

INTEGRATION CHARTER SCHOOLS

**Audited Financial Statements In Accordance
With Government Auditing Standards**

June 30, 2019

Independent Auditor's Report

To the Board of Trustees of
Integration Charter Schools

Report on the Financial Statements

We have audited the accompanying financial statements of Integration Charter Schools ("ICS"), which comprise the statement of financial position as of June 30, 2019 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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.

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, 2019, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, ICS adopted Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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 16 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 December 2, 2019 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
Certified Public Accountants, LLC

December 2, 2019

**INTEGRATION CHARTER SCHOOLS
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2019**

Assets

Cash and cash equivalents	\$3,992,121
Grants and pledges receivable (Note 3)	1,413,986
Prepaid expenses	427,076
Due from related organization (Note 4)	26,436
Restricted cash (Note 5)	120,628
Fixed assets, net (Note 6)	4,821,250
Lease acquisition costs (Note 7)	262,677
Security deposits (Note 7)	<u>210,426</u>
Total assets	<u><u>\$11,274,600</u></u>

Liabilities and Net Assets

Liabilities:	
Accounts payable and accrued expenses	\$3,067,009
Grant advance - New York City Department of Education (Note 8)	225,539
Loans payable (Note 9)	782,873
Deferred rent	<u>1,951,453</u>
Total liabilities	<u><u>6,026,874</u></u>
Net Assets:	
Without donor restrictions	4,804,888
With donor restrictions (Note 10)	<u>442,838</u>
Total net assets	<u><u>5,247,726</u></u>
Total liabilities and net assets	<u><u>\$11,274,600</u></u>

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

**INTEGRATION CHARTER SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenue:			
Public school district: (Note 8)			
Revenue - resident student enrollment	\$14,187,017		\$14,187,017
Revenue - students with special education services	5,880,884		5,880,884
Total public school district revenue	20,067,901	0	20,067,901
Government grants	4,963,662		4,963,662
Contributions	11,874	128,828	140,702
Special event income (net of expenses with a direct benefit to donors) (Note 13)	33,614		33,614
Other income	22,917		22,917
Net assets released from restrictions	111,136	(111,136)	0
Total public support and revenue	25,211,104	17,692	25,228,796
Expenses:			
Program services:			
Regular education	13,067,839		13,067,839
Special education	7,203,534		7,203,534
Total program services	20,271,373	0	20,271,373
Supporting services:			
Management and general	3,461,593		3,461,593
Fundraising	259,236		259,236
Total expenses	23,992,202	0	23,992,202
Total change in net assets	1,218,902	17,692	1,236,594
Net assets - as originally stated	3,746,494	425,146	4,171,640
Prior period adjustment (Note 15)	(160,508)		(160,508)
Net assets - restated	3,585,986	425,146	4,011,132
Net assets - end of year	\$4,804,888	\$442,838	\$5,247,726

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

**INTEGRATION CHARTER SCHOOLS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

	Program Services			Supporting Services		Total Expenses
	Regular Education	Special Education	Total Program Services	Management and General	Fundraising	
Personnel services:						
Administrative staff personnel	\$736,777	\$321,997	\$1,058,774			\$1,058,774
Instructional staff personnel	6,779,797	3,810,702	10,590,499	\$900		10,591,399
Non-instructional staff personnel	119,182	66,988	186,170	1,948,368	\$136,419	2,270,957
Total personnel services	<u>7,635,756</u>	<u>4,199,687</u>	<u>11,835,443</u>	<u>1,949,268</u>	<u>136,419</u>	<u>13,921,130</u>
Fringe benefits and payroll taxes	2,023,711	1,113,049	3,136,760	599,250	36,155	3,772,165
Retirement	258,919	142,406	401,325	66,098	4,626	472,049
Supplies and materials	292,952	164,660	457,612			457,612
Legal services			0	45,962		45,962
Accounting and audit services			0	72,095		72,095
Other purchased professional and consulting services	137,249	76,914	214,163	35,155	340	249,658
Occupancy and facility costs	1,460,330	807,005	2,267,335	291,993	20,435	2,579,763
Repairs and maintenance	183,260	100,793	284,053	46,783	3,274	334,110
Insurance	76,342	41,988	118,330	19,488	1,364	139,182
Utilities	138,517	76,185	214,702	35,360	2,475	252,537
Equipment and furnishings	170,039	95,574	265,613	11,381		276,994
Staff development	121,666	68,383	190,049	5,206		195,255
Marketing and recruitment			0	35,707		35,707
Technology	22,216	12,219	34,435	5,671	397	40,503
Food services	229,499	128,994	358,493			358,493
Student services	92,576	52,033	144,609			144,609
Office expense	44,495	24,472	68,967	11,358	795	81,120
Bad debt			0	71,513		71,513
Depreciation and amortization	180,312	99,172	279,484	46,030	3,222	328,736
Other expenses			0	113,275	74,272	187,547
Total expenses	<u>13,067,839</u>	<u>7,203,534</u>	<u>20,271,373</u>	<u>3,461,593</u>	<u>283,774</u>	<u>24,016,740</u>
Less: direct special event expenses netted with revenue (Note 13)			<u>0</u>		<u>(24,538)</u>	<u>(24,538)</u>
Total expenses for statement of activities	<u><u>\$13,067,839</u></u>	<u><u>\$7,203,534</u></u>	<u><u>\$20,271,373</u></u>	<u><u>\$3,461,593</u></u>	<u><u>\$259,236</u></u>	<u><u>\$23,992,202</u></u>

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

**INTEGRATION CHARTER SCHOOLS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

Cash flows from operating activities:	
Change in net assets	\$1,236,594
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	328,736
Changes in assets and liabilities:	
Restricted cash	(119)
Grants and pledges receivable	(365,606)
Prepaid expenses	439
Due from related organization	(26,436)
Security deposits	(100,000)
Accounts payable and accrued expenses	855,865
Grant advance - New York City Department of Education	(30,338)
Due to related organization	0
Deferred rent	(66,651)
Total adjustments	<u>595,890</u>
Net cash provided by operating activities	<u><u>1,832,484</u></u>
 Cash flows from investing activities:	
Fixed asset acquisitions	<u>(2,727,301)</u>
Net cash used for investing activities	<u><u>(2,727,301)</u></u>
 Cash flows from financing activities:	
Repayment of loans	<u>(34,418)</u>
Net cash used for financing activities	<u><u>(34,418)</u></u>
 Net decrease in cash and cash equivalents	(929,235)
Cash and cash equivalents - beginning of year	<u>4,921,356</u>
Cash and cash equivalents - end of year	<u><u>\$3,992,121</u></u>
 Supplemental disclosures:	
Interest paid	<u>\$70,768</u>
Taxes paid	<u>\$0</u>

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

**INTEGRATION CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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 that 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 them 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.

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 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.

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

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.

ICS adopted the requirements of the Financial Accounting Standards Board's (FASB) Accounting Standards Update No. 2016-14 – Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). This Standard addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 13).

Implementation of ASU 2016-14 did not require any reclassification or restatement of opening balances related to the periods presented.

ICS reports information regarding its financial position and activities according to the following classes of net assets:

- *Net Assets Without Donor Restrictions* – represent those resources for which there are no restrictions by donors as to their use.
- *Net Assets with Donor Restrictions* – represent those resources, the uses of which have been restricted by donors to specific purposes or the passage of time and/or must remain intact, in perpetuity. The release from restrictions results from the satisfaction of the restricted purposes specified by the donor.

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. Restricted cash has been classified separately.

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 date of the statement of financial position. Based on this review, an allowance of \$59,000 (Note 7) was established for doubtful accounts as of June 30, 2019.

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 upon the earlier of the receipt of cash or at the time a pledge is considered unconditional. Contributions received with specific donor restrictions have been recorded in the class of net assets with donor restrictions. Other contributions have been recorded in the class of net assets without donor restrictions. 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

All government grants have been recognized as income when earned, either based on performance of certain milestones or by incurring expenses that can be reimbursed under the terms of the grant agreement. The difference between cash received and revenue recognized 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 financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The expenses that are allocated include the following:

Expense	Method of Allocation
Personnel services	Time and effort & full time equivalent
Fringe benefits and payroll taxes	Time and effort & full time equivalent
Retirement	Time and effort & full time equivalent
Supplies and materials	Full time equivalent
Other purchased professional and consulting services	Time and effort & full time equivalent
Occupancy and facility costs	Time and effort & full time equivalent
Repairs and maintenance	Time and effort & full time equivalent
Insurance	Time and effort & full time equivalent
Staff development	Full time equivalent
Technology	Time and effort & full time equivalent
Food services	Full time equivalent
Student services	Full time equivalent
Office expense	Time and effort & full time equivalent
Depreciation and amortization	Time and effort & full time equivalent

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. 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, 2016 and later are subject to examination by applicable taxing authorities.

n. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through December 2, 2019, 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.

o. New Accounting Pronouncement

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, with early implementation permitted, 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 - Grants and Pledges Receivable

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

Year ending:	June 30, 2020	\$1,365,928
	June 30, 2021	<u>50,000</u>
		1,415,928
Less: present value discount (2%)		<u>(1,942)</u>
Total		<u>\$1,413,986</u>

Note 4 - Due from Related Organization

During the year ended June 30, 2019 a board member and a former board member formed the entity, The ICS Foundation, Inc. (the “Foundation”). The Foundation supports the operation of ICS by providing assistance with real estate and facilities related needs, and by raising funds and resources that will provide the support needed to enhance the experience ICS students. During the year ended June 30, 2019, ICS loaned the Foundation funds totaling \$26,436. Subsequent to year-end, ICS loaned the Foundation additional funds totaling \$250,000. There is no formal loan agreement or terms of repayment.

Subsequent to year end, the Foundation entered into a lease with an unrelated third-party landlord for space which was then sub-leased to ICS. The lease expires July 30, 2020 and the space is being used for classes for one of the schools. A legal claim has been filed by an entity related to the landlord claiming that the landlord did not have legal standing to enter into the lease. The plaintiff has asked ICS to vacate the space and, along with other defendants, reimburse them for rent paid to the landlord that should have been paid to the plaintiff. Legal counsel has maintained that it is unable to predict the outcome of this matter but will be defending ICS vigorously.

Note 5 - 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 6 - Fixed Assets

Fixed assets consist of the following:

Furniture and fixtures	\$322,068
Computer hardware and software	109,397
Office equipment	331,232
Leasehold improvements	<u>4,736,981</u>
	5,499,678
Less: accumulated depreciation	<u>(678,428)</u>
Total fixed assets, net	<u>\$4,821,250</u>

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. As of June 30, 2019, the balance is \$262,677.

The phase two space also requires a security deposit of \$500,000. As of June 30, 2019, total security deposits totaled \$200,000. Remaining payments are due as follows:

Year ending:	June 30, 2020	\$100,000
	June 30, 2021	100,000
	June 30, 2022	<u>100,000</u>
Total		<u>\$300,000</u>

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 expired on July 31, 2019 and was renewed for an additional year through July 31, 2020. A security deposit of \$10,426 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, which is expected to occur in fiscal year 2021, 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 <u>and Two</u>	Trailer <u>Land</u>	Corporate <u>Commons 3</u>	<u>Total</u>
Year ending:	June 30, 2020	\$1,466,397	\$63,703	\$0	\$1,530,100
	June 30, 2021	1,466,397	5,317	3,858,009	5,329,723
	June 30, 2022	1,466,397	0	4,629,611	6,096,008
	June 30, 2023	1,466,397	0	5,144,871	6,611,268
	June 30, 2024	1,511,656	0	5,247,923	6,759,579
	Thereafter	<u>11,604,456</u>	<u>0</u>	<u>100,299,224</u>	<u>111,903,680</u>
Total		<u>\$18,981,700</u>	<u>\$69,020</u>	<u>\$119,179,638</u>	<u>\$138,230,358</u>

Note 8 - Grant Advance – New York City Department of Education

Grants advances on the contract with NYCDOE can be summarized as follows:

	<u>LPCS</u>	<u>NVCS</u>	<u>NECS</u>	<u>Total</u>
Beginning grant advance payable	(\$38,657)	(\$217,220)	\$0	(\$255,877)
Funding based on allowable FTE's	15,590,607	2,763,302	1,713,992	20,067,901
Advances received	(15,673,377)	(2,601,977)	(1,703,209)	(19,978,563)
Reserve for potential loss	<u>0</u>	<u>(59,000)</u>	<u>0</u>	<u>(59,000)</u>
Ending grant payable	<u>(\$121,427)</u>	<u>(\$114,895)</u>	<u>\$10,783</u>	<u>(\$225,539)</u>

Note 9 - 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%	\$396,182
Second loan from landlord – due 8/31/31 at 8.9%	211,398
Third loan from landlord – due 8/31/31 at 8.9%	<u>175,293</u>
Total	<u>\$782,873</u>

As of June 30, 2019, future minimum principal payments on the loans payable are as follows:

Year ending:	June 30, 2020	\$37,581
	June 30, 2021	41,035
	June 30, 2022	44,806
	June 30, 2023	48,923
	June 30, 2024	53,419
	Thereafter	<u>557,109</u>
Total		<u>\$782,873</u>

Note 10 - Net Assets With Donor Restrictions

A summary of net assets with donor restrictions is as follows:

	Balance <u>7/1/18</u>	<u>Additions</u>	Released from <u>Restrictions</u>	Balance <u>6/30/19</u>
Mala - School Expansion	\$87,730	\$27,950	\$0	\$115,680
Culinary program	244,868	2,883	0	247,751
Scholarships	1,500	0	0	1,500
Community Performing Arts Space	7,600	0	0	7,600
Early Intervention Mental Health Practices	76,758	0	(59,546)	17,212
Lavelle Prep Music Program	0	44,800	0	44,800
Other programs	<u>6,690</u>	<u>53,195</u>	<u>(51,590)</u>	<u>8,295</u>
Total	<u>\$425,146</u>	<u>\$128,828</u>	<u>(\$111,136)</u>	<u>\$442,838</u>

Note 11 - Significant Concentrations

ICS is dependent upon grants from NYCDOE to carry out its operations. Approximately 80% 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 12 - Retirement Plan

ICS adopted a 401(k) profit sharing plan (the "Plan"). 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 \$464,000 for the year ended June 30, 2019.

Note 13 - Special Event

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

Gross revenue	\$58,152
Less: expenses with a direct benefit to donors	<u>(24,538)</u>
	33,614
Less: other event expenses	<u>(8,849)</u>
Total	<u>\$24,765</u>

Note 14 - Availability and Liquidity

The following reflects the school's financial assets at June 30, 2019 that are available to meet cash needs for general expenditures within one year:

Financial assets at year-end:		
Cash and cash equivalents	\$3,992,121	
Grants and pledges receivable collectible within one year	<u>1,365,928</u>	
Total financial assets		\$5,358,049
Less amounts not available for general expenditures:		
Donor contributions restricted to specific purposes		<u>(394,780)</u>
Financial assets available to meet cash needs for operations within one year		<u>\$4,963,269</u>

ICS maintains cash on hand to be available for its general expenditures, liabilities, and other obligations for on-going operations. As part of its liquidity management, the school operates its programs within a board approved budget and relies on grants and earned income to fund its operations and program activities.

Note 15 - Prior Period Adjustment

A prior period adjustment was made to increase accrued vacation as of June 30, 2018. This has the effect of decreasing opening net assets by \$160,508 to correct errors that were noted in the current year.

**INTEGRATION CHARTER SCHOOLS
COMBINING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Integration Charter School</u>	<u>John W Lavelle Preparatory</u>	<u>New Ventures</u>	<u>Nicotra Early College</u>	<u>Total</u>
Public Support and Revenue:					
Public school district: (Note 8)					
Revenue - resident student enrollment		\$11,005,227	\$1,909,778	\$1,272,012	\$14,187,017
Revenue - students with special education services		4,585,380	853,524	441,980	5,880,884
Total public school district revenue	0	15,590,607	2,763,302	1,713,992	20,067,901
Government grants		3,370,546	572,214	1,020,902	4,963,662
Contributions	140,702				140,702
Special event income (net of expenses with a direct benefit to donors) (Note 13)	33,614				33,614
Other income		19,882	1,915	1,120	22,917
Total public support and revenue	<u>174,316</u>	<u>18,981,035</u>	<u>3,337,431</u>	<u>2,736,014</u>	<u>25,228,796</u>
Expenses:					
Personnel services:					
Administrative staff personnel		602,600	181,446	274,728	1,058,774
Instructional staff personnel		8,286,552	1,429,530	875,317	10,591,399
Non-instructional staff personnel		1,701,239	336,855	232,863	2,270,957
Total personnel services	<u>0</u>	<u>10,590,391</u>	<u>1,947,831</u>	<u>1,382,908</u>	<u>13,921,130</u>
Fringe benefits and payroll taxes	82,637	2,806,778	516,235	366,515	3,772,165
Retirement		309,617	77,077	85,355	472,049
Supplies and materials		321,839	40,669	95,104	457,612
Legal services	525	31,991	7,265	6,181	45,962
Accounting and audit services		38,510	17,075	16,510	72,095
Other purchased professional and consulting services		183,884	9,111	56,663	249,658
Occupancy and facility costs		1,982,756	317,081	279,926	2,579,763
Repairs and maintenance		235,399	44,552	54,159	334,110
Insurance		102,612	21,985	14,585	139,182
Utilities		185,110	39,994	27,433	252,537
Equipment and furnishings		42,218	28,821	205,955	276,994
Staff development	9,257	142,727	17,237	26,034	195,255
Marketing and recruitment		12,274	7,622	15,811	35,707
Technology		28,148	4,755	7,600	40,503
Food services		298,621	12,594	47,278	358,493
Student services		40,779	101,053	2,777	144,609
Office expense		44,126	9,598	27,396	81,120
Bad debt		12,513	59,000		71,513
Depreciation and amortization	308,133	20,603			328,736
Other	50,441	122,863	12,315	1,928	187,547
Subtotal	<u>450,993</u>	<u>17,553,759</u>	<u>3,291,870</u>	<u>2,720,118</u>	<u>24,016,740</u>
Less: direct special event expenses netted with revenue	(24,538)				(24,538)
Total expenses	<u>426,455</u>	<u>17,553,759</u>	<u>3,291,870</u>	<u>2,720,118</u>	<u>23,992,202</u>
Change in net assets	<u>(\$252,139)</u>	<u>\$1,427,276</u>	<u>\$45,561</u>	<u>\$15,896</u>	<u>\$1,236,594</u>

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

**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 (“ICS”), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated December 2, 2019.

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.

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. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal controls that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency, described in the accompanying schedule of findings and responses as item 2019-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-002 to be a significant deficiency.

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 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 responses as items 2019-002 and 2019-003.

Management of ICS' Response to Findings

ICS' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. ICS' 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 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
Certified Public Accountants, LLC

December 2, 2019

**INTEGRATION CHARTER SCHOOLS
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2019**

Current Year:

2019-001 – 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: The fiscal management team did not post audit adjustments from the prior year or perform accurate 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.

2019-002 – Unauthorized Student Billing

Criteria: ICS receives funding from the New York City Department of Education (“NYCDOE”) based on attendance of the students. ICS is required to keep records of students and attendance. This is used to update the NYCDOE’s attendance tracking system for each billing period. ICS receives funding from NYCDOE based on this information. Students who do not attend class during the school year and have not provided documentation of enrollment in a new school must continue to be enrolled at ICS by law but be marked as non-attending within the NYCDOE system by ICS.

Condition: One student at New Ventures Charter School did not attend school during the year under audit and was included in the final billing.

Cause: The final reconciliation report was not reviewed and compared to ICS’ attendance records, which resulted in a discrepancy in the bill submitted to the NYCDOE.

Effect: We identified one error out of a sample size of twenty students at New Ventures Charter School. As a result, ICS received an overpayment of \$15,307 for the attendance of the student who never attended. The per pupil revenue has been reduced and the related advance has been increased by the same amount on the financial statements. Extrapolating the error to the total population indicates approximately \$117,000.

Recommendation: A review of the attendance records and final billing of per pupil funding should be completed prior to submitting to the NYCDOE.

Views of Responsible Officials: See Corrective Action Plan attached.

2019-003 – Timely Filing of Initial Statement of Controls for Lois and Richard Nicotra Early College Charter School (“NECCS”)

Criteria: Every charter school is required to provide to the Board of Regents an initial statement concerning the status of managerial and financial controls. This statement is due to the Charter School Office within 120 days after the effective date of the charter. After completion of the initial statement, the school is required to retain an independent CPA licensed in New York to perform an agreed-upon procedures engagement. This engagement is required to commence within 60 days after the date on which the school has disbursed more than \$50,000 in monies received from payments from school districts or from grants or other revenue sources.

Condition: An initial statement of controls specific for NECCS was not submitted within 120 days after the effective date of the charter which was November 14, 2017. In addition, NECCS received its first \$50,000 of payments during the fiscal year ended June 30, 2019 and has not engaged an independent CPA licensed in New York to perform the agreed-upon engagement.

Cause: NECCS was formed under the umbrella organization, Integration Charter Schools, which has a combined fiscal policies and procedures manual. A specific manual for this school was not adopted.

Effect: NECCS is not in compliance with the requirements set by the Board of Regents, the charter school authorizer.

Recommendation: A specific statement of controls for NECCS should be adopted and the agreed-upon procedures engagement should be completed as soon as administratively possible.

Views of Responsible Officials: See Corrective Action Plan attached.

Prior-Year Follow-Up:

2018-001 – Significant Adjustments and Account Analysis: See finding 2019-001

2018-002 – Expense Allocations: This matter was corrected and not repeated as a finding.

2018-003 – Allocating Salary Expense: This matter was corrected and not repeated as a finding.



December 2, 2019

Integration Charter Schools Schedule of Finding and Responses
FY 18-19 Annual Audit

Corrective Action Plan

2019-001 – Significant Adjustments and Account Analysis

After a financial consultant's recommendation in January 2019, the Finance Department at Integration Charter Schools (ICS) was restructured. The Director of Finance became the Controller and a Director of Financial Planning was hired in May 2019. The additional personnel support permits the Controller to perform ongoing account analysis that should identify and correct errors in the books so that accurate financial statements could be prepared.

2019-002 – Unauthorized Student Billing

ICS notified NYCDOE immediately after the overbill was confirmed. NYCDOE did reconcile the additional \$15,307 in Payment 4 of the 2019-2020 school year.

A new billing structure was put into place by ICS in November 2019. The billing team (which consists of the VP of Administration, VP of Student Integration, Student Services Assistant and Director of Operations) will meet bimonthly with the attendance team from each school (which typically consists of the Principal and/or Assistant Principal, social worker, Director of Program Evaluation and Principal's Assistant). At the meetings attendance records will be reviewed and compared to billing records. Notes will be kept of the meetings.

The Controller will review the final reconciliation report each year prior to submission to the NYCDOE to confirm there are no discrepancies in the billing.

2019-003 – Timely Filing of Initial Statement of Controls for Lois and Richard Nicotra Early College Charter School ("NECCS")

Although NECCS is a school under ICS and abides by the ICS Fiscal Policies and Procedures Manual, a specific statement of controls for NECCS will be adopted and followed by January 1, 2020. This will be completed by the Vice President of Administration, along with the ICS finance team and the Finance Committee from the Board of Trustees.

Sincerely,

Kenneth Byalin, Ph.D.
President

Integration Charter Schools