

**I-LEAD CHARTER SCHOOL – READING**  
**FINANCIAL STATEMENTS**  
**Year Ended June 30, 2013**

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# DRESLIN AND COMPANY, INC.

A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
I-LEAD Charter School – Reading  
Reading, Pennsylvania

### Report on the Financial Statements

We have audited the accompanying financial statements of I-LEAD Charter School – Reading (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, 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 I-LEAD Charter School – Reading as of June 30, 2013, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2014, on our consideration of I-LEAD Charter School – Reading’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 I-LEAD Charter School – Reading’s internal control over financial reporting and compliance.

*Dreslin and Company, Inc.*

June 5, 2014

**I-LEAD CHARTER SCHOOL - READING**  
**Statement of Financial Position**  
**June 30, 2013**

**ASSETS**

**CURRENT ASSETS**

Cash	\$ 280,572
Accounts Receivable	63,177
State and Federal Subsidies Receivable	186,983
Other Receivables	76,882
Prepaid Expenses	<u>109,687</u>

TOTAL CURRENT ASSETS 717,301

**PROPERTY AND EQUIPMENT**

Leasehold Improvements	80,765
Furniture, Fixtures, and Equipment	<u>91,241</u>

Total Property and Equipment	172,006
<u>Less: Accumulated Depreciation</u>	<u>(107,174)</u>

PROPERTY AND EQUIPMENT - NET 64,832

**TOTAL ASSETS** \$ 782,133

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts Payable - Other	209,824
Due to Related Party	2,100
Accrued Salaries and Benefits	253,030
Payroll Withholding Liabilities	16,413
Current Portion of Capital Lease Obligations	28,031
Loans Payable	<u>151,283</u>

TOTAL CURRENT LIABILITIES 660,681

**LONG-TERM DEBT**

Capital Lease Obligations	<u>7,797</u>
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TOTAL LIABILITIES 668,478

**NET ASSETS**

Unrestricted	<u>113,655</u>
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TOTAL NET ASSETS 113,655

**TOTAL LIABILITIES AND NET ASSETS** \$ 782,133

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

**I-LEAD CHARTER SCHOOL - READING**  
**Statement of Activities**  
**For the Year Ended June 30, 2013**

**UNRESTRICTED NET ASSETS**

Revenue and Support:

Local-source Revenues:

Program Service Fees:

Receipts from Other Local Educational Agencies \$ 3,248,886

Other 100,278

Contributions 193,350

Interest Income 560

State-source Revenues 353,832

Federal-source Revenues 440,862

**TOTAL UNRESTRICTED REVENUES AND SUPPORT** 4,337,768

Expenses:

Program Services 3,643,231

Supporting Services:

Management and General 422,476

Fundraising 51,342

**TOTAL EXPENSES** 4,117,049

**CHANGE IN UNRESTRICTED NET ASSETS** 220,719

**NET ASSETS (DEFICIT) - BEGINNING OF YEAR** (107,064)

**NET ASSETS - END OF YEAR** \$ 113,655

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

**I-LEAD CHARTER SCHOOL - READING**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2013**

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries	\$ 2,260,636	\$ 198,569	\$ 26,420	\$ 2,485,625
Employee Benefits	620,187	80,637	7,430	708,254
Purchased Professional and Technical Services	132,661	26,727	13,281	172,669
Purchased Property Services	288,635	32,701	2,952	324,288
Other Purchased Services	175,400	34,427	3	209,830
Supplies	84,801	24,866	582	110,249
Property	20,743	2,079	67	22,889
Depreciation	57,681	2,430	607	60,718
Interest Expense	-	16,284	-	16,284
Other Expenses	2,487	3,756	-	6,243
<b>Total Expenses</b>	<b>\$ 3,643,231</b>	<b>\$ 422,476</b>	<b>\$ 51,342</b>	<b>\$ 4,117,049</b>

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

**I-LEAD CHARTER SCHOOL - READING**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2013**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in Net Assets	\$ 220,719
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided by Operating Activities:	
Depreciation	60,718
(Increase) Decrease in Current Assets:	
Accounts Receivable	134,937
State and Federal Subsidies Receivable	(28,874)
Other Receivables	(60,642)
Prepaid Expenses	(88,035)
Increase (Decrease) in Current Liabilities:	
Accounts Payable	(49,367)
Due to Related Party	(172,540)
Accrued Expenses	128,516
Payroll Withholding Liabilities	8,884
	<u>154,316</u>
Net Cash Provided by Operating Activities	<u>154,316</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of Property and Equipment	<u>(9,387)</u>
Net Cash (Used) by Investing Activities	<u>(9,387)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from Long-term Debt	135,000
Repayment of Long-term Debt	<u>(206,245)</u>
Net Cash (Used) by Financing Activities	<u>(71,245)</u>
Net Increase in Cash	73,684
CASH - BEGINNING OF YEAR	<u>206,888</u>
CASH - END OF YEAR	<u><u>\$ 280,572</u></u>
<b>SUPPLEMENTAL DISCLOSURES</b>	
Interest Paid	\$ 16,284

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



## **I-LEAD CHARTER SCHOOL – READING NOTES TO FINANCIAL STATEMENTS**

### **1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

#### **Organization and Nature of Activities**

I-LEAD Charter School – Reading (ILCS) is a nonprofit organization, incorporated under the laws of Pennsylvania in 2010, that operates a charter school located in Reading, Pennsylvania. ILCS serves youth disconnected from school with the opportunity to re-engage in their education and transition successfully into adulthood. Currently, ILCS serves students enrolled in grades nine through twelve.

The operations of ILCS are governed by The Institute for Leadership Education, Advancement and Development, Inc. (I-LEAD, Inc.), a related party. Pursuant to ILCS's by-laws, I-LEAD, Inc. appoints the members of the ILCS's board. The President and CEO of I-LEAD, Inc. serves as the Board Chair of ILCS. Two executives of I-LEAD, Inc. serve on the Board of ILCS, along with community members.

ILCS's primary source of revenue is from local educational agencies (LEAs) for education provided to students from the paying LEA. ILCS and Reading School District are parties to a three-year Charter Agreement effective July 1, 2011 through June 30, 2014. In October 2013, the Reading School Board approved a five-year renewal of ILCS's charter.

#### **Significant Accounting Policies**

##### Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

##### Basis of Presentation

##### *Presentation of financial position and activities*

ILCS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. ILCS has no restricted net assets as of June 30, 2013.

##### *Maintenance of Accounting Records*

Although ILCS's financial statements are presented in accordance with generally accepted accounting principles applicable to nonprofit entities, ILCS is required to submit certain financial reports to the Pennsylvania Department of Education (PDE) that are prepared in accordance with accounting principles applicable to state and local governments. In order to comply with certain PDE reporting requirements, ILCS maintains its accounting records in accordance with the *Manual of Accounting and Financial Reporting for PA Public Schools* (the Manual) maintained by the Pennsylvania Office of the Budget. The Manual provides guidance regarding the classification of

revenues and expenses by functional classification (which the Manual describes as “functions”) and by natural expense classification (which the Manual describes as “objects”).

#### *Functional Allocation of Expenses*

The costs of providing program and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Program services, as reported in the statement of activities and the statement of functional expenses, include the following functions as described in the Manual: instruction, student support services, instructional staff support services, pupil personnel support services, student transportation, and non-instructional services. Management and general supporting services, as reported in the statement of activities and the statement of functional expenses, include the following functions as described in the Manual: support services – administration, support services – business, operation and maintenance of plant, central services, and other support services.

#### Accounting Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Based on the nature of the account receivable, management believes all accounts are fully collectible; accordingly, there is no allowance for doubtful accounts as of June 30, 2013. ILCS does not charge interest on outstanding balances.

#### State and Federal Subsidies

ILCS receives state and federal subsidies from the Pennsylvania Department of Education. These subsidies received in support of ILCS’s programs are recognized as revenue as related expenses are incurred.

#### Inventories

Inventory items such as books and other supplies are charged to expense when purchased.

#### Property and Equipment

Property and equipment are carried at cost if purchased. Maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

## Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restrictions. Donor-restricted contributions whose restrictions are satisfied in the same period are reported as unrestricted. Unconditional contributions are recognized as revenue when the related promise to give is received. Conditional contributions are recognized as revenue when the conditions are satisfied.

## Income Taxes

ILCS qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision or liability for income taxes is required.

### **2. CASH AND INVESTMENTS**

Cash includes amounts in demand deposits. ILCS maintains its cash balances in two financial institutions. The bank balances may at times exceed federally insured limits. As of June 30, 2013, ILCS's uninsured cash balances totaled \$33,078.

### **3. ACCOUNTS RECEIVABLE**

Accounts receivable represents amounts due from local educational agencies (LEAs) for education provided to students from the paying LEA. Accounts receivable consists of the following as of June 30, 2013:

Reading School District	\$ 61,644
Other LEAs	<u>1,533</u>
Total Accounts Receivable	<u>\$ 63,177</u>

### **4. STATE AND FEDERAL SUBSIDIES RECEIVABLE**

The following is a summary of state and federal subsidies receivable as of June 30, 2013.

State Subsidies:	
Rental Subsidy	\$ 60,999
Retirement	93,929
Federal Subsidies:	
Food Subsidy	<u>32,055</u>
Total	<u>\$ 186,983</u>

### **5. PREPAID EXPENSES**

During the year ended June 30, 2013, a donor funded the cost of certain leasehold improvements made to the building that ILCS occupies. Since ILCS was under no obligation to incur the cost of the improvements, the lessor has agreed to reimburse ILCS for the cost of the improvements in the form of a rental credit totaling \$120,000, of which \$87,600 is to be applied to rent covering the period August 1, 2013 through July 31, 2014, and \$32,400 is to be applied to rent covering the period August 1, 2014 through July 31, 2015. The rent credit is conditioned upon the

extension of the lease during those periods. Since it is doubtful that ILCS will realize the benefit of the credit for the period beyond July 31, 2014, contribution revenue recognized through June 30, 2013 has been limited to \$87,600. The amount of the rent credit has been included in prepaid expenses as of June 30, 2013. The remaining balance of prepaid expenses, totaling \$22,087, represents prepaid insurance and other expenses.

## 6. PROPERTY AND EQUIPMENT

Property and equipment activity for the year ended June 30, 2013 was as follows:

	Balance - <u>7/1/2012</u>	<u>Additions</u>	<u>Disposals</u>	Balance - <u>6/30/2013</u>
Leasehold Improvements	\$ 71,378	\$ 9,387	\$ -	\$ 80,765
Furniture, Fixtures, and Equipment	<u>91,241</u>	<u>-</u>	<u>-</u>	<u>91,241</u>
Total Property and Equipment	162,619	9,387	-	172,006
Less: Accumulated Depreciation	<u>(46,456)</u>	<u>(60,718)</u>	<u>-</u>	<u>(107,174)</u>
Property and Equipment - Net	<u>\$ 116,163</u>	<u>\$ (51,331)</u>	<u>\$ -</u>	<u>\$ 64,832</u>

ILCS uses certain property and equipment that is owned by I-LEAD, Inc., a related party. ILCS does not pay I-LEAD, Inc. for the use of this property and equipment; however an in-kind contribution totaling \$14,510 for the use of the property and equipment is included as contributions revenue for the year ended June 30, 2013. A corresponding amount is included in Purchased Property Services in the Statement of Functional Expenses.

The total cost and accumulated depreciation of property and equipment has been restated as of July 1, 2012 to include the cost and accumulated depreciation of equipment acquired via capital lease during the year ended June 30, 2012. The total cost of that equipment was \$84,093 and the total accumulated depreciation was \$22,073 as of June 30, 2012.

## 7. DUE TO RELATED PARTY

In connection with the start-up cost of ILCS, I-LEAD, Inc. has provided ILCS with unsecured interest-free loans for certain expenditures paid on behalf of ILCS. Repayments against the loans during the year ended June 30, 2013 totaled \$172,540. As of June 30, 2013, the amount due I-LEAD, Inc. totaled \$2,100, payable on demand.

## 8. LONG-TERM DEBT

### Loans Payable – Community First Fund

ILCS has two outstanding loans with Community First Fund. The loans are secured by the general assets of ILCS. The initial principal amount of the first loan, secured on June 3, 2011, was \$250,000. Payment terms consist of seven consecutive monthly payments of interest at 8% beginning August 15, 2011, and twenty-two consecutive monthly payments of \$12,266 including interest at 8% beginning on March 15, 2012 and ending on December 15, 2013. The balance of the loan was \$71,882 as of June 30, 2013. Interest expense totaled \$10,851 for the year ended June 30, 2013.

The initial principal amount of the second loan, secured on August 13, 2012, was \$135,000. Payment terms consist of twenty-one consecutive monthly payments of \$6,855 including interest at 7% beginning October 15, 2012 and ending on June 15, 2014. The balance of the loan was \$79,401 as of June 30, 2013. Interest expense totaled \$6,134 for the year ended June 30, 2013.

As of June 30, 2013, the outstanding balance of the two loans, totaling \$151,283, is scheduled to mature during the year ending June 30, 2014.

## 9. LEASE COMMITMENTS

### Capital Lease Obligations

ILCS leases certain equipment under various capital leases. The economic substance of the leases is that ILCS financed the acquisition of the equipment through the leases, and accordingly, the equipment and related obligations are recorded in ILCS's assets and liabilities. The cost of this equipment was \$84,093 and the related accumulated depreciation totaled \$52,653 as of June 30, 2013. The equipment is being depreciated over 33 months. As of June 30, 2013, future minimum lease payments were payable as follows:

Year Ending <u>June 30</u>	<u>Total</u>
2014	\$ 28,031
2015	<u>7,797</u>
Total	<u>\$ 35,828</u>

### Operating Lease Obligations

ILCS leases its facilities in Reading, Pennsylvania. The lease was initiated in 2011 and expires on July 31, 2014. As of June 30, 2013, the monthly base rental was \$19,627. Rent paid under this lease totaled \$222,877 for the year ended June 30, 2013, and is included in purchased property services expense in the statement of functional expenses. In addition, ILCS leases certain computer equipment under a non-cancelable lease. Rent paid under this lease totaled \$9,600 for the year ended June 30, 2013, and is also included in purchased property services in the statement of functional expenses. Minimum annual rental commitments under non-cancelable leases with initial or remaining terms in excess of one year are as follows as of June 30, 2013:

Year Ending <u>June 30</u>	<u>Total</u>
2014	\$ 245,124
2015	<u>22,027</u>
Total	<u>\$ 267,151</u>

## 10. RECEIPTS FROM OTHER LOCAL EDUCATIONAL AGENCIES

ILCS's primary source of revenue is from local educational agencies (LEAs) for education provided to students from the paying LEA. Revenue received from other local educational agencies totaled \$3,248,886 for the year ended June 30, 2013, of which \$3,166,647 was derived from Reading School District.

## 11. PROGRAM SERVICE FEES

Program Service Fees totaling \$100,278 includes revenue totaling \$50,000 derived from a contract with I-LEAD, Inc. whereby I-LEAD Inc. paid ILCS to provide services to students to assist them in earning their GED (for which the original source of the revenue was from County of Berks, Pennsylvania), as well as federal revenues received from intermediary sources totaling \$36,972 and other local-source revenues totaling \$13,306.

## 12. FINANCIAL REPORTING

Although these financial statements are presented in accordance with generally accepted accounting principles applicable to nonprofit entities, ILCS is required to submit certain financial reports to the Pennsylvania Department of Education (PDE) that are prepared in accordance with accounting standards applicable to state and local governments. For each fiscal year of operations, ILCS is required to submit an Annual Financial Report (AFR) to the Pennsylvania Department of Education. The AFR is prepared on a fund basis in accordance with accounting principles applicable to state and local governments. Within ILCS's AFR, only current financial assets and liabilities are included in the balance sheet, and only revenues and expenses that affect current financial resources are reported in the statement of revenues, expenditures, and changes in fund balance.

Below is a reconciliation between the amounts reported in these financial statements and the amounts reported in the AFR.

	Financial Statements	Reconciling Items			AFR
		Prepaid Expenses	Property & Equipment	Long-term Debt	
Current Assets	\$ 717,301	\$ (87,600)	\$ -	\$ -	\$ 629,701
Property and Equipment - Net	64,832	-	(64,832)	-	-
Total Assets	782,133	(87,600)	(64,832)	-	629,701
Current Portion of Long-term Debt	179,314	-	-	(179,314)	-
Other Current Liabilities	481,367	-	-	(100,000)	381,367
Long-term Debt	7,797	-	-	(7,797)	-
Total Liabilities	668,478	-	-	(287,111)	381,367
Net Assets (Deficit) / Fund Balance	\$ 113,655	\$ (87,600)	\$ (64,832)	\$ 287,111	\$ 248,334
Total Revenues / Total Revenues and Other Sources	\$4,337,768	\$ (87,600)	\$ -	\$ 135,000	\$4,385,168
Total Expenses / Total Expenditures	4,117,049	-	(53,170)	402,165	4,466,044
Change in Net Assets / Excess of Revenues Over Expenditures	220,719	(87,600)	53,170	(267,165)	(80,876)
Net Assets (Deficit) / Fund Balance - 7/1/12	(107,064)	-	(118,002)	554,276	329,210
Net Assets (Deficit) / Fund Balance - 6/30/13	\$ 113,655	\$ (87,600)	\$ (64,832)	\$ 287,111	\$ 248,334

### 13. EMPLOYEES' RETIREMENT PLAN:

ILCS participates in the Public School Employees' Retirement System (the System) (PSERS), which is a governmental cost sharing multiple-employer defined benefit plan. Under the plan, ILCS is required to make contributions to the System based on the gross earnings of all eligible employees, which includes most employees.

The pension program is wholly administered by the statewide, autonomous PSERS with offices in Harrisburg, Pennsylvania. ILCS has no responsibility or authority for the operation and administration of the pension program, nor has it any related liability except for current contribution requirements. A brief statement of the terms of the retirement plan follows:

#### Benefits

Retirement and disability; legislative mandated ad hoc cost-of-living adjustments; healthcare insurance premium assistance to qualifying annuitants

#### Authority

The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended)

#### Annual Financial Report

The System issues a *Comprehensive Annual Financial Report* (CAFR) that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained by writing to Beth Girman, Office of Financial Management, Public School Employees' Retirement System, 5 N. 5th Street, Harrisburg PA 17101-1905 or by emailing Beth at [bgirman@pa.gov](mailto:bgirman@pa.gov). The CAFR is also available on the Publications page of the PSERS website, [www.psers.state.pa.us](http://www.psers.state.pa.us).

#### Funding Policy

The contribution policy is established in the Public School Employees' Retirement Code and requires contributions by active members, employers, and the Commonwealth of Pennsylvania.

#### Contribution Rates

##### *Member Contributions*

Active members who joined the System prior to July 22, 1983 contributed at 5.25% (Membership Class T-C) or at 6.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System on or after July 22, 1983 and who were active or inactive as of July 1, 2001 contribute at 6.25% (Membership Class T-C) or at 7.5% (Membership Class T-D) of the member's qualifying compensation.

Members who joined the System after June 30, 2001 and before July 1, 2011 contribute at 7.5% (automatic Membership Class T-D). For all new hires and for members who elected Class T-D membership, the higher contribution rates began with service rendered on or after January 1, 2002.

Members who joined the System after June 30, 2011 automatically contribute at the Membership Class T-E rate of 7.5% (base rate) of the member’s qualifying compensation. All new hires after June 30, 2011 who elect Class T-F membership contribute at 10.3% (base rate) of the member’s qualifying compensation. Membership Class T-E and Class T-F are affected by a “shared risk” provision in Act 120 of 2010 that in future fiscal years could cause the membership Class T-E contribution rate to fluctuate between 7.5% and 9.5% and membership Class T-F contribution rate to fluctuate between 10.3% and 12.3%.

*Employer Contributions*

Contributions required of employers are based upon an actuarial valuation. For fiscal year ended June 30, 2013, the rate of employer contribution was 12.36% of covered payroll. The 12.36% rate is composed of a pension contribution of 11.5% for pension benefits and 0.86% for healthcare insurance premium assistance. The payroll for employees of ILCS covered by the Plan was \$2,398,380 and total payroll was \$2,485,625 for the current year. Retirement expenditures for the current year and the prior year were as follows:

Year Ended <u>June 30</u>	Required Employer Contributions	
	<u>Amount</u>	<u>Percentage Contributed</u>
2013	\$ 308,937	100%
2012	109,539	100%

**14. CONTINGENCIES**

Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time although management expects such amount, if any, to be immaterial.

**15. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through June 5, 2014, the date on which the financial statements were available to be issued.



## **16. PRIOR-PERIOD ADJUSTMENTS**

As disclosed in Note 6, the total cost and accumulated depreciation of property and equipment has been restated as of July 1, 2012 to include the cost of equipment acquired via capital lease during the year ended June 30, 2012. The total cost of that equipment was \$84,093 and the total accumulated depreciation was \$22,073 as of June 30, 2012. Since there was no significant difference between the net book value of the unrecorded property and equipment and the unrecorded balance of the related capital lease obligation, the restatement had no effect on net assets as of June 30, 2012.

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## **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 Directors of  
I-LEAD Charter School - Reading  
Reading, Pennsylvania

We have audited the financial statements of I-LEAD Charter School – Reading (a nonprofit organization) as of and for the year ended June 30, 2013, and have issued our report thereon dated June 5, 2014. 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.

### **Internal Control Over Financial Reporting**

Management of I-LEAD Charter School – Reading is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered I-LEAD Charter School – Reading’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of I-LEAD Charter School – Reading’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control over financial reporting.

*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 entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether I-LEAD Charter School – Reading’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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Dreslin and Company, Inc.*

June 5, 2014