

**OUR WORLD  
NEIGHBORHOOD CHARTER SCHOOL**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORTS**

**JUNE 30, 2013 AND 2012**

# **OUR WORLD NEIGHBORHOOD CHARTER SCHOOL**

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**Independent Auditor's Report on Financial Statements  
and Supplementary Information**

**Board of Trustees  
Our World Neighborhood Charter School**

***Report on the Financial Statements***

We have audited the accompanying financial statements of Our World Neighborhood Charter School, which comprise the balance sheet as of as of June 30, 2013 and 2012, and the related statements of activities 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 Our World Neighborhood Charter School as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in Schedule 1 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 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 21, 2013 on our consideration of Our World Neighborhood Charter 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 Our World Neighborhood Charter School's internal control over financial reporting and compliance.

*Loeb & Troper LLP*

October 21, 2013

## OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

## BALANCE SHEET

JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Current assets		
Cash	\$ 3,270,758	\$ 3,143,234
Grants and contracts receivable	121,068	168,093
Accounts receivable (net of allowance for doubtful accounts of \$16,700 in 2013 and \$16,637 in 2012)	14,245	7,492
Prepaid expenses	26,621	172,247
Security deposits	51,386	51,386
Deferred rent costs (Note 4)	38,574	38,574
Total current assets	3,522,652	3,581,026
Cash - reserve for dissolution (Note 2)	75,000	
Deferred rent costs (Note 4)	48,218	86,792
Fixed assets - net (Note 3)	3,586,984	3,359,542
Total assets	<u>\$ 7,232,854</u>	<u>\$ 7,027,360</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 107,028	\$ 287,040
Accrued salaries, vacations and related liabilities	874,805	722,435
Total current liabilities	981,833	1,009,475
Net assets (Exhibit B)		
Unrestricted	6,251,021	6,017,885
Total liabilities and net assets	<u>\$ 7,232,854</u>	<u>\$ 7,027,360</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

## STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating revenues and other support		
State and local per-pupil operating revenues	\$ 9,869,347	\$ 9,505,009
Government grants and contracts	418,453	449,195
Food program grants	153,716	151,869
Contributions	14,854	21,170
In-kind contributions	53,578	54,854
Interest income	6,531	4,961
Other revenues	<u>89,701</u>	<u>75,300</u>
Total operating revenues	<u>10,606,180</u>	<u>10,262,358</u>
Expenses (Schedule 1)		
Program services		
Education	7,930,163	7,729,749
Special education	<u>538,983</u>	<u>360,264</u>
Total program services	<u>8,469,146</u>	<u>8,090,013</u>
Supporting services		
Management and general	1,780,511	1,694,664
Fund raising	<u>123,387</u>	<u>113,998</u>
Total supporting services	<u>1,903,898</u>	<u>1,808,662</u>
Total expenses	<u>10,373,044</u>	<u>9,898,675</u>
Change in unrestricted net assets (Exhibit C)	233,136	363,683
Net assets - unrestricted - beginning of year	<u>6,017,885</u>	<u>5,654,202</u>
Net assets - unrestricted - end of year (Exhibit A)	<u>\$ 6,251,021</u>	<u>\$ 6,017,885</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.



## OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

## STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 233,136	\$ 363,683
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	246,868	239,289
Decrease (increase) in assets		
Grants and contracts receivable	47,025	26,802
Accounts receivable	(6,753)	921
Prepaid expenses	145,626	(132,927)
Deferred rent costs	38,574	38,574
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(180,012)	92,614
Accrued salaries, vacations and related liabilities	<u>152,370</u>	<u>(47,376)</u>
Net cash provided by operating activities	<u>676,834</u>	<u>581,580</u>
Cash flows from investing activities		
Fixed asset acquisitions	(474,310)	(447,420)
Cash - reserve for dissolution	<u>(75,000)</u>	<u></u>
Net cash used by investing activities	<u>(549,310)</u>	<u>(447,420)</u>
Net change in cash	127,524	134,160
Cash - beginning of year	<u>3,143,234</u>	<u>3,009,074</u>
Cash - end of year	<u>\$ 3,270,758</u>	<u>\$ 3,143,234</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

# OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

### NOTE 1 - NATURE OF ORGANIZATION

Our World Neighborhood Charter School (OWN) is an educational corporation that operates as a charter school in the borough of Queens, New York. On July 18, 2012, the Board of Regents and the Board of Trustees of the State University of New York, on behalf of the State Education Department, granted OWN a charter valid for a term of five years and renewable upon expiration. OWN was organized to increase learning opportunities for students through innovative educational programs and to enable parents to be more involved in their children's education. In both fiscal years 2013 and 2012, OWN operated classes for approximately 700 students in grades K-8.

Our World Neighborhood Charter School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. OWN is supported primarily by state and local per-pupil operating revenues.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of accounting* - The financial statements are prepared on the accrual basis of accounting.

*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.

*Cash - reserve for dissolution*- The cash reserve for dissolution represents funds held aside for contingency purposes as required by the School's Charter.

*Accounts receivable* - Accounts receivable consist of unpaid tuition balances. Accounts receivable are presented net of allowances for doubtful accounts. The allowances are based on management's evaluation of the collectibility of the related accounts. Interest is not accrued or recorded on outstanding receivables.

*Allowance for doubtful accounts* - OWN determines whether an allowance for uncollectibles should be provided for pledges and accounts receivable. Such estimates are based on management's assessment of the aged basis of its contributions and other sources, current economic conditions and historical information. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

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## OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Prepaid expenses* - Payments made to vendors that cover future periods are recorded as prepaid expenses.

*Fixed assets* - Fixed assets are recorded at cost. Items with a cost of \$1,000 or more and an estimated useful life of more than one year are capitalized.

*Unrestricted net assets* - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

*State and local per-pupil operating revenues* - Revenues from the state and local governments resulting from OWN's charter status and based on the number of students enrolled are recorded when services are performed in accordance with the charter agreement. These grants are recorded as revenue by OWN when services are rendered.

*Government grants* - Revenues from other government grants to which OWN is entitled is recognized mostly on student enrollment. Some grants are provided for specific educational endeavors which are not based on student enrollment and are recorded when related expenditures are incurred by OWN.

*Food program grants* - Food program grants represent both state and local government subsidies to pay for meals for eligible students.

*Contributions* - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donors. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*In-kind contributions* - In-kind contributions consist of textbooks, library books and software from the NYC Board of Education. These contributions are recorded at fair value at the date of donation.

*Other revenues* - The nonreimbursable portion of meals served and field trips are included in other revenues.

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## OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Depreciation and amortization** - Leasehold improvements are amortized on the straight-line basis over the lesser of their useful lives of 37-39 years or the term of the lease, whichever is shorter. Depreciation is computed on the straight-line basis over the estimated useful lives of 3-5 years.

**Functional allocation of expenses** - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Uncertainty in income taxes** - The School has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2010 and subsequent remain subject to examination by applicable taxing authorities.

**Subsequent events** - Subsequent events have been evaluated through October 21, 2013, which is the date the financial statements were available to be issued.

## NOTE 3 - FIXED ASSETS

	<u>2013</u>	<u>2012</u>
Leasehold improvements	\$ 3,559,244	\$ 3,519,765
Furniture and equipment	1,159,305	1,000,713
Construction in progress	<u>972,870</u>	<u>696,631</u>
	5,691,419	5,217,109
Accumulated depreciation and amortization	<u>(2,104,435)</u>	<u>(1,857,567)</u>
	<u>\$ 3,586,984</u>	<u>\$ 3,359,542</u>

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# OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

### NOTE 4 - LEASE COMMITMENT

On July 15, 2002, OWN entered into a sublease agreement with Mosaica Education, Inc. (the Sublandlord) for premises located at 36-12 35th Avenue, Astoria, New York (Lower School) for a term ending September 30, 2010, which was extended for an additional five years. In consideration of value under the Sublease Agreement, OWN reimbursed the Landlord (New York City Economic Development Corporation) for executing various agreements of Purchase, Assignment and Assumption of the leased premises. On November 6, 2006, OWN purchased the lease agreement from Mosaica Education, Inc. for \$480,000. The \$480,000 represents deferred rent expense, which is being amortized over the life of the lease.

OWN entered into a two-year lease of a school building located at 31-20 37<sup>th</sup> Street, Astoria, NY (Middle School), which expired on June 30, 2007, which was extended to June 30, 2013. Subsequent to the end of the year (on September 1, 2013) OWN entered into a new lease agreement for the same space through July 31, 2018.

The future minimum lease payments are as follows:

2014	\$ 700,914
2015	776,439
2016	463,416
2017	377,625
2018	381,600
Thereafter	<u>31,800</u>
	<u>\$ 2,731,794</u>

Rent expense for the years ended June 30, 2013 and 2012 was \$692,686 and \$663,899, respectively.

### NOTE 5 - PENSIONS

Beginning October 1, 2008, OWN participated in a 401(k) plan administered by ADP Total Source, a Professional Employer Organization (PEO). As of January 1, 2012, OWN terminated its PEO relationship with ADP Total Source and established a new 401(k) plan for its employees with similar plan provisions. The Asset Manager and Record Keeper for the new Plan is ADP Retirement Services.

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**OUR WORLD NEIGHBORHOOD CHARTER SCHOOL****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2013 AND 2012****NOTE 5 - PENSIONS (continued)**

OWN provides a 100% match of salary deferral up to 3% and a discretionary profit sharing of up to 3% of eligible compensation.

Pension expense for the years ended June 30, 2013 and 2012 was \$343,887 and \$320,854, respectively.

**NOTE 6 - CONTINGENCIES**

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

OWN is party to various litigations which, in the opinion of management, will not have a material adverse impact on its financial position.

**NOTE 7 - CONCENTRATIONS**

Financial instruments which potentially subject OWN to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

OWN obtained approximately 93% of its operating revenues in 2013 and 2012 through its charter from New York State.

## OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

## SCHEDULE 1

## STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2013 AND 2012

	No. of Positions	2013						2012	
		Program Services			Supporting Services				
		Education	Special Education	Total	Management and General	Fund Raising	Total	Total	Total
Personnel service costs									
Administrative staff personnel	14				\$ 945,712	\$ 75,489	\$ 1,021,201	\$ 1,021,201	\$ 996,289
Instructional personnel	69	\$ 3,839,112	\$ 284,796	\$ 4,123,908				4,123,908	3,830,100
Non-instructional personnel	9	636,843	77,596	714,439				714,439	577,214
Total personnel service costs		4,475,955	362,392	4,838,347	945,712	75,489	1,021,201	5,859,548	5,403,603
Payroll taxes and employee benefits		1,128,312	79,423	1,207,735	350,939	19,581	370,520	1,578,255	1,567,253
Occupancy (Note 4)		745,791	56,135	801,926	89,105	6,707	95,812	897,738	867,600
Contracted services		176,861	7,740	184,601	44,868	7,645	52,513	237,114	361,404
Supplies and equipment		361,381	1,867	363,248	84,083	4,274	88,357	451,605	402,305
Repairs and maintenance		314,339		314,339	67,806		67,806	382,145	338,284
Printing and postage		9,352		9,352	5,859	2,000	7,859	17,211	13,319
Professional fees					77,826		77,826	77,826	37,300
Security		71,076	5,350	76,426	7,480	563	8,043	84,469	65,251
Dues and subscription		6,842	479	7,321	2,966		2,966	10,287	10,189
Insurance		72,790	5,479	78,269	7,346	553	7,899	86,168	82,261
Advertising		25,322		25,322		3,200	3,200	28,522	35,015
Telephone		60,662		60,662	15,537		15,537	76,199	88,461
Bad debts					14,671		14,671	14,671	22,871
Travel		4,566		4,566	3,237		3,237	7,803	4,276
Food services		181,740		181,740				181,740	220,098
Professional development		80,667	5,420	86,087	5,207	401	5,608	91,695	98,395
Depreciation and amortization		195,278	14,698	209,976	34,310	2,582	36,892	246,868	239,289
Miscellaneous expenses		19,229		19,229	23,559	392	23,951	43,180	41,501
Total expenses (Exhibit B)		\$ 7,930,163	\$ 538,983	\$ 8,469,146	\$ 1,780,511	\$ 123,387	\$ 1,903,898	\$ 10,373,044	\$ 9,898,675

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## OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

## SCHEDULE 1

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## STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2013 AND 2012

	No. of Positions	2012					
		Program Services			Supporting Services		
		Education	Special Education	Total	Management and General	Fund Raising	Total
Personnel service costs							
Administrative staff personnel	16				\$ 925,955	\$ 70,334	\$ 996,289
Instructional personnel	66	\$ 3,634,237	\$ 195,863	\$ 3,830,100			\$ 3,830,100
Non-instructional personnel	9	545,974	31,240	577,214			577,214
Total personnel service costs		4,180,211	227,103	4,407,314	925,955	70,334	5,403,603
Payroll taxes and employee benefits		1,172,313	46,219	1,218,532	329,462	19,259	1,567,253
Occupancy (Note 4)		757,153	36,464	793,617	63,730	10,253	867,600
Contracted services		278,057	34,133	312,190	49,214		361,404
Supplies and equipment		286,276	3,718	289,994	102,733	9,578	402,305
Repairs and maintenance		250,329		250,329	87,955		338,284
Printing and postage		10,781		10,781	2,538		13,319
Professional fees					37,300		37,300
Security		58,612		58,612	6,639		65,251
Dues and subscription		7,166		7,166	3,023		10,189
Insurance		67,713		67,713	14,548		82,261
Advertising		31,402		31,402		3,613	35,015
Telephone		71,146		71,146	17,315		88,461
Bad debts		22,871		22,871			22,871
Travel		3,148		3,148	1,128		4,276
Food services		220,098		220,098			220,098
Professional development		96,960	1,070	98,030		365	98,395
Depreciation and amortization		198,702	10,057	208,759	30,530		239,289
Miscellaneous expenses		16,811	1,500	18,311	22,594	596	41,501
Total expenses (Exhibit B)		\$ 7,729,749	\$ 360,264	\$ 8,090,013	\$ 1,694,664	\$ 113,998	\$ 9,898,675

See independent auditor's report.





**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**

**Board of Trustees  
Our World Neighborhood Charter School**

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 Our World Neighborhood Charter School, which comprise the balance sheet as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2013.

***Internal Control Over Financial Reporting***

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 Our World Neighborhood Charter School's financial statements are free from 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*.

### ***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.

*Loeb & Troper LLP*

October 21, 2013