

**OUR WORLD  
NEIGHBORHOOD CHARTER SCHOOL**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORTS**

**JUNE 30, 2008 AND 2007**

**OUR WORLD NEIGHBORHOOD CHARTER SCHOOL**

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## **Independent Auditor's Report on Financial Statements**

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

We have audited the accompanying balance sheet of Our World Neighborhood Charter School as of June 30, 2008 and 2007, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Our World Neighborhood Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Our World Neighborhood Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2008 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 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 and should be considered in assessing the results of our audit.

*Loeb & Troper LLP*

October 29, 2008

## OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

## BALANCE SHEET

JUNE 30, 2008 AND 2007

|  | <u>2008</u>         | <u>2007</u>         |
|--|---------------------|---------------------|
| <b>ASSETS</b>  |                     |                     |
| Current assets   |                     |                     |
| Cash   | \$ 1,783,146        | \$ 1,124,300        |
| Grants and contracts receivable  | 81,114              | 37,060              |
| Accounts receivable (net of allowance for doubtful<br>accounts of \$18,000 in 2008 and \$30,000 in 2007) | 19,685              | 24,249              |
| Prepaid expenses   | 26,255              | 29,253              |
| Security deposits  | 64,865              | 64,865              |
| Deferred rent expense (Note 4)   | <u>105,163</u>      | <u>75,533</u>       |
| Total current assets   | 2,080,228           | 1,355,260           |
| Deferred rent expense (Note 4)   | 307,678             | 442,471             |
| Fixed assets - net (Note 3)  | <u>2,692,743</u>    | <u>2,581,930</u>    |
| Total assets   | <u>\$ 5,080,649</u> | <u>\$ 4,379,661</u> |
| <b>LIABILITIES AND NET ASSETS</b>  |                     |                     |
| Current liabilities  |                     |                     |
| Accounts payable and accrued expenses  | \$ 491,334          | \$ 138,425          |
| Accrued salaries, vacations and related liabilities  | 171,672             | 379,671             |
| Loan payable (Note 5)  | <u>170,320</u>      | <u>157,208</u>      |
| Total current liabilities  | 833,326             | 675,304             |
| Loan payable (Note 5)  | <u>332,772</u>      | <u>503,170</u>      |
| Total liabilities  | 1,166,098           | 1,178,474           |
| Net assets - unrestricted (Exhibit B)  | <u>3,914,551</u>    | <u>3,201,187</u>    |
| Total liabilities and net assets   | <u>\$ 5,080,649</u> | <u>\$ 4,379,661</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, 2008 AND 2007

|   | <u>2008</u>         | <u>2007</u>         |
|---|---------------------|---------------------|
| Operating revenues                            |                     |                     |
| State and local per-pupil operating revenues  | \$ 7,914,384        | \$ 7,005,755        |
| Government grants and contracts               | 201,045             | 487,524             |
| Food program grants                           | 110,838             | 96,854              |
| Contributions                                 | 79,161              | 66,875              |
| Interest income                               | 56,369              | 44,994              |
| Sales and other revenues                      | <u>106,769</u>      | <u>124,624</u>      |
| Total operating revenues                      | <u>8,468,566</u>    | <u>7,826,626</u>    |
| Operating expenses                            |                     |                     |
| Education                                     | 5,830,169           | 5,202,937           |
| Management and general                        | 1,844,326           | 1,423,242           |
| Fund raising                                  | <u>80,707</u>       | <u>8,178</u>        |
| Total operating expenses (Exhibit C)          | <u>7,755,202</u>    | <u>6,634,357</u>    |
| Change in unrestricted net assets (Exhibit D) | 713,364             | 1,192,269           |
| Net assets - beginning of year                | <u>3,201,187</u>    | <u>2,008,918</u>    |
| Net assets - end of year (Exhibit A)          | <u>\$ 3,914,551</u> | <u>\$ 3,201,187</u> |

See independent auditor's report.

The accompanying notes are an integral part of these statements.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2008  
 (With Summarized Financial Information  
 for the Year Ended June 30, 2007)

LOEB & TROPER LLP

|                                     | Program Service     | Supporting Services    |                  | Total               |                     |
|-------------------------------------|---------------------|------------------------|------------------|---------------------|---------------------|
|                                     | Education           | Management and General | Fund Raising     | 2008                | 2007                |
| Salaries                            | \$ 3,146,296        | \$ 994,018             | \$ 58,200        | \$ 4,198,514        | \$ 3,526,803        |
| Payroll taxes and employee benefits | 631,380             | 228,445                | 12,086           | 871,911             | 738,941             |
| Occupancy                           | 695,668             | 77,296                 |                  | 772,964             | 756,340             |
| Contracted services                 | 187,083             | 81,522                 |                  | 268,605             | 254,640             |
| Supplies and equipment              | 431,429             | 157,371                | 10,421           | 599,221             | 346,009             |
| Repairs and maintenance             | 161,490             | 17,943                 |                  | 179,433             | 163,722             |
| Printing and postage                | 313                 | 12,287                 |                  | 12,600              | 12,289              |
| Professional fees                   |                     | 37,260                 |                  | 37,260              | 66,068              |
| Security                            | 58,135              | 6,459                  |                  | 64,594              | 64,142              |
| Dues and subscription               |                     | 18,724                 |                  | 18,724              | 29,386              |
| Insurance                           |                     | 84,582                 |                  | 84,582              | 77,097              |
| Advertising                         |                     | 17,058                 |                  | 17,058              | 22,853              |
| Telephone                           |                     | 32,581                 |                  | 32,581              | 10,215              |
| Bad debts                           |                     | 32,619                 |                  | 32,619              | 47,556              |
| Management fees (Note 10)           |                     |                        |                  |                     | 78,520              |
| Travel                              | 712                 | 619                    |                  | 1,331               | 719                 |
| Interest (Note 5)                   | 44,813              | 4,978                  |                  | 49,791              | 65,776              |
| Food services                       | 153,273             |                        |                  | 153,273             | 147,658             |
| Professional development            | 108,981             | 15,196                 |                  | 124,177             | 12,086              |
| Depreciation and amortization       | 190,037             | 21,114                 |                  | 211,151             | 210,079             |
| Miscellaneous expenses              | 20,559              | 4,254                  |                  | 24,813              | 3,458               |
| Total expenses (Exhibit B)          | <u>\$ 5,830,169</u> | <u>\$ 1,844,326</u>    | <u>\$ 80,707</u> | <u>\$ 7,755,202</u> | <u>\$ 6,634,357</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, 2008 AND 2007

|  | <u>2008</u>         | <u>2007</u>         |
|--|---------------------|---------------------|
| Cash flows from operating activities   |                     |                     |
| Change in net assets (Exhibit B)   | \$ 713,364          | \$ 1,192,269        |
| Adjustments to reconcile change in net assets to net cash provided by operating activities |                     |                     |
| Depreciation and amortization  | 211,151             | 210,079             |
| Decrease (increase) in assets  |                     |                     |
| Grants receivable  | (44,054)            | 301,590             |
| Other receivables  | 4,564               | (4,439)             |
| Prepaid expenses   | 2,998               | (8,444)             |
| Deferred rent expense  | 105,163             | (404,468)           |
| Increase (decrease) in liabilities   |                     |                     |
| Accounts payable and accrued expenses  | 352,909             | (556,848)           |
| Accrued salaries, vacations and related liabilities  | (207,999)           | 190,653             |
| Advance deposits   |                     | (52,399)            |
| Net cash provided by operating activities  | <u>1,138,096</u>    | <u>867,993</u>      |
| Cash flows from investing activities   |                     |                     |
| Fixed asset acquisitions   | (321,964)           | (76,576)            |
| Cash flows from financing activities   |                     |                     |
| Principal payments on loans  | <u>(157,286)</u>    | <u>(145,202)</u>    |
| Net increase in cash   | 658,846             | 646,215             |
| Cash - beginning of year   | <u>1,124,300</u>    | <u>478,085</u>      |
| Cash - end of year   | <u>\$ 1,783,146</u> | <u>\$ 1,124,300</u> |
| Supplemental disclosure of cash flow information   |                     |                     |
| Cash paid during the year for interest   | <u>\$ 49,791</u>    | <u>\$ 65,776</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, 2008 AND 2007

**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 City. On March 20, 2007, the Board of Regents and the Board of Trustees of the University of the State of New York for and on behalf of the State Education Department granted OWN a charter valid for a term of 5 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 fiscal year 2008, 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.

*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.

*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.

*Functional allocation of expenses* - Expenses are allocated among the program and supporting services based on the nature of the expense.

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## OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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

**Fixed assets** - Fixed assets are stated at cost and depreciated and amortized on the straight-line method over their estimated useful lives as follows:

|                         |           |
|-------------------------|-----------|
| Leasehold improvements  | 39 years  |
| Furniture and equipment | 3-5 years |

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

**Governmental 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. Federal and state funds are recorded by OWN when expenditures are incurred and billed.

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.

**NOTE 3 - FIXED ASSETS**

|   | <u>2008</u>         | <u>2007</u>         |
|---|---------------------|---------------------|
| Leasehold improvements                    | \$ 3,182,142        | \$ 3,080,914        |
| Furniture and equipment                   | <u>1,053,107</u>    | <u>832,371</u>      |
|   | 4,235,249           | 3,913,285           |
| Accumulated depreciation and amortization | <u>(1,542,506)</u>  | <u>(1,331,355)</u>  |
|   | <u>\$ 2,692,743</u> | <u>\$ 2,581,930</u> |

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## OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

**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 for a term ending August 31, 2008 with an option to extend the lease for an additional five years. In consideration of value under the Sublease Agreement, OWN reimbursed the Sublandlord (New York City Economic Development Corporation) and Tenant (36-12 35th Avenue LLC) for executing various agreements of Purchase, Assignment and Assumption of the leased premises. The cost of \$267,063 represents deferred rent expenses and is being amortized over the life of the sublease. On November 6, 2006, OWN purchased the lease agreement from Mosaica Education, Inc. for \$480,000. The \$480,000 represents deferred rent expense and is being amortized over the life of the lease.

OWN entered into a two-year lease of a school building which expired on June 30, 2007. OWN opted to extend the lease for an additional four-year period ending June 30, 2011. The annual rent will be \$148,680 per year.

The future minimum lease payments as of June 30, 2008 are:

|      |            |
|------|------------|
| 2009 | \$ 200,580 |
| 2010 | 148,680    |
| 2011 | 148,680    |

Rent expense for the years ended June 30, 2008 and 2007 was \$604,738 and \$603,754, respectively.

**NOTE 5 - LOANS PAYABLE**

On February 8, 2006, OWN entered into a loan for \$840,000, which consists of a variable rate unsecured note payable to the lender (NCB Development Corp.). The interest rate is calculated at 325 basis points above the five-year U.S. Treasury rate. The interest rate at June 30, 2008 was 7.875%. Current monthly payments of \$17,032 include principal and interest. The balance due on the loan as of June 30, 2008 was \$503,092.

Future principal payments are as follows:

|      |            |
|------|------------|
| 2009 | \$ 170,320 |
| 2010 | 184,391    |
| 2011 | 148,381    |

Interest expense on the loan was \$49,791 in 2008 and \$65,776 in 2007.

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**OUR WORLD NEIGHBORHOOD CHARTER SCHOOL****NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2008 AND 2007****NOTE 6 - PENSIONS**

OWN has a defined contribution retirement plan with Teachers Insurance and Annuity Association and College Retirement Equities Fund which covers substantially all full-time employees. OWN contributes an amount equal to 25% of the employees' contribution to the plan up to the legal maximum amount allowed. Pension expense under this plan for the year ended June 30, 2008 and 2007 was \$29,334 and \$25,880, respectively.

**NOTE 7 - 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.

**NOTE 8 - CONCENTRATION OF CREDIT RISK**

Financial instruments which potentially subject OWN to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.

**NOTE 9 - RELATED-PARTY TRANSACTIONS**

OWN entered into a management agreement as of November 26, 2001 with Mosaica Education, Inc. (MEI), a Delaware Corporation. The management agreement became effective November 21, 2001 and ended thirty (30) days after the last day of the 2005-2006 school years. The management agreement was automatically renewed for an additional period equal to the term of any valid and effective charter agreement entered into by OWN with the Board of Trustees of the State University of New York or other agency authorized to enter into a charter, unless the agreement is otherwise terminated in accordance with the agreement.

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## OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

**NOTE 9 - RELATED-PARTY TRANSACTIONS (continued)**

Under the management agreement, MEI is to provide OWN with educational and administrative services. Educational services include curriculum, instruction, instructional tools, extra-curricular and co-curricular programs, and additional educational services. Administrative services include personnel management, facility operation and maintenance, business administration, transportation and food services, public relations, budgeting and financial reporting, maintenance of financial, student and other records, admissions, student hearings, monthly reports, rules and procedures, and additional administrative services.

According to the management agreement, OWN will pay MEI an annual fee of (i) 12.5% of the state and local school funds that OWN receives, directly or indirectly, pursuant to the Act, for students enrolled in OWN, plus (ii) subject to federal law and regulations, 4% of the funds that OWN receives, directly or indirectly, from the federal government. In addition to the management fee, OWN will reimburse MEI for all costs reflected in OWN's budget or in any amendment of the budget approved by MEI and the Board of Trustees, incurred and paid by MEI in providing educational and administrative services. Such costs include, but are not limited to, rent and/or lease payments (including costs pursuant to any leases between the parties for equipment or facilities), where appropriate, allocable portions of salaries of MEI employees (provided that there shall be no allocation of MEI corporate overhead expenses), transportation, instructional materials, textbooks, library books, computers, software, supplies, food service, special education, psychological services and medical services. In charging for such costs to OWN and paying for such costs, MEI will not charge an added fee unless such fee is approved in advance by the Board of Trustees.

Management fees were \$0 and \$78,520 for the year ended June 30, 2008 and 2007, respectively.

**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**

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

We have audited the financial statements of Our World Neighborhood Charter School as of and for the year ended June 30, 2008, and have issued our report thereon dated October 29, 2008. 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**

In planning and performing our audit, we considered Our World Neighborhood Charter School'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 Our World Neighborhood Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness Our World Neighborhood Charter School's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 Our World Neighborhood Charter 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 Our World Neighborhood Charter School in a separate letter dated October 29, 2008.

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

*Loeb & Troper LLP*

October 29, 2008

OUR WORLD NEIGHBORHOOD CHARTER SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008

**Section I - Summary of Auditor's Results**

**Financial Statements**

|   |                    |                   |
|---|--------------------|-------------------|
| Type of auditor's report issued   | <u>Unqualified</u> |                   |
| Internal control over financial reporting:  |                    |                   |
| Material weakness(es) identified?   | _____ yes          | <u>  X  </u> none |
| Significant deficiency(ies) identified<br>not considered to be a material weakness? | _____ yes          | <u>  X  </u> none |
| Noncompliance material to financial statements noted?                               | _____ yes          | <u>  X  </u> none |

**Section II - Financial Statement Findings**

No matters were reported.