

**OUR WORLD  
NEIGHBORHOOD CHARTER SCHOOL**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORTS**

**JUNE 30, 2012 AND 2011**

**OUR WORLD NEIGHBORHOOD CHARTER SCHOOL**

**TABLE OF CONTENTS**

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

**Exhibit**

**A - Balance Sheet**

**B - Statement of Activities**

**C - Statement of Functional Expenses**

**D - Statement of Cash Flows**

**Notes to Financial Statements**

**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 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, 2012 and 2011, 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, 2012 and 2011, 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 24, 2012 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.

*Loeb + Troper LLP*

October 24, 2012

## OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

## BALANCE SHEET

JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Current assets		
Cash	\$ 3,143,234	\$ 3,009,074
Grants and contracts receivable	168,093	194,895
Accounts receivable (net of allowance for doubtful accounts of \$16,637 in 2012 and \$12,000 in 2011)	7,492	8,413
Prepaid expenses	172,247	39,320
Security deposits	51,386	51,386
Deferred rent costs (Note 4)	<u>38,574</u>	<u>38,574</u>
Total current assets	3,581,026	3,341,662
Deferred rent costs (Note 4)	86,792	125,366
Fixed assets - net (Note 3)	<u>3,359,542</u>	<u>3,151,411</u>
Total assets	<u>\$ 7,027,360</u>	<u>\$ 6,618,439</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 287,040	\$ 194,426
Accrued salaries, vacations and related liabilities	<u>722,435</u>	<u>769,811</u>
Total current liabilities	1,009,475	964,237
Net assets (Exhibit B)		
Unrestricted	<u>6,017,885</u>	<u>5,654,202</u>
Total liabilities and net assets	<u>\$ 7,027,360</u>	<u>\$ 6,618,439</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

EXHIBIT B

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2012 AND 2011

	2012		2011	
	Unrestricted	Unrestricted	Temporarily Restricted	Total
Operating revenues and other support				
State and local per-pupil operating revenues	\$ 9,505,009	\$ 9,805,317		\$ 9,805,317
Government grants and contracts	449,195	401,733		401,733
Food program grants	151,869	150,643		150,643
Contributions	21,170	28,606	\$ 107,331	135,937
In-kind contributions	54,854	57,120		57,120
Interest income	4,961	6,215		6,215
Other revenues	75,300	65,763		65,763
Net assets released from restrictions (Note 7)		113,602	(113,602)	
Total operating revenues	<u>10,262,358</u>	<u>10,628,999</u>	<u>(6,271)</u>	<u>10,622,728</u>
Expenses (Exhibit C)				
Program services				
Education	7,729,749	7,695,840		7,695,840
Special education	360,264	357,855		357,855
Total program services	<u>8,090,013</u>	<u>8,053,695</u>		<u>8,053,695</u>
Supporting services				
Management and general	1,694,664	1,676,139		1,676,139
Fund raising	113,998	143,165		143,165
Total supporting services	<u>1,808,662</u>	<u>1,819,304</u>		<u>1,819,304</u>
Total expenses	<u>9,898,675</u>	<u>9,872,999</u>		<u>9,872,999</u>
Change in net assets (Exhibit D)	363,683	756,000	(6,271)	749,729
Net assets - beginning of year	<u>5,654,202</u>	<u>4,898,202</u>	<u>6,271</u>	<u>4,904,473</u>
Net assets - end of year (Exhibit A)	<u>\$ 6,017,885</u>	<u>\$ 5,654,202</u>	<u>\$ -</u>	<u>\$ 5,654,202</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

YEARS ENDED JUNE 30, 2012 AND 2011

	2012						2011	
	Program Services			Supporting Services			Total	
	Education	Special Education	Total	Management and General	Fund Raising	Total		
Salaries	\$ 4,180,211	\$ 227,103	\$ 4,407,314	\$ 925,955	\$ 70,334	\$ 996,289	\$ 5,403,603	\$ 5,531,124
Payroll taxes and employee benefits	1,172,313	46,219	1,218,532	329,462	19,259	348,721	1,567,253	1,624,884
Occupancy (Note 4)	757,153	36,464	793,617	63,730	10,253	73,983	867,600	833,975
Grant expense								105,184
Contracted services	278,057	34,133	312,190	49,214		49,214	361,404	238,033
Supplies and equipment	286,276	3,718	289,994	102,733	9,578	112,311	402,305	341,421
Repairs and maintenance	250,329		250,329	87,955		87,955	338,284	244,803
Printing and postage	10,781		10,781	2,538		2,538	13,319	10,678
Professional fees				37,300		37,300	37,300	47,560
Security	58,612		58,612	6,639		6,639	65,251	67,174
Dues and subscription	7,166		7,166	3,023		3,023	10,189	19,013
Insurance	67,713		67,713	14,548		14,548	82,261	80,106
Advertising	31,402		31,402		3,613	3,613	35,015	23,837
Telephone	71,146		71,146	17,315		17,315	88,461	66,712
Bad debts	22,871		22,871				22,871	13,270
Travel	3,148		3,148	1,128		1,128	4,276	7,728
Interest (Note 5)								6,728
Food services	220,098		220,098				220,098	215,176
Professional development	96,960	1,070	98,030		365	365	98,395	117,764
Depreciation and amortization	198,702	10,057	208,759	30,530		30,530	239,289	247,981
Miscellaneous expenses	16,811	1,500	18,311	22,594	596	23,190	41,501	29,848
<b>Total expenses (Exhibit B)</b>	<b>\$ 7,729,749</b>	<b>\$ 360,264</b>	<b>\$ 8,090,013</b>	<b>\$ 1,694,664</b>	<b>\$ 113,998</b>	<b>\$ 1,808,662</b>	<b>\$ 9,898,675</b>	<b>\$ 9,872,999</b>

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OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

-2-

YEARS ENDED JUNE 30, 2012 AND 2011

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

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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 363,683	\$ 749,729
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	239,289	247,981
Decrease (increase) in assets		
Grants and contracts receivable	26,802	75,469
Accounts receivable	921	1,137
Prepaid expenses	(132,927)	49,042
Deferred rent costs	38,574	38,575
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	92,614	(58,464)
Accrued salaries, vacations and related liabilities	(47,376)	45,203
Net cash provided by operating activities	<u>581,580</u>	<u>1,148,672</u>
Cash flows from investing activities		
Fixed asset acquisitions, net of disposals	(447,420)	(407,515)
Cash flows from financing activities		
Principal payments on loans		(148,293)
Net increase in cash	134,160	592,864
Cash - beginning of year	<u>3,009,074</u>	<u>2,416,210</u>
Cash - end of year	<u>\$ 3,143,234</u>	<u>\$ 3,009,074</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ 6,728</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, 2012 AND 2011

### 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 years 2012 and 2011, 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, 2012 AND 2011

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

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

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

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

*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.

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## OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

## 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, 2009 and subsequent remain subject to examination by applicable taxing authorities.

*Subsequent events* - Subsequent events have been evaluated through October 24, 2012, which is the date the financial statements were available to be issued.

## NOTE 3 - FIXED ASSETS

	<u>2012</u>	<u>2011</u>
Leasehold improvements	\$ 3,519,765	\$ 3,503,536
Furniture and equipment	1,000,713	877,382
Construction in progress	<u>696,631</u>	<u>388,771</u>
	5,217,109	4,769,689
Accumulated depreciation and amortization	<u>(1,857,567)</u>	<u>(1,618,278)</u>
	<u>\$ 3,359,542</u>	<u>\$ 3,151,411</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, 2012 AND 2011**

**NOTE 4 - LEASE COMMITMENT (continued)**

OWN entered into a two-year lease of a school building located at 31-20 37<sup>th</sup> Street, Astoria, NY (Middle School), which expired on June 30, 2007, which was extended to June 30, 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, 2012 are:

2013	\$ 584,760
2014	422,664
2015	<u>105,666</u>
	<u>\$ 1,113,090</u>

Rent expense for the years ended June 30, 2012 and 2011 was \$663,899 and \$583,031, 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 \$0 in 2012 and \$6,728 in 2011.

**NOTE 6 - PENSIONS**

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

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, 2012 and 2011 was \$320,854 and \$329,334, respectively.

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**OUR WORLD NEIGHBORHOOD CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

**NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS**

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

	<u>2012</u>	<u>2011</u>
Academy of the City Charter School (Our World Neighborhood Charter School II)	\$ <u>      -</u>	\$ <u>  113,602</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 - CONCENTRATIONS**

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

OWN obtained approximately 93% and 92% of its operating revenues in 2012 and 2011, respectively, through its charter from New York State.



**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, 2012, and have issued our report thereon dated October 24, 2012. 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 previously.

**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.

*Loeb & Troper LLP*

October 24, 2012