

PAVE Academy Charter School

Financial Statements

June 30, 2017 and 2016

Independent Auditors' Report

Board of Trustees PAVE Academy Charter School

We have audited the accompanying financial statements of PAVE Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, 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.

Auditors' 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 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 the School as of June 30, 2017, 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.

Prior Period Financial Statements

The summarized comparative financial statements as of June 30, 2016 and for the year then ended, were audited by other auditors who ceased operations. Those auditors expressed an unmodified opinion on those financial statements in their report dated September 27, 2016.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP
Harrison, New York
October 11, 2017

PAVE Academy Charter School

Statement of Financial Position
June 30, 2017
(with comparative amounts at June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,397,273	\$ 2,062,098
Grants and contracts receivable	548,879	418,829
Prepaid expenses and other current assets	<u>138,644</u>	<u>86,562</u>
Total Current Assets	2,084,796	2,567,489
 Property and equipment, net	142,879	124,103
Restricted cash	<u>76,213</u>	<u>76,099</u>
	<u>\$ 2,303,888</u>	<u>\$ 2,767,691</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 61,538	\$ 293,819
Accrued payroll and payroll taxes	311,872	282,111
Due to related party	205,000	428,227
Refundable advances	<u>21,694</u>	<u>-</u>
Total Current Liabilities	600,104	1,004,157
 Net assets, unrestricted	<u>1,703,784</u>	<u>1,763,534</u>
	<u>\$ 2,303,888</u>	<u>\$ 2,767,691</u>

See notes to financial statements

PAVE Academy Charter School

Statement of Activities
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT		
State and local per pupil operating revenue	\$ 8,130,293	\$ 7,581,258
Federal grants	612,256	569,487
State and city grants	45,046	39,817
Contributions and grants	177,341	5,098
Donated services	46,239	1,155
Rental income	34,890	77,128
Interest and other income	<u>1,209</u>	<u>2,065</u>
Total Revenue and Support	<u>9,047,274</u>	<u>8,276,008</u>
EXPENSES		
Program services		
Regular education	6,850,239	6,124,069
Special education	<u>1,382,319</u>	<u>1,166,794</u>
Total Program Services	8,232,558	7,290,863
Supporting services		
Management and general	<u>874,466</u>	<u>824,385</u>
Total Expenses	<u>9,107,024</u>	<u>8,115,248</u>
Change in Net Assets	(59,750)	160,760
NET ASSETS, UNRESTRICTED		
Beginning of year	<u>1,763,534</u>	<u>1,602,774</u>
End of year	<u>\$ 1,703,784</u>	<u>\$ 1,763,534</u>

See notes to financial statements

PAVE Academy Charter School

Statement of Functional Expenses
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

	2017						
	Program Services			Management and General	Total	2016	
	Regular Education	Special Education	Total				
Salaries	\$ 3,487,118	\$ 765,653	\$ 4,252,771	\$ 460,288	\$ 4,713,059	\$ 3,950,476	
Employee benefits and payroll taxes	798,854	138,610	937,464	118,426	1,055,890	882,649	
Outside services and consulting	203,783	35,359	239,142	30,210	269,352	347,565	
Instructional materials	105,312	23,123	128,435	-	128,435	118,733	
Professional development	107,150	18,592	125,742	15,885	141,627	80,917	
Student meals	321,203	70,525	391,728	-	391,728	399,503	
Classroom and office supplies	292,824	64,294	357,118	-	357,118	464,096	
Management fee	589,636	102,308	691,944	87,411	779,355	723,433	
Legal	17,864	3,100	20,964	2,647	23,611	26,015	
Donated legal services	34,983	6,070	41,053	5,187	46,240	1,156	
Auditing and accounting fees	-	-	-	22,250	22,250	29,650	
Marketing and recruiting	15,231	2,643	17,874	2,258	20,132	48,003	
Insurance	77,865	13,510	91,375	11,543	102,918	5,354	
Facility expenses	617,022	107,060	724,082	91,471	815,553	788,406	
Non-capitalized equipment and technology	39,149	6,793	45,942	5,804	51,746	44,301	
Postage, printing and shipping	2,370	411	2,781	352	3,133	3,516	
Staff lunches and team building	28,341	4,917	33,258	4,201	37,459	38,418	
Telephone and internet	15,778	2,737	18,515	2,340	20,855	24,703	
Travel and conference	21,263	3,689	24,952	3,152	28,104	52,144	
Depreciation and amortization	46,190	8,015	54,205	6,847	61,052	57,496	
Technology	24,508	4,252	28,760	3,633	32,393	28,456	
Bad debt expense	3,766	653	4,419	558	4,977	-	
Miscellaneous	29	5	34	3	37	258	
Total Expenses	\$ 6,850,239	\$ 1,382,319	\$ 8,232,558	\$ 874,466	\$ 9,107,024	\$ 8,115,248	

See notes to financial statements

PAVE Academy Charter School

Statement of Cash Flows Year Ended June 30, 2017 (with summarized amounts for the year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (59,750)	\$ 160,760
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	61,052	57,496
Bad debt expense	4,977	-
Changes in operating assets and liabilities		
Grants and contracts receivable	(135,027)	(244,051)
Due from related party	-	79,540
Prepaid expenses and other current assets	(52,082)	(5,791)
Accounts payable and accrued expenses	(232,281)	172,052
Accrued payroll and payroll taxes	29,761	50,939
Due to related party	(223,227)	428,227
Refundable advances	21,694	(45,563)
Net Cash from Operating Activities	<u>(584,883)</u>	<u>653,609</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(79,828)	(76,511)
Restricted cash	<u>(114)</u>	<u>(114)</u>
Net Cash from Investing Activities	<u>(79,942)</u>	<u>(76,625)</u>
Net Change in Cash and Cash Equivalents	(664,825)	576,984
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,062,098</u>	<u>1,485,114</u>
End of year	<u>\$ 1,397,273</u>	<u>\$ 2,062,098</u>

See notes to financial statements

PAVE Academy Charter School

Notes to Financial Statements June 30, 2017 and 2016

1. Organization and Tax Status

PAVE Academy Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on January 15, 2008 to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on January 15, 2008 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The School renewed its charter for additional five-year terms expiring June 30, 2018. The School's mission is to prepare kindergarten through eighth grade students to thrive in competitive high schools and four year colleges and provide the children of Brooklyn with a rigorous academic program and a school community built on the School's core values of Perseverance, Achievement, Vibrance, and Excellent character ("PAVE"). Classes commenced in Red Hook, Brooklyn, New York, in August 2008 and the School provided education to approximately 483 students in kindergarten through eighth grade in the 2016-2017 academic year.

The School was approved to enter into a three year contract with the New York City Department of Education commencing with the 2015-2016 school year to operate a pre-kindergarten program. This contract is separate from the School's charter and is administered from the Department of Education's Division of Early Childhood. The pre-kindergarten program provided education to 35 students and is located in a separate, privately-owned facility in Brooklyn, New York. The lease for the privately-owned facility expired July 31, 2017. The School was not given an option to renew the lease and decided to discontinue the pre-kindergarten program because it could not find alternate space.

The New York City Department of Education provides free transportation directly to some of the School's students. Such costs are not included in these financial statements.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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. Accordingly actual results could differ from those estimates.

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (*continued*)

Net Assets Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees.

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2017 and 2016.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset ranging from two to three years. Purchased property and equipment are recorded at cost at the date of acquisition.

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (*continued*)

Property and Equipment (continued)

Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, whereby such assets are expensed as incurred.

Depreciation and amortization is recognized on the straight line method over the estimated useful lives of such assets as follows:

Computers and equipment	3 and 5 years
Furniture and fixtures	7 years
Software	3 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to the fair value. There were no asset impairments for the years ended June 30, 2017 and 2016.

Refundable Advances

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

Revenue and support

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Contribution revenue is recognized when a donor makes a gift to the School or a promise to make a gift to the School which 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 at the date of donation.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

PAVE Academy Charter School

Notes to Financial Statements June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (*continued*)

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2014.

Prior Year Summarized Comparative Financial Information

The financial statements include prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 11, 2017.

During March of 2017, the School applied to change their authorizer and transfer its charter from the NYC Department of Education to the State University of New York, ("SUNY"). On October 11, 2017 SUNY approved the transfer of the School's charter effective for the 2017-2018 school year.

3. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state, and city entitlements and grants. The School expects to collect these receivables within one year.

4. Related Party Transactions (not disclosed elsewhere)

The School is an affiliate of PAVE Schools, Inc. ("PAVE Schools"), a New York State not-for-profit corporation. PAVE Schools supported the School through financial, fundraising and facility development efforts. Effective July 1, 2015, PAVE Schools acted as a Charter Management Organization. For the years ended June 30, 2017 and 2016, the School paid on behalf of PAVE Schools for shared expenses in the amount of \$46,339 and \$171,213. The net balance due to PAVE Schools at June 30, 2017 and 2016, was \$206,788 and \$428,227.

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2017 and 2016

4. Related Party Transactions (*continued*)

Facility Lease

On March 13, 2014, the School entered into a sub-sublease agreement with PACS 732 Henry LLC ("PACS 732") (a single member LLC under PAVE Schools Inc., a related party) to occupy a new facility located at 732 Henry Street in Brooklyn, New York. The School pays for all facility expenses, upkeep, and insurance. The sub-sublease agreement will terminate on March 13, 2034. PACS 732's sublease with Civic Builders, a non-profit charter school developer, expires on March 13, 2113 and it is envisioned that the School will continue to periodically renew its sub-sublease agreement with PACS 732.

Rent is payable at \$1 per year, pursuant to the Ultimate Prime Lease that PACS 732 has with Civic Builders and the New York City School Construction Authority. On May 21, 2014, the School paid \$20 to PACS 732 as prepayment of its 20 year lease. The School did not record an amount for donated use of facilities.

Management Agreement

On June 15, 2015, the School entered into a management agreement with PAVE Schools to provide the School with educational management services and designs that expires June 30, 2018. Pursuant to the agreement, which was effective July 1, 2015, PAVE Schools selected and implemented educational programs, coaching and professional development to school-based leadership, manage the School's business administration and support the Board in all governance issues. As compensation to PAVE Schools for these services, the School paid an annual fee of 10% of the School's funding provided by the State of New York and the New York City Department of Education. Management fee expense for the years ended June 30, 2017 and 2016 was \$779,355 and \$723,433.

Lease Agreement-Pre-K Program

On May 18, 2015, PAVE Schools entered into a lease agreement with Bumblebee Child Care for classroom space for the School's Pre-K program expiring July 31, 2017. The School pays monthly rent to one of PAVE School's wholly owned subsidiaries equal to the rent under the lease agreement. For the years ended June 30, 2017 and 2016, rent expense was \$93,454 and \$65,448. Future minimum lease payments under the preceding lease through July 31, 2017 totaled \$8,000. Management was not offered to renew the lease agreement.

PAVE Academy Charter School

Notes to Financial Statements June 30, 2017 and 2016

5. Property and Equipment

Property and equipment consisted of the following as of June 30,

	2017	2016
Computers and Equipment	\$ 395,016	\$ 347,560
Furniture and Fixtures	78,651	72,456
Software	90,358	83,255
Leasehold Improvements	14,175	-
Construction in progress	4,900	-
	<u>583,100</u>	<u>503,271</u>
Accumulated depreciation and amortization	<u>(440,221)</u>	<u>(379,168)</u>
	<u>\$ 142,879</u>	<u>\$ 124,103</u>

6. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 401(k) for the benefit of its eligible employees. Under the plan, the School provided matching contributions of 2% to the plan. The amount charged to operations for fees and matching contributions to this plan amounted to \$42,209 and \$48,661 for the years ended June 30, 2017 and 2016.

7. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2017, approximately \$880,000 of cash was maintained with two institutions in excess of FDIC limits.

8. Concentration of Revenue and Support

The School receives a substantial portion of its support and revenue from the New York City Department of Education. For the years ended June 30, 2017 and 2016, the School received approximately 90% and 92% of total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

PAVE Academy Charter School

Notes to Financial Statements June 30, 2017 and 2016

9. Donated Services

Donated services are recognized as contributions in accordance with or define U.S. GAAP, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School and (c) are measurable. One entity has provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and is recorded at fair value. For the years ended June 30, 2017 and 2016, the value of such donated services amounted to \$46,239 and \$1,155.

The value of these donated services is allocated accordingly between program, management and general services in the accompanying statements of activities and statement of functional expenses.

10. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. 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.

**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 Auditors' Report

**Board of Trustees
PAVE Academy 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 PAVE Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2017.

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 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 the 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*.

We noted certain matters that were reported to the management of the School in a separate letter dated October 11, 2017.

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.

PKF O'Connor Davies, LLP
Harrison, New York
October 11, 2017