

International Charter School of New York

Communication With Those Charged With Governance

October 22, 2016



INTERNATIONAL CHARTER SCHOOL OF NEW YORK

FINANCIAL STATEMENTS

JUNE 30, 2016

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
International Charter School of New York

Report on the Financial Statements

We have audited the accompanying financial statements of International Charter School of New York (the "School"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the period from October 16, 2014 (date of inception) to June 30, 2016, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Charter School of New York as of June 30, 2016, and the changes in its net assets and its cash flows for the period from October 16, 2014 (date of inception) to June 30, 2016 in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2016, on our consideration of International Charter School of New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering International Charter School of New York's internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
October 22, 2016

INTERNATIONAL CHARTER SCHOOL OF NEW YORK
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS

Cash	\$ 43,518
Cash - restricted	25,000
Grants and other receivables	374,473
Due from NYC Department of Education	6,592
Prepaid expenses and other assets	120,354
Property and equipment, net	54,764
	<hr/>
	\$ 624,701

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 159,661
Accrued salary and other payroll related expenses	87,656
Fund for the City of New York loan	288,300
	<hr/>
	535,617

NET ASSETS

Unrestricted	(138,172)
Temporarily restricted	227,256
	<hr/>
	89,084
	<hr/>
	\$ 624,701

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

INTERNATIONAL CHARTER SCHOOL OF NEW YORK
STATEMENT OF ACTIVITIES
FOR THE PERIOD FROM OCTOBER 16, 2014 (INCEPTION) TO JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUE			
State and local per pupil operating revenue	\$ 1,716,127	\$ -	\$ 1,716,127
Government grants and contracts	<u>1,189,647</u>	<u>-</u>	<u>1,189,647</u>
	<u>2,905,774</u>	<u>-</u>	<u>2,905,774</u>
EXPENSES			
Program services			
General education	1,854,826	-	1,854,826
Special education	466,622	-	466,622
Management and general	768,784	-	768,784
Fundraising	<u>65,809</u>	<u>-</u>	<u>65,809</u>
	<u>3,156,041</u>	<u>-</u>	<u>3,156,041</u>
DEFICIT FROM SCHOOL OPERATIONS	<u>(250,267)</u>	<u>-</u>	<u>(250,267)</u>
SUPPORT AND OTHER INCOME			
Contributions and other grants	84,095	255,256	339,351
Net assets released from restrictions	<u>28,000</u>	<u>(28,000)</u>	<u>-</u>
	<u>112,095</u>	<u>227,256</u>	<u>339,351</u>
CHANGE IN NET ASSETS	(138,172)	227,256	89,084
NET ASSETS - BEGINNING OF PERIOD	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS - END OF PERIOD	<u>\$ (138,172)</u>	<u>\$ 227,256</u>	<u>\$ 89,084</u>

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

INTERNATIONAL CHARTER SCHOOL OF NEW YORK
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE PERIOD FROM OCTOBER 16, 2014 (INCEPTION) TO JUNE 30, 2016

	No. of Positions	Program Services			Supporting Services		
		General Education	Special Education	Total	Management and General	Fundraising	Total
Personnel service costs							
Administrative staff personnel	4	\$ 88,111	\$ 58,111	\$ 146,222	\$ 353,452	\$ 39,559	\$ 539,233
Instructional personnel	15	720,444	142,667	863,111	-	-	863,111
Non-instructional personnel	2	98,688	35,480	134,168	-	-	134,168
Total salaries and staff	21	907,243	236,258	1,143,501	353,452	39,559	1,536,512
Payroll taxes and employee benefits		125,063	32,568	157,631	43,639	5,013	206,283
Legal services		-	-	-	13,546	-	13,546
Accounting and audit services		-	-	-	25,500	-	25,500
Other purchased, professional, and consulting services		9,137	7,334	16,471	139,771	-	156,242
Building lease and rent		356,828	92,923	449,751	89,016	11,233	550,000
Repairs and maintenance		118,177	30,775	148,952	29,590	3,720	182,262
Insurance		18,530	4,825	23,355	5,121	583	29,059
Utilities		80,804	21,042	101,846	20,158	2,544	124,548
Supplies and materials		96,574	10,585	107,159	-	-	107,159
Equipment and furnishings		41,748	10,872	52,620	10,415	1,314	64,349
Staff development		4,543	929	5,472	4,470	93	10,035
Marketing and recruitment		11,450	1,286	12,736	17,901	29	30,666
Technology		28,349	7,382	35,731	8,232	892	44,855
Food service		2,125	211	2,336	-	-	2,336
Student services		27,917	2,773	30,690	-	-	30,690
Office expense		15,834	4,124	19,958	5,236	498	25,692
Depreciation		10,504	2,735	13,239	2,620	331	16,190
Other		-	-	-	117	-	117
		\$ 1,854,826	\$ 466,622	\$ 2,321,448	\$ 768,784	\$ 65,809	\$ 3,156,041

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

INTERNATIONAL CHARTER SCHOOL OF NEW YORK
STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM OCTOBER 16, 2014 (INCEPTION) TO JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from operating revenue	\$ 2,524,709
Other cash received	339,351
Cash paid to employees and suppliers	<u>(3,037,888)</u>
NET CASH USED IN OPERATING ACTIVITIES	(173,828)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(70,954)
 CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from Fund for the City of New York loan	<u>288,300</u>
 NET INCREASE IN CASH	43,518
 CASH - BEGINNING OF PERIOD	<u>-</u>
 CASH - END OF PERIOD	<u>\$ 43,518</u>

Reconciliation of change in net assets to net cash used in operating activities:

Change in net assets	\$ 89,084
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	16,190
Changes in operating assets and liabilities:	
Cash - restricted	(25,000)
Grants and other receivables	(374,473)
Due from NYC Department of Education	(6,592)
Prepaid expenses and other assets	(120,354)
Accounts payable and accrued expenses	159,661
Accrued salary and other payroll related expenses	<u>87,656</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (173,828)</u>

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

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

1. NATURE OF THE ORGANIZATION

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

The School opened its doors in the fall of 2015 in Brooklyn to kindergarten and first grade students.

The School is exempt from Federal income tax under section 501(a) of the Internal Revenue Code ("IRC") as an organization described in Section 501(c)(3) of the IRC and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the IRC and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii) of the IRC.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

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

The classification of the School's net assets and its support, revenues and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

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

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

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

Cash and Cash Equivalents

The School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

Cash – restricted

An escrow account of \$25,000 is held aside for contingency purposes at June 30, 2016 as required by the Board of Regents of the State University of New York.

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Other Receivables

Grants and other receivables represent unconditional promises to give by donors. Grants and other receivables are expected to be collected within one year, are recorded at net realizable value, and amount to \$374,473 at June 30, 2016. The School had no bad debt expense for the period ended June 30, 2016. The School determined that no allowance for uncollectible accounts was necessary at June 30, 2016. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

Revenue Recognition

Revenue is recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value.

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

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

Property and Equipment

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

Impairment

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the period ended June 30, 2016.

Functional Allocation of Expenses

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

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

The School has evaluated events through October 22, 2016, which is the date the financial statements were available to be issued.

Income Taxes

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

The School files informational returns in the Federal and New York State jurisdictions. The School is subject to Federal, state, or local income tax examination for all fiscal years in which informational returns were filed.

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

Should there be interest on underpayments of income tax, the School would classify it as "Interest Expense." The School would classify penalties in connection with underpayments of income tax as "Other Expense."

Recent Accounting Pronouncements

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

In February 2016, the FASB issued an accounting standard update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. Accounting by lessors remains largely unchanged from current U.S. GAAP. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted. The School is currently evaluating the effect the update will have on its financial statements.

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

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30, 2016:

		Estimated Useful Lives
Furniture and fixtures	\$ 49,029	5 years
Computers	<u>21,925</u>	3 years
	70,954	
Less: accumulated depreciation	<u>(16,190)</u>	
	<u>\$ 54,764</u>	

Depreciation expense for the period ended June 30, 2016 was \$16,190.

4. GRANTS AND OTHER RECEIVABLES

Grants and other receivables consists of federal and state entitlements and grants, as well as unconditional promises to give by donors. The School expects to collect these receivables within one year. Grants and other receivables consist of the following as of June 30, 2016:

CSP	\$ 39,227
E-Rate Reimbursement	7,066
Title I	3,371
Title II	1,387
Facility Assistance	1,526
DYCD	288,300
NYS Additional Funding	23,879
Other	<u>9,717</u>
	<u>\$ 374,473</u>

5. FUND FOR THE CITY OF NEW YORK LOAN

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

6. RISK MANAGEMENT

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

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

INTERNATIONAL CHARTER SCHOOL OF NEW YORK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

7. CONCENTRATIONS

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

The School received approximately 53% of its total revenue from per pupil funding from the NYCDOE during the period ending June 30, 2016.

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

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

8. COMMITMENTS

In April 2015, the School entered into a lease agreement with Brooklyn Friends School for the premises at 55 Willoughby Street, Brooklyn, NY 11201. The original lease term was from August 1, 2015 to August 29, 2016. The lease was renewed through August 30, 2017. Future minimum rental lease payments are as follows:

June 30,	
2017	\$ 633,333
2018	<u>106,667</u>
	<u>\$ 740,000</u>

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

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are purpose restricted and consist of the following at June 30, 2016:

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



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of Trustees
International Charter School of New York

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of International Charter School of New York (the "School"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the period from October 16, 2014 (date of inception) to June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School in a separate letter dated October 22, 2016.

Purpose of this Report

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

MBAF CPAs, LLC

New York, NY
October 22, 2016



October 22, 2016

To the Audit Committee
International Charter School of New York

We have audited the financial statements of International Charter School of New York (the "School") for the period from October 16, 2014 (date of inception) to June 30, 2016, and are prepared to issue our report thereon dated October 22, 2016. Professional standards require that we provide you with the following information related to our audit. This letter is divided into two sections: 1) required communications from the auditors to those with audit oversight responsibilities and 2) opportunities for strengthening internal controls or enhancing operating efficiency and our related recommendations.

REQUIRED COMMUNICATIONS

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

As stated in our engagement letter February 24, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of International Charter School of New York. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

B. Planned Scope and Timing of the Audit:

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on in May 2016.

C. Auditor Independence:

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

D. Qualitative Aspects of Accounting Practices:

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by International Charter School of New York are described in Note 2 to the financial statements. We noted no transactions entered into by the School during the period for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

E. Accounting Estimates Used in the Financial Statements:

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

Allowance for Doubtful Accounts:

As of June 30, 2016, International Charter School of New York recorded grants and other receivables of \$374,473. Management concluded that no allowance for doubtful accounts was necessary. Management calculated based on the assessment of the credit-worthiness of the School's donors, the aged basis of the receivables, as well as economic conditions and historical information. Based on our audit procedures which included a discussion with the school leadership and a review of subsequent collections we concur with management's conclusion.

Functional Statement Allocation:

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

Depreciation:

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

F. Sensitive Disclosures Affecting the Financial Statements:

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

The disclosure of Risk Management in Note 6 to the financial statements describes various risks to which the School is exposed.

G. Corrected and Uncorrected Misstatements:

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

Proposed and Corrected:

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

Proposed and Uncorrected:

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

H. Audit Difficulties and Disagreements with Management:

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

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

I. Management Representations:

We have requested certain representations from management that are included in the management representation letter dated October 22, 2016.

J. Management Consultations with Other Independent Accountants:

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

K. Other Audit Findings or Issues:

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

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

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

Very truly yours,

MBAF CPAs, LLC

MBAF CPAs, LLC



INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED UPON PROCEDURES

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

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

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

The procedures we performed and our results are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

MBAF CPAs, LLC

MBAF CPAs, LLC
September 20, 2017