

**OUR WORLD
NEIGHBORHOOD CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2011 AND 2010

OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

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on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with Government Auditing Standards**



Independent Auditor's Report on Financial Statements

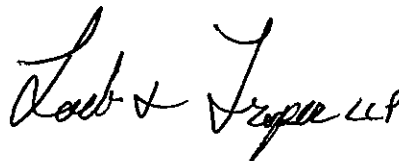
Board of Trustees Our World Neighborhood Charter School

We have audited the accompanying balance sheet of Our World Neighborhood Charter School as of June 30, 2011 and 2010, 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 the 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's as of June 30, 2011 and 2010, 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 25, 2011 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*, and should be considered in assessing the results of our audits.

A handwritten signature in black ink, appearing to read "Loeb & Troper LLP". The signature is written in a cursive, flowing style.

October 25, 2011

OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

BALANCE SHEET

JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash	\$ 3,009,074	\$ 2,416,210
Grants and contracts receivable	194,895	270,364
Accounts receivable (net of allowance for doubtful accounts of \$12,000 in 2011 and \$10,000 in 2010)	8,413	9,550
Prepaid expenses	39,320	88,362
Security deposits	51,386	51,386
Deferred rent costs (Note 4)	38,574	105,162
Total current assets	<u>3,341,662</u>	<u>2,941,034</u>
Deferred rent costs (Note 4)	125,366	97,353
Fixed assets - net (Note 3)	<u>3,151,411</u>	<u>2,991,877</u>
Total assets	<u>\$ 6,618,439</u>	<u>\$ 6,030,264</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 194,426	\$ 252,890
Accrued salaries, vacations and related liabilities	769,811	724,608
Loan payable (Note 5)		148,293
Total current liabilities	<u>964,237</u>	<u>1,125,791</u>
Net assets (Exhibit B)		
Unrestricted	5,654,202	4,898,202
Temporarily restricted (Note 7)		6,271
Total net assets	<u>5,654,202</u>	<u>4,904,473</u>
Total liabilities and net assets	<u>\$ 6,618,439</u>	<u>\$ 6,030,264</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, 2011 AND 2010

EXHIBIT B

	2011		2010	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Operating revenues and other support				
State and local per-pupil operating revenues	\$ 9,805,317	\$ 9,805,317	\$ 9,182,099	\$ 9,182,099
Government grants and contracts	401,733	401,733	215,548	215,548
Food program grants	150,643	150,643	132,982	132,982
Contributions	28,606	107,331	30,681	35,000
In-kind contributions	57,120		54,192	54,192
Interest income	6,215	6,215	7,350	7,350
Other revenues	65,763	65,763	78,496	78,496
Net assets released from restrictions (Note 7)	113,602	(113,602)	28,729	(28,729)
Total operating revenues	10,628,999	10,622,728	9,730,077	9,736,348
Expenses (Exhibit C)				
Program services				
Education	7,695,840	7,695,840	7,432,942	7,432,942
Special education	357,855	357,855	329,216	329,216
Total program services	8,053,695	8,053,695	7,762,158	7,762,158
Supporting services				
Management and general	1,676,139	1,676,139	1,608,412	1,608,412
Fund raising	143,165	143,165	90,616	90,616
Total supporting services	1,819,304	1,819,304	1,699,028	1,699,028
Total expenses	9,872,999	9,872,999	9,461,186	9,461,186
Change in net assets (Exhibit D)	756,000	(6,271)	268,891	275,162
Net assets - beginning of year	4,898,202	4,904,473	4,629,311	4,629,311
Net assets - end of year (Exhibit A)	\$ 5,654,202	\$ 5,654,202	\$ 4,898,202	\$ 4,904,473

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2011 AND 2010

	2011						2010	
	Program Services			Supporting Services			Total	
	Education	Special Education	Total	Management and General	Fund Raising	Total		
Salaries	\$ 4,224,966	\$ 238,230	\$ 4,463,196	\$ 967,793	\$ 100,135	\$ 1,067,928	\$ 5,531,124	\$ 5,284,592
Payroll taxes and employee benefits	1,240,190	69,930	1,310,120	285,250	29,514	314,764	1,624,884	1,509,450
Occupancy (Note 4)	746,663		746,663	82,962	4,350	87,312	833,975	823,072
Grant Expense	105,184		105,184				105,184	
Contracted services	171,565	44,103	215,668	21,965	400	22,365	238,033	243,124
Supplies and equipment	246,201	5,592	251,793	82,278	7,350	89,628	341,421	413,080
Repairs and maintenance	220,322		220,322	24,481		24,481	244,803	230,303
Printing and postage	5,395		5,395	4,843	440	5,283	10,678	13,714
Professional fees				47,560		47,560	47,560	40,513
Security	60,457		60,457	6,717		6,717	67,174	72,992
Dues and subscription	14,485		14,485	4,528		4,528	19,013	10,878
Insurance	72,095		72,095	8,011		8,011	80,106	76,146
Advertising	23,837		23,837				23,837	19,544
Telephone				66,712		66,712	66,712	61,266
Bad debts	13,270		13,270				13,270	12,578
Travel	2,870		2,870	4,858		4,858	7,728	3,212
Interest (Note 5)	6,055		6,055	673		673	6,728	22,533
Food services	215,176		215,176				215,176	200,116
Professional development	86,744		86,744	30,044	976	31,020	117,764	179,365
Depreciation and amortization	223,183		223,183	24,798		24,798	247,981	234,712
Miscellaneous expenses	17,182		17,182	12,666		12,666	29,848	9,996
Total expenses (Exhibit B)	\$ 7,695,840	\$ 357,855	\$ 8,053,695	\$ 1,676,139	\$ 143,165	\$ 1,819,304	\$ 9,872,999	\$ 9,461,186

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OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

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YEARS ENDED JUNE 30, 2011 AND 2010

	2010						
	Program Services			Supporting Services			
	Education	Special Education	Total	Management and General	Fund Raising	Total	Total
Salaries	\$ 4,069,985	\$ 254,834	\$ 4,324,819	\$ 889,232	\$ 70,541	\$ 959,773	\$ 5,284,592
Payroll taxes and employee benefits	1,203,551	39,910	1,243,461	254,877	11,112	265,989	1,509,450
Occupancy (Note 4)	740,765		740,765	82,307		82,307	823,072
Contracted services	189,836	30,240	220,076	23,048		23,048	243,124
Supplies and equipment	314,716	4,232	318,948	87,178	6,954	94,132	413,080
Repairs and maintenance	205,421		205,421	24,882		24,882	230,303
Printing and postage	3,626		3,626	10,088		10,088	13,714
Professional fees				40,513		40,513	40,513
Security	65,693		65,693	7,299		7,299	72,992
Dues and subscription	2,840		2,840	8,038		8,038	10,878
Insurance				76,146		76,146	76,146
Advertising	19,544		19,544				19,544
Telephone				61,266		61,266	61,266
Bad debts	12,578		12,578				12,578
Travel	226		226	2,986		2,986	3,212
Interest (Note 5)	20,280		20,280	2,253		2,253	22,533
Food services	200,116		200,116				200,116
Professional development	172,524		172,524	4,832	2,009	6,841	179,365
Depreciation and amortization	211,241		211,241	23,471		23,471	234,712
Miscellaneous expenses				9,996		9,996	9,996
Total expenses (Exhibit B)	\$ 7,432,942	\$ 329,216	\$ 7,762,158	\$ 1,608,412	\$ 90,616	\$ 1,699,028	\$ 9,461,186

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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 749,729	\$ 275,162
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	247,981	234,712
Decrease (increase) in assets		
Grants and contracts receivable	75,469	(127,895)
Accounts receivable	1,137	4,892
Prepaid expenses	49,042	(69,542)
Security deposits		7,970
Deferred rent costs	38,575	105,162
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(58,464)	69,318
Accrued salaries, vacations and related liabilities	45,203	246,097
Net cash provided by operating activities	1,148,672	745,876
Cash flows from investing activities		
Fixed asset acquisitions net of disposals	(407,515)	(473,262)
Cash flows from financing activities		
Principal payments on loans	(148,293)	(184,479)
Net increase in cash	592,864	88,135
Cash - beginning of year	2,416,210	2,328,075
Cash - end of year	\$ <u>3,009,074</u>	\$ <u>2,416,210</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ <u>6,728</u>	\$ <u>22,533</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, 2011 AND 2010

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 March 20, 2007, the Board of Regents and the Board of Trustees of the University of the State of New York 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 both fiscal year 2011 and 2010, 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.

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.

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OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 - Revenues from the state and local governments to subsidize or pay in full meals for eligible students, based on number of meals served.

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 consists 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 - Non-reimbursable 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 on the straight-line basis over the estimated useful lives of 3-5 years.

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OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2008 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through October 25, 2011 which is the date the financial statements were available to be issued.

NOTE 3 - FIXED ASSETS

	<u>2011</u>	<u>2010</u>
Leasehold improvements	\$ 3,503,536	\$ 3,384,556
Furniture and equipment	877,382	763,412
Construction in progress	<u>388,771</u>	<u>250,555</u>
	4,769,689	4,398,523
Accumulated depreciation and amortization	<u>(1,618,278)</u>	<u>(1,406,646)</u>
	<u>\$ 3,151,411</u>	<u>\$ 2,991,877</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 Mosaica Education, Inc. for \$480,000. The \$480,000 represents deferred rent expense, which is being amortized over the life of the lease.

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OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 4 - LEASE COMMITMENT (continued)

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, 2011. On June 27, 2011, OWN entered into a new two-year lease of the same space ending on June 30, 2013 (with an option to extend until June 30, 2015). The annual rent will be \$162,096.

The future minimum lease payments as of June 30, 2011 are:

2012	\$	569,460
2013		569,460
2014		407,364
2015		<u>305,523</u>
	\$	<u>1,851,807</u>

Rent expense for the years ended June 30, 2011 and 2010 was \$583,031 and \$615,748, 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 loan matured on March 1, 2011 and was fully repaid.

Interest expense on the loan was \$6,728 in 2011 and \$22,533 in 2010.

NOTE 6 - PENSIONS

Effective October 1, 2008, OWN joined a 401(k) plan administered by ADP Total Source. OWN provides 100% match of salary deferral up to 3% and a discretionary profit sharing of up to 3% of eligible compensation. Pension expense under this plan for the years ended June 30, 2011 and 2010 was \$329,334 and \$341,276, respectively.

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OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following restricted purpose:

	<u>2011</u>	<u>2010</u>
Academy of the City Charter School (Our World Neighborhood Charter School II)	\$ <u>-</u>	\$ <u>6,271</u>

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purpose:

	<u>2011</u>	<u>2010</u>
Academy of the City Charter School (Our World Neighborhood Charter School II)	\$ <u>113,602</u>	\$ <u>28,729</u>

NOTE 8 - 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 9 - CONCENTRATION OF CREDIT RISK

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



**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, 2011, and have issued our report thereon dated October 25, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Our World Neighborhood Charter School is responsible for establishing and maintaining effective 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 of Our World Neighborhood Charter School's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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



October 25, 2011