 2019	$34,418
	June 30, 2020	37,581
	June 30, 2021	41,035
	June 30, 2022	44,806
	June 30, 2023	48,923
Thereafter		610,528
Total		$817,291

Note 9 - Temporarily Restricted Net Assets

Activity in the temporarily restricted class of net assets can be summarized as follows:

	Balance 7/1/17	Additions	Released from Restrictions	Balance 6/30/18
Mala - School Expansion	$6,150	$81,580	$0	$87,730
Culinary program	241,367	3,808	(307)	244,868
Scholarships	0	1,500	0	1,500
Community Performing Arts Space	0	7,600	0	7,600
Early Intervention Mental Health Practices	0	100,000	(23,242)	76,758
Other programs	0	11,100	(4,410)	6,690
Total	$247,517	$205,588	($27,959)	$425,146

Note 10 - Significant Concentrations

ICS is dependent upon grants from NYCDOE to carry out its operations. Approximately 78% of the total public support and revenue was received from NYCDOE. If NYCDOE were to discontinue funding, it would have a severe economic impact on the ability to operate.

Note 11 - Retirement Plan

ICS adopted a 401(k) profit sharing plan (the "Plan"), which covers most of the employees. The Plan is a defined contribution plan. Employees are eligible to enroll in the Plan on the first day of employment. Those employees who have completed at least one full day of service are also eligible for employer contribution. The Plan provides for ICS to contribute up to 5% of the participating employee's salary. ICS contribution becomes fully vested after the employee completes two years of service. Amounts accrued for the employer portion of matching contribution was $377,000 for the year ended June 30, 2018.

Note 12 - Fundraising Event

The School's Gala benefit proceeds are summarized as follows:

Gross revenue	$50,566
Less: expenses with a direct benefit to donors	(20,547)
	30,019
Less: other event expenses	(12,478)
Total	$17,541

Note 13 - Acquisition of John W. Lavelle Preparatory Charter School

The acquisition of LPCS was accounted for under Financial Accounting Standard Board ("FASB") guidance for recording acquisitions by not-for-profit entities. This guidance requires that the acquisition method be used when one not-for-profit entity acquires another not-for-profit entity. The acquisition method requires the acquirer to measure and recognize the identifiable assets acquired, liabilities assumed, and any non-controlling ownership interests in the acquiree at acquisition-date fair values, with certain exceptions. The acquisition method also requires the not-for-profit acquirer to recognize either goodwill or an inherent contribution received in the acquisition. With respect to the LPCS acquisition, the fair value of the assets acquired exceeded the fair value of the liabilities assumed, so an inherent contribution has been recorded in the accompanying statement of activities and net asset surplus during the year ended June 30, 2018.

The following table summarizes the final allocation of the fair value of assets acquired and liabilities assumed at the date of the acquisition:

	LPCS Acquisition
Cash	$2,847,854
Government grants and other receivable	929,046
Prepaid expenses	72,028
Fixed assets	2,159,413
Lease acquisition costs	303,883
Security deposits	110,426
Total assets	$6,422,650
Total liabilities	$4,395,885
Net assets, unrestricted	$1,851,493
Net assets, temporarily restricted	175,272
Inherent contribution	2,026,765
Total liabilities and net assets	$6,422,650

INTEGRATION CHARTER SCHOOLS
(formerly New Ventures Charter School)
COMBINING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Integration Charter School	John W Lavelle Preparatory	Nicotra Early College	New Ventures	Total
Public Support and Revenue:					
Public school district: (Note 4)					
Revenue - resident student enrollment		$9,931,122		$1,633,358	$11,564,480
Revenue - students with special education services		4,347,897		740,547	5,088,444
Total public school district revenue	0	14,279,019	0	2,373,905	16,652,924
Government grants		2,741,523	279,208	475,593	3,496,324
Contributions	18,852	49,955		5,723	74,530
Benefit income (net of expenses with a direct benefit to donors) (Note 12)	30,019				30,019
Other income		17,615		422	18,037
Total public support and revenue	48,871	17,088,112	279,208	2,855,643	20,271,834
Expenses:					
Personnel services:					
Administrative staff personnel		431,606	61,364	231,605	724,575
Instructional staff personnel		7,593,797	1,290	1,038,297	8,633,384
Non-instructional staff personnel		1,236,872	170,652	306,982	1,714,506
Total personnel services	0	9,262,275	233,306	1,576,884	11,072,465
Fringe benefits and payroll taxes		2,699,395	27,828	197,712	2,924,935
Retirement		311,780		71,523	383,303
Supplies and materials		497,182	203	2,470	499,855
Legal services	6,854	40,733	2,400	6,013	56,000
Accounting and audit services		32,363	6,000	11,700	50,063
Other purchased professional and consulting services		188,740	18,830	24,813	232,383
Occupancy and facility costs		1,845,284		292,978	2,138,262
Repairs and maintenance		205,468		37,517	242,985
Insurance		117,747	1,500	20,099	139,346
Utilities		186,139		39,265	225,404
Equipment and furnishings		24,568	6,021	2,782	33,371
Staff development		125,063	148	14,150	139,361
Marketing and recruitment	1,758	19,473	12,647	8,944	42,822
Technology		17,774	65	2,478	20,317
Food services		290,969		24,636	315,605
Student services	1,000	60,171		82,949	144,120
Office expense		47,919	2,979	8,942	59,840
Bad debt		11,253		8,203	19,456
Depreciation and amortization	310,678	20,603			331,281
Other	12,428	100,257		7,162	119,847
Total expenses	332,718	16,105,156	311,927	2,441,220	19,191,021
Change in net assets from operations	(283,847)	982,956	(32,719)	414,423	1,080,813
Non-operating income:					
Inherent contribution received in acquisition of John W. Lavelle Preparatory Charter School	2,026,765				2,026,765
Change in net assets	$1,742,918	$982,956	($32,719)	$414,423	$3,107,578

The attached notes and auditor's report are an integral part of these financial statements.

SCHALL & ASHENFARB Certified Public Accountants, LLC

IRA L. SCHALL, CPA
DAVID C. ASHENFARB, CPA
MICHAEL L. SCHALL, CPA

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 of
Integration Charter Schools (formerly New Ventures Charter School)

Report on the Financial Statements

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Integration Charter Schools (formerly New Ventures Charter School) ("ICS"), which comprise the statement of financial position as of June 30, 2018, 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 29, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered ICS' 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 ICS' internal control. Accordingly, we do not express an opinion on the effectiveness of ICS' 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses as items 2018-001 through 2018-003.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether ICS' 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*. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2018-002 and 2018-003.

Purpose of this Report

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

Schall & Ashenfarb

Schall & Ashenfarb
Certified Public Accountants, LLC

October 29, 2018

INTEGRATION CHARTER SCHOOLS
(formerly New Ventures Charter School)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2018

Current Year:

2018-001 – Significant Adjustments and Account Analysis

Criteria: The books should be maintained to permit the preparation of financial statements in accordance with accounting principles generally accepted in the U.S.

Condition: Adjustments were identified during the audit, that management agreed to, so that the financial statements would not be materially misstated.

Cause: There were errors made during the set up of the new accounting software and opening balances were input incorrectly. In addition, the fiscal management team did not perform useful analysis on a regular basis, therefore the books contained errors that required adjustments.

Effect: The financial statements that would have been prepared based on the information in the books were not free of material error.

Recommendation: Ongoing account analysis should be performed that identifies and corrects errors in the books so that accurate financial statements could be prepared.

Views of Responsible Officials: See Corrective Action Plan attached.

2018-002 – Expense Allocations

Criteria: Expenses that are charged to specific government grants and restricted contributions should be recorded in the proper cost center that relates to the grant. The expenses recorded in the cost center should be used as the basis for claiming funds for government grants and reporting back to grantors and donors.

Condition: Expenses incurred during the year were not consistently allocated to the appropriate cost center in their entirety. That makes it difficult for management to monitor that the spending for these grants is in accordance with the claims made or to calculate the correct amount of revenue earned in the current period.

Cause: Certain accounts and cost centers were not set-up properly within the new accounting system.

Effect: The financial statements that would have been prepared based on the information in the books were not free of material error.

Recommendation: Management should implement a process whereby claims for reimbursement of expenses be made for actual expenses only and those expenses be recorded in a separate cost center to provide a clean audit trail. Prior to the submission of the claim, the amount per the claim request should be reconciled to the expenses contained in the separate cost center on the books.

Views of Responsible Officials: See Corrective Action Plan attached.

2018-003 –Allocating Salary Expense

Criteria: Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

(ii) Be incorporated into the official records of the non-Federal entity;

(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities

(iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis

(v) Comply with the established accounting policies and practices of the non-Federal entity

(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Condition: There was no system of internal control to support the salary expense charged to grants. This contributed to expenses not being consistently recorded in the correct cost centers within the books.

Recommendation: Management should adopt written accounting policies that establish a system for allocating salary expense in the books. The finance team could use timesheets as the basis for recording salaries to the various funding sources on a monthly basis.

Views of Responsible Officials: See Corrective Action Plan attached.

Prior-Year Follow-Up:

None

INTEGRATION
CHARTER SCHOOLS

October 29, 2018
Integration Charter Schools
Schedule of Finding and Responses
FY 17-18 Annual Audit

Corrective Action Plan

2018-001- Significant Adjustment and Account Analysis

Response
Many of the adjustments were related to the specific set up of a new entity and the books to incorporate activity that did not exist previously. The School has hired a consultant who is helping the senior management team on the number of and experience level of new accounting staff that should be hired. The consultants are also developing a comprehensive list of ongoing account analysis that should be performed and the recommended frequency that the procedures should be performed.

2018-002 – Expense Allocation
Response
The new accounting consultants that have been hired are helping is to revise the chart of accounts and departmental structure so that we can capture expenses by grant.

2018-003 – Allocating Salary Expense
Response
The new accountings consultants that have been hired are in the process of helping out finance team develop a time and effort reporting system that meets the criteria of federal cost principles.

Kenneth Byalin
President
Integration Charter Schools