

**OUR WORLD NEIGHBORHOOD
CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2015 AND 2014

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, 2015 and 2014, and the related statements of activities, and cash flows for the years 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, 2015 and 2014, 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.

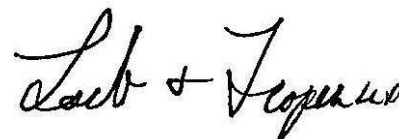
Other Matters

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 28, 2015 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.



October 28, 2015

OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

BALANCE SHEET

JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets		
Cash	\$ 2,490,111	\$ 2,888,999
Grants and contracts receivable	385,836	526,165
Accounts receivable (net of allowance for doubtful accounts of \$0 in 2015 and \$12,418 in 2014)	11,905	10,492
Prepaid expenses	200,713	35,675
Deferred rent costs (Note 4)	9,644	38,574
	<u>3,098,209</u>	<u>3,499,905</u>
Total current assets		
Cash - reserve for dissolution (Note 2)	455	500
Investments - certificate of deposits - reserve for dissolution (Note 2)	75,491	74,500
Deferred rent costs (Note 4)		9,644
Security deposits	51,386	51,386
Fixed assets - net (Note 3)	<u>3,461,112</u>	<u>3,621,649</u>
Total assets	<u>\$ 6,686,653</u>	<u>\$ 7,257,584</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 172,777	\$ 246,570
Accrued salaries, vacations and related liabilities	<u>940,364</u>	<u>958,851</u>
Total current liabilities	1,113,141	1,205,421
Net assets (Exhibit B)		
Unrestricted	<u>5,573,512</u>	<u>6,052,163</u>
Total liabilities and net assets	<u>\$ 6,686,653</u>	<u>\$ 7,257,584</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating revenues and other support		
State and local per-pupil operating revenues	\$ 10,094,182	\$ 9,914,135
Government grants and contracts	604,241	628,034
Food program grants	133,780	138,071
Contributions	15,978	16,291
In-kind contributions	53,298	55,374
Interest income	5,681	4,451
Other revenues	73,735	70,250
	<u>10,980,895</u>	<u>10,826,606</u>
Expenses (Schedule 1)		
Program services		
Education	8,765,007	8,491,894
Special education	531,254	489,345
	<u>9,296,261</u>	<u>8,981,239</u>
Supporting services		
Management and general	2,057,070	1,937,046
Fund raising	106,215	107,179
	<u>2,163,285</u>	<u>2,044,225</u>
Total expenses	<u>11,459,546</u>	<u>11,025,464</u>
Change in unrestricted net assets (Exhibit C)	(478,651)	(198,858)
Net assets - unrestricted - beginning of year	<u>6,052,163</u>	<u>6,251,021</u>
Net assets - unrestricted - end of year (Exhibit A)	<u>\$ 5,573,512</u>	<u>\$ 6,052,163</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (478,651)	\$ (198,858)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	243,849	250,525
Decrease (increase) in assets		
Grants and contracts receivable	140,329	(405,097)
Accounts receivable	(1,413)	3,753
Prepaid expenses	(165,038)	(9,054)
Deferred rent costs	38,574	38,574
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(73,793)	139,542
Accrued salaries, vacations and related liabilities	(18,487)	84,046
Net cash used by operating activities	<u>(314,630)</u>	<u>(96,569)</u>
Cash flows from investing activities		
Fixed asset acquisitions	(83,312)	(285,190)
Change in cash - reserve for dissolution	45	74,500
Purchase of investments - certificate of deposit - reserve for dissolution	(991)	(74,500)
Net cash used by investing activities	<u>(84,258)</u>	<u>(285,190)</u>
Net change in cash	(398,888)	(381,759)
Cash - beginning of year	<u>2,888,999</u>	<u>3,270,758</u>
Cash - end of year	<u>\$ 2,490,111</u>	<u>\$ 2,888,999</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, 2015 AND 2014

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 2015 and 2014, OWN operated classes for approximately 700 students in grades K-8.

OWN 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.

Investments - certificates of deposit - reserve for dissolution - Certificates of deposit held for investment that are not debt securities are included in "investments - certificates of deposit." Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as "short-term investments - certificates of deposit." Certificates of deposit with remaining maturities greater than one year are classified as "long-term investments - certificates of deposit." The investments - certificates of deposit - reserve for dissolution represent funds held aside for contingency purposes as required by the School's Charter.

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OUR WORLD NEIGHBORHOOD CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015 AND 2014****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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 \$5,000 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.

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OUR WORLD NEIGHBORHOOD CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015 AND 2014****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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, 2012 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through October 28, 2015, which is the date the financial statements were available to be issued.

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OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 3 - FIXED ASSETS

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 3,624,144	\$ 3,624,144
Furniture and equipment	1,454,594	1,371,282
Construction in progress	<u>981,183</u>	<u>981,183</u>
	6,059,921	5,976,609
Accumulated depreciation and amortization	<u>(2,598,809)</u>	<u>(2,354,960)</u>
	<u>\$ 3,461,112</u>	<u>\$ 3,621,649</u>

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 the Sublandlord 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 37th Street, Astoria, NY (Middle School), which expired on June 30, 2007, which was extended to June 30, 2013. 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:

2016	\$ 463,416
2017	377,625
2018	381,600
2019	<u>31,800</u>
	<u>\$ 1,254,441</u>

Rent expense for the years ended June 30, 2015 and 2014 was \$910,273 and \$843,184, respectively.

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OUR WORLD NEIGHBORHOOD CHARTER SCHOOL**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2015 AND 2014****NOTE 5 - PENSIONS**

OWN maintains a 401(k) plan for its employees. 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, 2015 and 2014 was \$353,388 and \$353,025, 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 92% of its operating revenues in 2015 and 2014 respectively, through its charter from New York State.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

SCHEDULE 1

SCHEDULE OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2015 AND 2014

	No. of Positions	2015						2014	
		Program Services			Supporting Services			Total	
		Education	Special Education	Total	Management and General	Fund Raising	Total		
Personnel service costs									
Administrative staff personnel	17				\$ 1,062,517	\$ 73,960	\$ 1,136,477	\$ 1,136,477	\$ 1,096,521
Instructional personnel	67	\$ 4,076,399	\$ 321,818	\$ 4,398,217				4,398,217	4,135,091
Non-instructional personnel	10	677,651	86,500	764,151				764,151	657,116
Total personnel service costs		4,754,050	408,318	5,162,368	1,062,517	73,960	1,136,477	6,298,845	5,888,728
Payroll taxes and employee benefits		1,312,948	114,715	1,427,663	431,788	21,035	452,823	1,880,486	1,757,660
Occupancy (Note 4)		923,021		923,021	201,557		201,557	1,124,578	1,072,524
Contracted services		272,283		272,283	22,825	750	23,575	295,858	433,642
Supplies and equipment		380,147	471	380,618	81,045	8,869	89,914	470,532	449,062
Repairs and maintenance		277,378		277,378	90,853		90,853	368,231	419,095
Printing and postage		5,483		5,483	2,145	903	3,048	8,531	8,945
Professional fees					59,151		59,151	59,151	72,509
Security		69,939		69,939	16,499		16,499	86,438	73,489
Dues and subscription		7,842		7,842	9,365		9,365	17,207	13,913
Insurance		85,801		85,801	8,617		8,617	94,418	95,910
Advertising		26,908		26,908		300	300	27,208	17,192
Telephone		65,747		65,747	20,377		20,377	86,124	112,045
Bad debts					7,206		7,206	7,206	32,206
Travel		1,005		1,005	197		197	1,202	1,176
Food services		262,599		262,599				262,599	190,677
Professional development		49,193	7,750	56,943	13,421	351	13,772	70,715	105,706
Depreciation and amortization		222,497		222,497	21,352		21,352	243,849	250,525
Miscellaneous expenses		48,166		48,166	8,155	47	8,202	56,368	30,460
Total expenses (Exhibit B)		\$ 8,765,007	\$ 531,254	\$ 9,296,261	\$ 2,057,070	\$ 106,215	\$ 2,163,285	\$ 11,459,546	\$ 11,025,464

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SCHEDULE OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2015 AND 2014

	No. of Positions	2014						Total
		Program Services			Supporting Services			
		Education	Special Education	Total	Management and General	Fund Raising	Total	
Personnel service costs								
Administrative staff personnel	16				\$ 1,021,601	\$ 74,920	\$ 1,096,521	\$ 1,096,521
Instructional personnel	68	\$ 3,842,073	\$ 293,018	\$ 4,135,091				4,135,091
Non-instructional personnel	9	569,219	87,897	657,116				657,116
Total personnel service costs		4,411,292	380,915	4,792,207	1,021,601	74,920	1,096,521	5,888,728
Payroll taxes and employee benefits		1,203,107	101,393	1,304,500	431,798	21,362	453,160	1,757,660
Occupancy (Note 4)		961,278		961,278	111,246		111,246	1,072,524
Contracted services		401,645		401,645	31,497	500	31,997	433,642
Supplies and equipment		376,894	347	377,241	66,461	5,360	71,821	449,062
Repairs and maintenance		344,934		344,934	74,161		74,161	419,095
Printing and postage		4,890		4,890	1,855	2,200	4,055	8,945
Professional fees					72,509		72,509	72,509
Security		63,011		63,011	10,478		10,478	73,489
Dues and subscription		12,864	300	13,164	749		749	13,913
Insurance		87,293		87,293	8,617		8,617	95,910
Advertising		15,992		15,992		1,200	1,200	17,192
Telephone		93,981		93,981	18,064		18,064	112,045
Bad debts					32,206		32,206	32,206
Travel		264		264	912		912	1,176
Food services		190,677		190,677				190,677
Professional development		84,536	6,390	90,926	13,143	1,637	14,780	105,706
Depreciation and amortization		214,742		214,742	35,783		35,783	250,525
Miscellaneous expenses		24,494		24,494	5,966		5,966	30,460
Total expenses (Exhibit B)		\$ 8,491,894	\$ 489,345	\$ 8,981,239	\$ 1,937,046	\$ 107,179	\$ 2,044,225	\$ 11,025,464

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, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2015.

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.

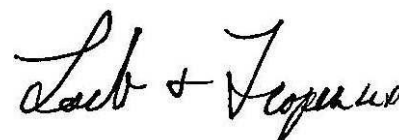
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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



October 28, 2015