

INTEGRATION CHARTER SCHOOLS

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

June 30, 2020

INTEGRATION CHARTER SCHOOLS

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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, 2020 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Integration Charter Schools as of June 30, 2020, 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

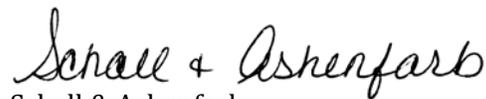
We have previously audited the ICS' 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 2, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 18 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 20, 2020 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Schall & Ashenfarb
Certified Public Accountants, LLC

October 20, 2020

INTEGRATION CHARTER SCHOOLS
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2020
(With comparative totals at June 30, 2019)

	6/30/20	6/30/19*
Assets		
Cash and cash equivalents	\$7,274,256	\$3,942,749
Grants and pledges receivable, net (Note 3)	454,790	1,413,986
Prepaid expenses	490,480	427,076
Due from related organization (Note 4)	351,436	26,436
Restricted cash (Note 5)	195,000	170,000
Fixed assets, net (Note 6)	5,151,433	4,821,250
Lease acquisition costs (Note 7)	242,074	262,677
Security deposits (Note 7)	321,011	210,426
Total assets	\$14,480,480	\$11,274,600
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$2,312,200	\$3,067,009
Grant advance - New York City Department of Education (Note 8)	119,740	225,539
Paycheck Protection Program Loan (Note 9)	3,480,236	0
Loans payable (Note 10)	745,292	782,873
Deferred rent	1,884,802	1,951,453
Total liabilities	8,542,270	6,026,874
Net Assets:		
Without donor restrictions	5,469,836	4,804,888
With donor restrictions (Note 11)	468,374	442,838
Total net assets	5,938,210	5,247,726
Total liabilities and net assets	\$14,480,480	\$11,274,600

*Reclassified for comparative purposes

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, 2020
(With comparative totals for the year ended June 30, 2019)

	Without Donor Restrictions	With Donor Restrictions	Total 6/30/20	Total 6/30/19*
Public Support and Revenue:				
Public school district: (Note 8)				
Revenue - resident student enrollment	\$15,849,513		\$15,849,513	\$14,187,017
Revenue - students with special education services	6,413,016		6,413,016	5,880,884
Total public school district revenue	22,262,529	0	22,262,529	20,067,901
New York City rental assistance (Note 8)	2,437,993		2,437,993	1,909,094
Other government grants	1,643,455		1,643,455	3,054,568
Contributions	13,566	52,748	66,314	140,702
Special event income (net of expenses with a direct benefit to donors) (Note 14)			0	33,614
Other income	57,627		57,627	22,917
Net assets released from restrictions	27,212	(27,212)	0	0
Total public support and revenue	26,442,382	25,536	26,467,918	25,228,796
Expenses:				
Program services:				
Regular education	13,500,804		13,500,804	13,067,839
Special education	7,723,626		7,723,626	7,203,534
Total program services	21,224,430	0	21,224,430	20,271,373
Supporting services:				
Management and general	4,257,406		4,257,406	3,461,593
Fundraising/Community Relations	295,598		295,598	259,236
Total expenses	25,777,434	0	25,777,434	23,992,202
Change in net assets	664,948	25,536	690,484	1,236,594
Net assets - beginning of year, as originally stated	4,804,888	442,838	5,247,726	4,171,640
Prior period adjustment (Note 17)			0	(160,508)
Net assets - beginning of year, as restated	4,804,888	442,838	5,247,726	4,011,132
Net assets - end of year	\$5,469,836	\$468,374	\$5,938,210	\$5,247,726

*Reclassified for comparative purposes

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, 2020
(With comparative totals for the year ended June 30, 2019)

	Program Services			Supporting Services		Total Expenses 6/30/20	Total Expenses 6/30/19
	Regular Education	Special Education	Total Program Services	Management and General	Fundraising/Community Relations		
Personnel services:							
Administrative staff personnel	\$761,659	\$337,891	\$1,099,550			\$1,099,550	\$1,058,774
Instructional staff personnel	7,212,222	4,213,579	11,425,801			11,425,801	10,591,399
Non-instructional staff personnel	424,922	248,252	673,174	\$2,496,978	\$168,850	3,339,002	2,270,957
Total personnel services	<u>8,398,803</u>	<u>4,799,722</u>	<u>13,198,525</u>	<u>2,496,978</u>	<u>168,850</u>	<u>15,864,353</u>	<u>13,921,130</u>
Fringe benefits and payroll taxes	2,359,507	1,348,405	3,707,912	701,488	47,432	4,456,832	3,772,165
Retirement	6,549	3,743	10,292	1,947	132	12,371	472,049
Supplies and materials	238,455	139,313	377,768			377,768	457,612
Legal services			0	138,252		138,252	45,962
Accounting and audit services			0	96,655		96,655	72,095
Other purchased professional and consulting services	26,096	14,980	41,076	18,278	417	59,771	249,658
Occupancy and facility costs	1,552,432	888,056	2,440,488	441,105	29,828	2,911,421	2,579,763
Repairs and maintenance	151,865	86,788	238,653	45,150	3,052	286,855	334,110
Insurance	83,632	47,793	131,425	24,864	1,682	157,971	139,182
Utilities	111,030	63,451	174,481	33,009	2,232	209,722	252,537
Equipment and furnishings	29,841	17,434	47,275	3,687		50,962	276,994
Staff development	94,083	54,966	149,049	20,279		169,328	195,255
Marketing and recruitment			0	41,771		41,771	35,707
Technology	56,034	32,022	88,056	16,658	1,127	105,841	40,503
Food services	155,586	90,897	246,483			246,483	358,493
Student services	53,334	31,158	84,492			84,492	144,609
Office expense	32,433	18,535	50,968	9,640	653	61,261	81,120
Bad debt			0	54,345		54,345	71,513
Depreciation and amortization	151,124	86,363	237,487	44,930	3,038	285,455	328,736
Other expenses			0	68,370	37,155	105,525	187,547
Total expenses	<u>13,500,804</u>	<u>7,723,626</u>	<u>21,224,430</u>	<u>4,257,406</u>	<u>295,598</u>	<u>25,777,434</u>	<u>24,016,740</u>
Less: direct special event expenses netted with revenue (Note 14)			0			0	(24,538)
Total expenses for statement of activities	<u>\$13,500,804</u>	<u>\$7,723,626</u>	<u>\$21,224,430</u>	<u>\$4,257,406</u>	<u>\$295,598</u>	<u>\$25,777,434</u>	<u>\$23,992,202</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, 2020**

(With comparative totals for the year ended June 30, 2019)

	6/30/20	6/30/19*
Cash flows from operating activities:		
Change in net assets	\$690,484	\$1,236,594
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	285,455	328,736
Changes in assets and liabilities:		
Grants and pledges receivable	959,196	(365,606)
Prepaid expenses	(63,404)	439
Due from related organization	(325,000)	(26,436)
Restricted cash	(25,000)	(50,000)
Security deposits	(110,585)	(100,000)
Accounts payable and accrued expenses	(754,809)	855,865
Grant advance - New York City Department of Education	(105,799)	(30,338)
Paycheck Protection Program Loan	3,480,236	0
Deferred rent	(66,651)	(66,651)
Total adjustments	3,273,639	546,009
Net cash provided by operating activities	3,964,123	1,782,603
Cash flows from investing activities:		
Fixed asset acquisitions	(595,035)	(2,727,301)
Net cash used for investing activities	(595,035)	(2,727,301)
Cash flows from financing activities:		
Repayment of loans	(37,581)	(34,418)
Net cash used for financing activities	(37,581)	(34,418)
Net increase/(decrease) in cash and cash equivalents	3,331,507	(979,116)
Cash and cash equivalents - beginning of year	3,942,749	4,921,865
Cash and cash equivalents - end of year	\$7,274,256	\$3,942,749
Supplemental disclosures:		
Interest paid	\$67,603	\$70,768
Taxes paid	\$0	\$0

*Reclassified for comparative purposes

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

**INTEGRATION CHARTER SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

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. 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, 2025. 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 2021.

Note 2 - Significant Accounting Policies

a. Basis of Accounting

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.

Effective July 1, 2019 ICS adopted the requirements of the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, and all subsequent amendments to the ASU (collectively, "Topic 606"). This provides the framework for recognizing revenue by highlighting the identification of performance obligations of a contract, determining the price and then allocating the price to each of the performance obligations so that revenue is recognized as each of those performance obligations are satisfied.

Also, effective July 1, 2019, ICS adopted ASU No. 2018-08 *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("Topic 605"). Key provisions of this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improved guidance for conditional versus unconditional contributions. In accordance with this new standard, ICS evaluates whether a transfer of assets is an exchange transaction in which a resource provider is receiving a commensurate value in return for the transfer of resources or whether it is non-reciprocal. If the transaction is determined to be an exchange transaction, ICS applies guidance under Topic 606. If the transaction is determined to be non-reciprocal, it is treated as a contribution under Topic 605.

Analysis of the various provisions of both standards resulted in no significant changes in the way ICS recognizes revenue.

b. Basis of Presentation

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.

c. Revenue Recognition

ICS did not have any types of revenue that fall under Topic 606.

Contributions are recognized at the earlier of when cash is received or at the time a pledge becomes unconditional in nature. Contributions are recorded in the net asset classes referred to above depending on the existence and/or nature of any donor-imposed restriction. When a restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor

restrictions are reclassified to net assets without donor restrictions. If donor restricted contributions are satisfied in the same period they were received, they are classified as without donor restrictions.

ICS' public-school district revenue and other government grants are primarily conditional, non-exchange transactions and fall under Topic 605. Revenue from these transactions is recognized based on rates established by the ICS' funding sources and when performance related outcomes are achieved as well as other conditions under the agreements are met. The difference between cash received and revenue recognized is reflected as government grants receivable or refundable advances.

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 8) was established for doubtful accounts as of June 30, 2020 and June 30, 2019.

d. 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.

e. 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 year end and at various times throughout the year, balances were in excess of insured amounts. ICS has not suffered any losses due to bank failure.

f. Capitalization Policy

Leasehold improvements, as well as equipment and furniture that exceed predetermined 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*

g. 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.

h. 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.

i. 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:

<u>Expense</u>	<u>Method of Allocation</u>
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
Utilities	Time and effort & full time equivalent
Equipment and furnishings	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

j. 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.

k. Accounting for Uncertainty of Income 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, 2017 and later are subject to examination by applicable taxing authorities.

l. Prior-Year Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the ICS' financial statements for the year ended June 30, 2019, from which the summarized information was derived.

m. Subsequent Events

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through October 20, 2020, 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.

n. New Accounting Pronouncement

FASB issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the June 30, 2023 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.

FASB issued ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which becomes effective for the June 30, 2022 year with early adoption permitted. This ASU focuses on improving transparency in the reporting of contributed nonfinancial assets and requires a separate line item presentation on the statement of activities and additional disclosures.

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:

	<u>6/30/20</u>	<u>6/30/19</u>
Within 1 year	\$449,984	\$1,365,928
2 to 5 years	<u>5,000</u>	<u>50,000</u>
Total pledges	454,984	1,415,928
Less: discount to fair value (2%)	<u>(194)</u>	<u>(1,942)</u>
Pledges receivable, net	<u>\$454,790</u>	<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 an 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 of ICS students. The balance owed to ICS by the Foundation totaled \$351,436 and \$26,436 as of June 30, 2020 and June 30, 2019, respectively. There is no formal loan agreement or terms of repayment.

In November 2019, the Foundation entered into a lease with an unrelated third-party

landlord for space which was then subleased to ICS. This lease expired July 31, 2020 and was used for classes for one of the schools. For the year ended June 30, 2020, the occupancy cost associated with this sublease amounted to \$552,630, which included related facility expenses. The rental payment due for the year ending June 30, 2021 is \$50,239.

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:

	<u>6/30/20</u>	<u>6/30/19</u>
Furniture and fixtures	\$331,439	\$322,068
Computer hardware and software	109,397	109,397
Office equipment	357,729	331,232
Leasehold improvements	<u>5,296,148</u>	<u>4,736,981</u>
	6,094,713	5,499,678
Less: accumulated depreciation	<u>(943,280)</u>	<u>(678,428)</u>
Total fixed assets, net	<u>\$5,151,433</u>	<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 ICS 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, 2020 and June 30, 2019, the balance is \$242,074 and \$262,677, respectively.

The phase two space also requires a security deposit of \$500,000. As of June 30, 2020 and June 30, 2019, total security deposits totaled \$300,000 and \$200,000, respectively. Remaining payments are due as follows:

Year ending:	June 30, 2021	\$100,000
	June 30, 2022	<u>100,000</u>
Total		<u>\$200,000</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. Subsequent to July 31, 2020, ICS leases space on a month-to-month basis.

On August 1, 2017, ICS entered into a lease agreement with the landlord to rent additional office space (“2 Teleport Office Space”) which expires on July 31, 2022. A security deposit of \$10,585 was paid to the landlord during the year ended June 30, 2020.

On March 16, 2018, ICS entered into an additional lease agreement with the landlord to rent the space that is currently under construction (“Corporate Commons 3”). 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 on December 1, 2020, 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 and security deposit installments totaling \$1,157,402. As of June 30, 2020, total initial improvements paid amounted to \$2,500,000, with the remaining \$500,000 due in the year ended June 30, 2021. Security deposit installments are due annually each September 1st starting in 2021 in the amount of \$231,480.

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

	Phase One and Two	Trailer Land	2 Teleport Office Space	Corporate Commons 3	Total
Year ending: June 30, 2021	\$1,466,397	\$5,317	\$127,020	\$2,700,606	\$4,299,340
June 30, 2022	1,466,397	0	127,020	4,629,611	6,223,028
June 30, 2023	1,466,397	0	10,585	4,990,293	6,467,275
June 30, 2024	1,511,656	0	0	5,247,923	6,759,579
June 30, 2025	1,565,967	0	0	5,247,923	6,813,890
Thereafter	<u>10,038,489</u>	<u>0</u>	<u>0</u>	<u>96,363,282</u>	<u>106,401,771</u>
Total	<u>\$17,515,303</u>	<u>\$5,317</u>	<u>\$264,625</u>	<u>\$119,179,638</u>	<u>\$136,964,883</u>

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

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

	June 30, 2020			
	LPCS	NVCS	NECS	Total
Beginning (grant advance payable)/ grant receivable	(\$121,427)	(\$114,895)	\$10,783	(\$225,539)
Funding based on allowable FTE’s	16,709,770	2,943,541	2,609,218	22,262,529
Advances received	<u>(16,620,700)</u>	<u>(2,899,481)</u>	<u>(2,636,549)</u>	<u>(22,156,730)</u>
Ending grant advance payable	<u>(\$32,357)</u>	<u>(\$70,835)</u>	<u>(\$16,548)</u>	<u>(\$119,740)</u>
	June 30, 2019			
	LPCS	NVCS	NECS	Total
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	<u>(15,673,377)</u>	<u>(2,601,977)</u>	<u>(1,703,209)</u>	<u>(19,978,563)</u>
Reserve for potential loss	<u>0</u>	<u>(59,000)</u>	<u>0</u>	<u>(59,000)</u>
Ending (grant advance payable)/ grant receivable	<u>(\$121,427)</u>	<u>(\$114,895)</u>	<u>\$10,783</u>	<u>(\$225,539)</u>

In addition to per pupil funding, ICS was entitled to receive a rent subsidy, that is calculated at the lower of 30 percent of the per pupil amount or actual lease costs as approved by the DOE. During the year ended June 30, 2020, ICS recognized revenue of \$2,437,993 in rent subsidies. Of this balance \$552,630 was recognized by NECS as a subsidy for payments made to the Foundation, a related party, under the sublease agreement referred to in Note 4.

Note 9 - Paycheck Protection Program Loan

During the year ended June 30, 2020, ICS obtained a loan from the SBA in the amount of \$3,480,236 through the Payroll Protection Program. Terms of the loan indicate that if certain conditions are met, which include maintaining average work forces during periods subsequent to receipt of the loan funds that are greater than pre-determined historical periods, that the loan, or a portion thereof, will be forgiven. Portions that are not forgiven will be payable over a two-year period, with a six-month deferral of payments and interest will accrue at 1%. The loan forgiveness amount has not been determined as of the date of these financial statements.

ICS expects to recognize revenue from this loan consistent with ASU 2018-08, as it is considered to have traits similar to a conditional contribution, however, will continue to review whether any new accounting pronouncements may be issued that will provide more definitive guidance.

Note 10 - Loans Payable

ICS has entered into several loans with its landlord for the renovation of ICS' 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:

	<u>6/30/20</u>	<u>6/30/19</u>
First loan from landlord – due 8/31/31 at 8.75%	\$377,071	\$396,182
Second loan from landlord – due 8/31/31 at 8.9%	201,301	211,398
Third loan from landlord – due 8/31/31 at 8.9%	<u>166,920</u>	<u>175,293</u>
Total	<u>\$745,292</u>	<u>\$782,873</u>

Subsequent to year-end, ICS entered into a new loan with the landlord for the renovation of ICS' space in the amount of \$887,880. The loan accrues interest at 8% and matures in 10 years. Principal and interest payments are payable monthly starting one month after the Corporate Commons 3 lease commences. As discussed in Note 7, the lease is expected to commence on December 1, 2020.

As of June 30, 2020, future minimum principal payments on all loans are as follows:

Year ending:	June 30, 2021	\$70,644
	June 30, 2022	107,685
	June 30, 2023	117,022
	June 30, 2024	127,170
	June 30, 2025	138,200
	Thereafter	<u>1,072,451</u>
Total		<u>\$1,633,172</u>

Note 11 - Net Assets With Donor Restrictions

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

Program:	<u>June 30, 2020</u>			
	Balance 7/1/19	Additions	Released from Restrictions	Balance 6/30/20
Mala - School Expansion	\$115,680	\$26,000	\$0	\$141,680
Culinary program	247,751	1,942	0	249,693
Scholarships	1,500	0	0	1,500
Community Performing Arts Space	7,600	0	0	7,600
Early Intervention Mental Health Practices	17,212	0	(17,212)	0
Lavelle Prep Music Program	44,800	0	0	44,800
Other programs	<u>8,295</u>	<u>0</u>	<u>0</u>	<u>8,295</u>
Total program	442,838	27,942	(17,212)	\$453,568
Time	<u>0</u>	<u>24,806</u>	<u>(10,000)</u>	<u>\$14,806</u>
Total	<u>\$442,838</u>	<u>\$52,748</u>	<u>(\$27,212)</u>	<u>\$468,374</u>

Program:	<u>June 30, 2019</u>			
	Balance 7/1/18	Additions	Released from Restrictions	Balance 6/30/19
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 12 - Significant Concentrations

ICS is dependent upon grants from NYCDOE to carry out its operations. Approximately 95% and 88% of the total public support and revenue was received from NYCDOE for the years ended June 30, 2020 and June 30, 2019, respectively. If NYCDOE were to discontinue funding, it would have a severe economic impact on the ability to operate.

Note 13 - 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 a discretionary contribution from ICS of up to 5% of the participating employee's salary. The contribution from ICS becomes fully vested after the employee completes two years of service. No discretionary contribution was made for the year ended June 30, 2020. Amounts accrued for the employer portion of the matching contribution was \$464,000 for the year June 30, 2019.

Note 14 - Special Event

As a result of the pandemic disclosed in Note 17, there was no Gala benefit for the year ended June 30, 2020. ICS' Gala benefit proceeds are summarized as follows for the year ended June 30, 2019:

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 15 - Contingencies

As discussed in Note 4, the Foundation subleases space to ICS. A legal claim was filed by an entity related to the Foundation claiming that the Foundation did not have legal standing to enter the lease as the landlord. The plaintiff asked ICS and other defendants to reimburse them for rent paid to the landlord that should have been paid to the plaintiff. During the year all the parties agreed that ICS would continue to pay rent amounts into an escrow account. Legal counsel does not anticipate there to a likelihood of an unfavorable outcome.

Note 16 - Availability and Liquidity

The following reflects ICS' financial assets at June 30, 2020 that are available to meet cash needs for general expenditures within one year:

Financial assets at year-end:		
Cash and cash equivalents	\$7,274,256	
Grants and pledges receivable collectible within one year	<u>449,984</u>	
Total financial assets		\$7,724,240
Less amounts not available for general expenditures:		
Donor contributions restricted to specific purposes		<u>(453,568)</u>
Financial assets available to meet cash needs for operations within one year		<u>\$7,270,672</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, ICS operates its programs within a board approved budget and relies on grants and earned income to fund its operations and program activities.

Note 17 - Prior Period Adjustment

The financial statements at June 30, 2019 contained a prior period adjustment to increase net assets by \$160,508 to correct an error of not recording accrued vacation as of June 30, 2018.

Note 18 - Other Matters

In January 2020, the World Health Organization declared the novel coronavirus (COVID-19) a Public Health Emergency of International Concern. Since then, the pandemic has led to quarantines, facility closures, and travel and logistics restrictions that have hurt workforces, economies, and financial markets. These events could adversely affect ICS by potentially impacting the funding it receives; limiting program operations; depressing demand for its services; and disrupting its students, staff, and suppliers. As of the date of these financial statements, the potential impact of these events on ICS cannot be quantified.

**INTEGRATION CHARTER SCHOOLS
COMBINING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

	<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		\$11,706,278	\$2,064,455	\$2,078,780	\$15,849,513
Revenue - students with special education services		5,003,492	879,086	530,438	6,413,016
Total public school district revenue	<u>0</u>	<u>16,709,770</u>	<u>2,943,541</u>	<u>2,609,218</u>	<u>22,262,529</u>
New York City rental assistance (Note 8)		1,550,745	334,618	552,630	2,437,993
Other government grants		1,087,874	294,136	261,445	1,643,455
Contributions	66,314				66,314
Other income	8,225	32,209	5,773	11,420	57,627
Total public support and revenue	<u>74,539</u>	<u>19,380,598</u>	<u>3,578,068</u>	<u>3,434,713</u>	<u>26,467,918</u>
Expenses:					
Personnel services:					
Administrative staff personnel	49,584	621,884	184,315	243,767	1,099,550
Instructional staff personnel	55,738	8,517,007	1,430,344	1,422,712	11,425,801
Non-instructional staff personnel	177,902	2,543,497	394,700	222,903	3,339,002
Total personnel services	<u>283,224</u>	<u>11,682,388</u>	<u>2,009,359</u>	<u>1,889,382</u>	<u>15,864,353</u>
Fringe benefits and payroll taxes	79,563	3,281,979	564,496	530,794	4,456,832
Retirement		8,170	1,853	2,348	12,371
Supplies and materials		300,734	29,613	47,421	377,768
Legal services	56,796	46,149	18,925	16,382	138,252
Accounting and audit services		52,113	21,298	23,244	96,655
Other purchased professional and consulting services		37,540	8,126	14,105	59,771
Occupancy and facility costs		1,850,771	421,287	639,363	2,911,421
Repairs and maintenance		221,094	37,994	27,767	286,855
Insurance		115,435	20,902	21,634	157,971
Utilities		150,867	37,301	21,554	209,722
Equipment and furnishings		21,773	17,588	11,601	50,962
Staff development		112,573	29,288	27,467	169,328
Marketing and recruitment	4,125	17,359	7,691	12,596	41,771
Technology		40,518	6,586	58,737	105,841
Food services		186,836	26,716	32,931	246,483
Student services		18,847	62,813	2,832	84,492
Office expense		44,515	8,934	7,812	61,261
Bad debt	54,345				54,345
Depreciation and amortization	264,852	20,603			285,455
Other		91,403	6,125	7,997	105,525
Total expenses	<u>742,905</u>	<u>18,301,667</u>	<u>3,336,895</u>	<u>3,395,967</u>	<u>25,777,434</u>
Change in net assets	<u>(\$668,366)</u>	<u>\$1,078,931</u>	<u>\$241,173</u>	<u>\$38,746</u>	<u>\$690,484</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***

Independent Auditor's Report

To the Board of Trustees of
Integration Charter Schools

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, 2020 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 20, 2020.

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 the ICS' internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

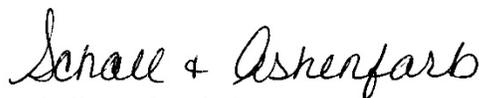
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during 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 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

October 20, 2020

**INTEGRATION CHARTER SCHOOLS
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2020**

Current Year:

None

Prior-Year Follow-Up:

2019-001 – Significant Adjustments and Account Analysis: This matter was corrected and not repeated as a finding.

2019-002 – Unauthorized Student Billing: This matter was corrected and not repeated as a finding.

2019-003 – Timely Filing of Initial Statement of Controls for Lois and Richard Nicotra Early College Charter School (“NECCS”): This matter was corrected and not repeated as a finding.