

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

QUEENS, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2018

(With Comparative Totals for 2017)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Our World Neighborhood Charter Schools

Report on the Financial Statements

We have audited the accompanying financial statements of Our World Neighborhood Charter Schools (the "Charter School"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 Charter School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Our World Neighborhood Charter Schools as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of Our World Neighborhood Charter Schools for the year ended June 30, 2017, before the restatement described in Note B, were audited by another auditor whose report dated October 26, 2017, expressed an unmodified opinion on those statements.

As part of our audit of the June 30, 2018 financial statements, we also audited the adjustments described in Note B that were applied to restate the 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2017 financial statements of the entity other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements as a whole.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018 on our consideration of Our World Neighborhood Charter Schools' 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 Schools' internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 31, 2018

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(With Comparative Totals for 2017)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2018</u>	<u>2017</u> <small>(As Restated)</small>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 2,605,258	\$ 3,334,338
Grants and contracts receivable	609,421	668,655
Accounts receivable	8,997	11,978
Prepaid expenses	<u>146,971</u>	<u>103,591</u>
TOTAL CURRENT ASSETS	3,370,647	4,118,562
<u>PROPERTY AND EQUIPMENT, net</u>	845,382	184,563
<u>OTHER ASSETS</u>		
Cash in escrow	76,517	76,476
Security deposits	<u>451,386</u>	<u>51,386</u>
	<u>527,903</u>	<u>127,862</u>
TOTAL ASSETS	<u>\$ 4,743,932</u>	<u>\$ 4,430,987</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 316,937	\$ 192,027
Due to New York State Department of Education	-	791,128
Accrued payroll and benefits	778,442	737,200
Deferred revenue	<u>325,000</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	1,420,379	1,720,355
<u>NET ASSETS, unrestricted</u>	<u>3,323,553</u>	<u>2,710,632</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,743,932</u>	<u>\$ 4,430,987</u>

The accompanying notes are an integral part of the financial statements.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2018
 (With Comparative Totals for 2017)

	Year ended June 30,	
	2018	2017
		(As Restated)
Revenue, gains and other support:		
Public school district		
Resident student enrollment	\$ 10,531,712	\$ 10,197,077
Students with disabilities	891,218	623,922
Grants and contracts		
State and local	317,646	368,102
Federal - Title and IDEA	351,445	231,444
Federal - other	658,099	352,193
Food service / child nutrition program	142,520	178,694
TOTAL REVENUE, GAINS AND OTHER SUPPORT	12,892,640	11,951,432
Expenses:		
Program services:		
Regular education	9,133,080	8,919,058
Special education	893,913	652,339
Total program services	10,026,993	9,571,397
Management and general	2,275,340	2,047,603
Fundraising	106,866	119,568
TOTAL OPERATING EXPENSES	12,409,199	11,738,568
SURPLUS FROM SCHOOL OPERATIONS	483,441	212,864
Support and other revenue:		
Contributions		
Individuals	17,820	9,348
Fundraising	9,283	20,320
Interest income	17,973	16,634
Miscellaneous income	84,404	72,124
TOTAL SUPPORT AND OTHER REVENUE	129,480	118,426
CHANGE IN NET ASSETS	612,921	331,290
Unrestricted net assets at beginning of year	2,710,632	2,379,342
UNRESTRICTED NET ASSETS AT END OF YEAR	\$ 3,323,553	\$ 2,710,632

The accompanying notes are an integral part of the financial statements.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018
 (With Comparative Totals for 2017)

	No. of Positions	Year ended June 30,						Total	Total
		2018			2017				
		Program Services			Supporting Services				
Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	Total	Total		
Personnel services costs:									(As Restated)
Administrative staff personnel	26	\$ 809,615	\$ 47,509	\$ 857,124	\$ 1,084,136	\$ 77,743	\$ 1,161,879	\$ 2,019,003	\$ 2,017,149
Instructional personnel	79	4,331,796	644,853	4,976,649	-	-	-	4,976,649	4,760,166
Non-instructional personnel	2	85,264	-	85,264	43,791	-	43,791	129,055	91,963
Total personnel services costs	107	5,226,675	692,362	5,919,037	1,127,927	77,743	1,205,670	7,124,707	6,869,278
Fringe benefits and payroll taxes		1,079,168	136,988	1,216,156	232,063	15,759	247,822	1,463,978	1,304,743
Retirement		229,822	34,244	264,066	55,522	4,665	60,187	324,253	298,943
Legal service		-	-	-	32,962	-	32,962	32,962	23,697
Accounting / audit services		-	-	-	44,700	-	44,700	44,700	53,800
Other purchased / professional / consulting services		242,719	13,878	256,597	261,169	-	261,169	517,766	444,288
Building and land rent / lease /facility finance interest		790,188	-	790,188	174,251	-	174,251	964,439	922,014
Repairs and maintenance		205,408	-	205,408	63,030	-	63,030	268,438	288,894
Insurance		66,695	-	66,695	16,674	-	16,674	83,369	98,904
Utilities		230,739	-	230,739	65,508	-	65,508	296,247	303,876
Supplies / materials		205,995	818	206,813	73,080	3,200	76,280	283,093	343,429
Equipment / furnishings		34,571	-	34,571	15,940	-	15,940	50,511	44,636
Staff development		77,955	15,623	93,578	10,146	-	10,146	103,724	99,626
Marketing / recruitment		79,005	-	79,005	-	-	-	79,005	27,940
Technology		76,046	-	76,046	24,312	360	24,672	100,718	56,074
Food service		381,538	-	381,538	-	-	-	381,538	279,461
Student services		37,043	-	37,043	-	-	-	37,043	11,417
Office expense		65,075	-	65,075	16,596	-	16,596	81,671	98,746
Depreciation		84,668	-	84,668	11,035	-	11,035	95,703	104,278
Other		19,770	-	19,770	50,425	5,139	55,564	75,334	64,524
		<u>\$ 9,133,080</u>	<u>\$ 893,913</u>	<u>\$ 10,026,993</u>	<u>\$ 2,275,340</u>	<u>\$ 106,866</u>	<u>\$ 2,382,206</u>	<u>\$ 12,409,199</u>	<u>\$ 11,738,568</u>

The accompanying notes are an integral part of the financial statements.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

	<u>Year ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
		(As Restated)
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 612,921	\$ 331,290
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation	95,703	104,278
Bad debt expense	32,751	-
Changes in certain assets and liabilities affecting operations:		
Accounts receivable	(29,770)	2,303
Grants and contracts receivable	59,234	157,375
Prepaid expenses and other current assets	(43,380)	44,820
Accounts payable and accrued expenses	124,910	(25,859)
Due to New York State Department of Education	(791,128)	791,128
Accrued payroll and benefits	41,242	(215,698)
Deferred revenue	<u>325,000</u>	<u>-</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	427,483	1,189,637
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(756,522)	(58,999)
Security deposits	(400,000)	-
Change in escrow account	<u>(41)</u>	<u>(419)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(1,156,563)</u>	<u>(59,418)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(729,080)	1,130,219
Cash and cash equivalents at beginning of year	<u>3,334,338</u>	<u>2,204,119</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,605,258</u>	<u>\$ 3,334,338</u>

The accompanying notes are an integral part of the financial statements.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

Our World Neighborhood Charter Schools (“the Charter School”) is an education corporation that has authority to operate the Charter Schools as described below. The Charter School 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.

Our World Neighborhood Charter School (“OWN”) is a charter school that operates under the education corporation in the borough of Queens, New York. On July 18, 2012, the Board of Regents of the University of the State of New York granted OWN a charter valid for a term of five years and renewed for an additional five years through June 30, 2022.

On June 13, 2016, the Board of Regents of the University of the State of New York amended the OWN charter agreement permitting additional charter schools under OWN’s education corporation. During the 2017 fiscal year, OWN added Our World Neighborhood Charter School 2 (“OWN 2”) under its expanded charter. The school opened for students in Fall 2018.

On October 18, 2018, the SUNY Board of Trustees approved an additional charter school, Our World Neighborhood Charter School 3 (“OWN 3”), to operate under the OWN education corporation. OWN 3 is expected to open in Fall 2019.

Basis of presentation

The accompanying financial statements include the accounts of OWN and OWN 2 (collectively referred to as the “Charter School”). All intercompany balances and transactions have been eliminated in the accompanying financial statements.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). The Charter School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2018 or 2017.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School had no temporarily restricted net assets at June 30, 2018 or 2017.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School's operations in accordance with the guidelines established by the Charter School. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

Revenue and support recognition

Revenue from state and local governments resulting from the Charter School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable.

Contributions

Contributions received are recorded as unrestricted, temporarily or permanently restricted support depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as unrestricted revenue.

Contributions are recorded as 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 purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash and cash equivalents

Cash and certain money market account balances are maintained at financial institutions located in New York and are insured by the FDIC up to \$250,000 at each institution. The Charter School considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. In the normal course of business, the cash and cash equivalent account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash and cash equivalents.

Cash in escrow

The Charter School maintains cash in an escrow account, in accordance with the terms of the Charter Agreement. A portion of the escrow account is invested in a certificate of deposit with a maturity date of one year or less. The escrow is restricted to fund legal and other costs related to the dissolution of the Charter School.

Grants and contracts receivable

Grants and contracts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2018 or 2017.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which typically range from three to five years.

Security deposits

Security deposits consist of payments to third parties in connection with facility lease agreements.

Due to New York State Department of Education

Tuition for students is recognized on a full time equivalent (FTE) basis. The amount due to New York State Department of Education reflects the difference between payments made by the New York State Department of Education and the reconciliation of actual FTE's attending the Charter School multiplied by the appropriate per pupil rate.

Deferred revenue

The Charter School records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

Tax exempt status

The Charter School is a tax-exempt entity under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2015 through June 30, 2018 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it has not recognized any liability for unrecognized tax benefits.

Contributed services

The Charter School receives contributed services from volunteers to serve on the Board of Trustees. In addition, the Charter School received transportation services and a school nurse for the students from the local district. The Charter School was unable to determine a value for these services.

Marketing and costs

The Charter School expenses marketing costs as they are incurred. Total marketing and recruiting costs approximated \$79,000 and \$27,900 for the years ended June 30, 2018 and 2017, respectively.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Comparatives for year ended June 30, 2017

The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Use of estimates in the preparation of financial statements

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 31, 2018, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted, except as disclosed in Note A and Note H.

NOTE B: RESTATEMENT

The Charter School restated its previously issued 2017 financial statements for matters related to previously reported per-pupil revenue and the related amount due to New York State Department of Education, to write off construction in progress for a project which was previously put indefinitely on hold, and to reduce the lives utilized for leasehold improvements to the length of the underlying lease term as required by GAAP. Consequently, unrestricted net assets at July 1, 2016 were reduced by \$3,235,366.

The effect on the Charter School's previously issued 2017 financial statements is summarized as follows:

Statement of Financial Position as of June 30, 2017:

	<u>Previously Reported</u>	<u>Increase (Decrease)</u>	<u>As Restated</u>
Current assets	\$ 4,118,562	\$ -	\$ 4,118,562
Property and equipment, net	3,370,591	(3,186,028)	184,563
Other assets	<u>127,862</u>	<u>-</u>	<u>127,862</u>
Total assets	<u>\$ 7,617,015</u>	<u>\$ (3,186,028)</u>	<u>\$ 4,430,987</u>
Current liabilities	\$ 1,607,004	\$ 113,351	\$ 1,720,355
Unrestricted net assets	<u>6,010,011</u>	<u>(3,299,379)</u>	<u>2,710,632</u>
Total liabilities and net assets	<u>\$ 7,617,015</u>	<u>\$ (3,186,028)</u>	<u>\$ 4,430,987</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

NOTE B: RESTATEMENT, cont'd

Statement of Activities and Changes in Net Assets for the Year Ended June 30, 2017:

	<u>Previously Reported</u>	<u>Increase (Decrease)</u>	<u>As Restated</u>
Revenue, gains and other support:			
Public school district			
Resident student enrollment	\$ 10,227,333	\$ (30,256)	\$ 10,197,077
Students with disabilities	707,017	(83,095)	623,922
Grants and contracts	951,739	-	951,739
Food service / child nutrition program	178,694	-	178,694
Total revenue, gains and other support	<u>12,064,783</u>	<u>(113,351)</u>	<u>11,951,432</u>
Expenses			
Program services:			
Regular education	8,964,204	(45,146)	8,919,058
Special education	652,339	-	652,339
Management and general	2,051,795	(4,192)	2,047,603
Fundraising	119,568	-	119,568
Total operating expenses	<u>11,787,906</u>	<u>(49,338)</u>	<u>11,738,568</u>
Surplus from school operations	276,877	(64,013)	212,864
Support and other revenue	118,426	-	118,426
Change in net assets	395,303	(64,013)	331,290
Unrestricted net assets at beginning of year	<u>5,614,708</u>	<u>(3,235,366)</u>	<u>2,379,342</u>
Unrestricted net assets at end of year	<u>\$ 6,010,011</u>	<u>\$ (3,299,379)</u>	<u>\$ 2,710,632</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30,	
	<u>2018</u>	<u>2017</u>
		(As Restated)
Leasehold improvements	\$ 4,148,651	\$ 3,813,039
Equipment and furniture and fixtures	<u>1,928,131</u>	<u>1,507,221</u>
	6,076,782	5,320,260
Less accumulated depreciation	<u>5,231,400</u>	<u>5,135,697</u>
	<u>\$ 845,382</u>	<u>\$ 184,563</u>

Total depreciation expense was \$95,703 and \$104,278 for the years ended June 30, 2018 and 2017, respectively. Approximately \$645,000 of leasehold improvements and equipment, furniture, and fixtures relating to OWN 2 were not yet placed in service at June 30, 2018.

NOTE D: COMMITMENTS

The Charter School leases classrooms and office facilities under non-cancelable lease agreements expiring at various dates through August 2048. Total rent expense for these spaces amounted to approximately \$915,200 and \$872,500 for the years ended June 30, 2018 and 2017.

The Charter School leases office equipment under non-cancelable lease agreements expiring at various dates through June 2022. Total expense for these leases amounted to approximately \$74,100 and \$87,000 for the years ended June 30, 2018 and 2017.

The minimum lease payments for the above cited leases are approximately as follows:

<u>Year ending June 30,</u>	<u>Facilities</u> <u>Leases</u>	<u>Equipment</u> <u>Leases</u>	<u>Total</u>
2019	\$ 1,573,100	\$ 120,200	\$ 1,693,300
2020	2,066,100	122,900	2,189,000
2021	2,193,800	107,200	2,301,000
2022	1,962,000	85,200	2,047,200
2023	2,219,900	2,700	2,222,600
Thereafter	<u>64,937,000</u>	<u>-</u>	<u>64,937,000</u>
	<u>\$ 74,951,900</u>	<u>\$ 438,200</u>	<u>\$ 75,390,100</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2018
(With Comparative Totals for 2017)

NOTE D: COMMITMENTS, Cont'd

The Charter School has also entered into a non-binding letter of intent with a lessor for an additional facility, intended for OWN3. The letter of intent requires a \$500,000 security deposit and \$2,000,000 in prepaid rent. The Board of Trustees is currently in negotiations with the lessor regarding the payment terms and amount of the prepaid rent. Tentative lease terms would require monthly payments beginning at approximately \$62,000 per month and increasing to \$442,000 per month at the end of the proposed lease term in 2048.

NOTE E: RETIREMENT PLAN

The Charter School sponsors a 401(k) plan (the "Plan") for its employees. All employees of the Charter School are eligible to participate. The Charter School matches 100% of the employee's contributions up to 3% of eligible compensation and makes a discretionary profit sharing contribution up to 3% of eligible compensation per year. During the years ended June 30, 2018 and 2017, the Charter School contributed approximately \$324,300 and \$298,900, respectively, to the Plan.

NOTE F: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such 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 G: CONCENTRATIONS

At June 30, 2018, approximately 95% of grants and other receivables are due from New York State Department of Education relating to certain grants. During the year ended June 30, 2018, 89% of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

At June 30, 2017, approximately 90% of grants and other receivables are due from New York State Department of Education relating to certain grants. During the year ended June 30, 2017, 91% of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

NOTE H: SUBSEQUENT EVENT

In August 2018, the New York State Education Department (NYSED) notified the Charter School that it had over-allocated \$83,317 in Title IIA funding to the Charter School for the period ended June 30, 2018. NYSED will reduce the Charter School's Title IIA funding for a period of up to five years to recoup the over-allocated funding. The Charter School has not accounted for this over-allocated funding as a liability as of June 30, 2018.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

OTHER FINANCIAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Our World Neighborhood Charter Schools

We have audited the financial statements of Our World Neighborhood Charter Schools as of and for the year ended June 30, 2018, and have issued our report thereon dated October 31, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial information hereinafter 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 for the year ended June 30, 2018, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 31, 2018

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY CHARTER

YEAR ENDED JUNE 30, 2018

	<u>Our World Neighborhood Charter School</u>	<u>Our World Neighborhood Charter School 2</u>	<u>Eliminations</u>	<u>Total</u>
Revenue, gains, and other support:				
Public school district				
Resident student enrollment	\$ 10,531,712	\$ -	\$ -	\$ 10,531,712
Students with disabilities	891,218	-	-	891,218
Grants and contracts				
State and local	317,646	-	-	317,646
Federal - Title and IDEA	351,445	-	-	351,445
Federal - other	54,392	603,707	-	658,099
Food service / child nutrition program	142,520	-	-	142,520
TOTAL REVENUE, GAINS AND OTHER SUPPORT	<u>12,288,933</u>	<u>603,707</u>	<u>-</u>	<u>12,892,640</u>
Expenses:				
Program services:				
Regular education	9,042,821	90,259	-	9,133,080
Special education	893,913	-	-	893,913
Total program services	9,936,734	90,259	-	10,026,993
Management and general	2,122,922	152,418	-	2,275,340
Fundraising and special events	95,209	11,657	-	106,866
TOTAL OPERATING EXPENSES	<u>12,154,865</u>	<u>254,334</u>	<u>-</u>	<u>12,409,199</u>
SURPLUS FROM SCHOOL OPERATIONS	134,068	349,373	-	483,441
Support and other revenue:				
Contributions				
Individuals	17,820	-	-	17,820
Fundraising	9,283	-	-	9,283
Interest income	17,973	-	-	17,973
Miscellaneous income	84,404	-	-	84,404
TOTAL SUPPORT AND OTHER REVENUE	<u>129,480</u>	<u>-</u>	<u>-</u>	<u>129,480</u>
CHANGE IN NET ASSETS	263,548	349,373	-	612,921
Net assets at beginning of year	2,710,632	-	-	2,710,632
NET ASSETS AT END OF YEAR	<u>\$ 2,974,180</u>	<u>\$ 349,373</u>	<u>\$ -</u>	<u>\$ 3,323,553</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER – OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

YEAR ENDED JUNE 30, 2018

	No. of Positions	Program Services			Supporting Services			Total
		Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	
Personnel services costs:								
Administrative staff personnel	24	\$ 767,191	\$ 47,509	\$ 814,700	\$ 1,002,553	\$ 66,086	\$ 1,068,639	\$ 1,883,339
Instructional personnel	79	4,331,796	644,853	4,976,649	-	-	-	4,976,649
Non-instructional personnel	2	85,264	-	85,264	43,791	-	43,791	129,055
Total personnel services costs	105	5,184,251	692,362	5,876,613	1,046,344	66,086	1,112,430	6,989,043
Fringe benefits and payroll taxes		1,079,168	136,988	1,216,156	232,063	15,759	247,822	1,463,978
Retirement		229,822	34,244	264,066	55,522	4,665	60,187	324,253
Legal service		-	-	-	18,224	-	18,224	18,224
Accounting / audit services		-	-	-	44,700	-	44,700	44,700
Other purchased / professional / consulting services		234,219	13,878	248,097	225,669	-	225,669	473,766
Building and land rent / lease / facility finance								
interest		790,188	-	790,188	174,251	-	174,251	964,439
Repairs and maintenance		205,408	-	205,408	54,097	-	54,097	259,505
Insurance		66,695	-	66,695	16,674	-	16,674	83,369
Utilities		230,739	-	230,739	65,055	-	65,055	295,794
Supplies / materials		205,215	818	206,033	72,192	3,200	75,392	281,425
Equipment / furnishings		29,825	-	29,825	8,269	-	8,269	38,094
Staff development		72,516	15,623	88,139	10,146	-	10,146	98,285
Marketing / recruitment		50,839	-	50,839	-	-	-	50,839
Technology		75,842	-	75,842	24,084	360	24,444	100,286
Food service		381,538	-	381,538	-	-	-	381,538
Student services		37,043	-	37,043	-	-	-	37,043
Office expense		65,075	-	65,075	16,500	-	16,500	81,575
Depreciation		84,668	-	84,668	11,035	-	11,035	95,703
Other		19,770	-	19,770	48,097	5,139	53,236	73,006
		<u>\$ 9,042,821</u>	<u>\$ 893,913</u>	<u>\$ 9,936,734</u>	<u>\$ 2,122,922</u>	<u>\$ 95,209</u>	<u>\$ 2,218,131</u>	<u>\$ 12,154,865</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES BY CHARTER – OUR WORLD NEIGHBORHOOD CHARTER SCHOOL 2

YEAR ENDED JUNE 30, 2018

	No. of Positions	Program Services			Supporting Services			Total
		Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	
Personnel services costs:								
Administrative staff personnel	2	\$ 42,424	\$ -	\$ 42,424	\$ 81,583	\$ 11,657	\$ 93,240	\$ 135,664
Legal service		-	-	-	14,738	-	14,738	14,738
Other purchased / professional / consulting services		8,500	-	8,500	35,500	-	35,500	44,000
Repairs and maintenance		-	-	-	8,933	-	8,933	8,933
Utilities		-	-	-	453	-	453	453
Supplies / materials		780	-	780	888	-	888	1,668
Equipment / furnishings		4,746	-	4,746	7,671	-	7,671	12,417
Staff development		5,439	-	5,439	-	-	-	5,439
Marketing / recruitment		28,166	-	28,166	-	-	-	28,166
Technology		204	-	204	228	-	228	432
Office expense		-	-	-	96	-	96	96
Other		-	-	-	2,328	-	2,328	2,328
		<u>\$ 90,259</u>	<u>\$ -</u>	<u>\$ 90,259</u>	<u>\$ 152,418</u>	<u>\$ 11,657</u>	<u>\$ 164,075</u>	<u>\$ 254,334</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

QUEENS, NEW YORK

**SCHEDULES REQUIRED BY GOVERNMENT AUDITING
STANDARDS AND THE UNIFORM GUIDANCE**

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2018



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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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 Schools

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 Schools, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 31, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Our World Neighborhood Charter Schools' 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 Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Our World Neighborhood Charter Schools' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Our World Neighborhood Charter Schools' 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 have reported to management of Our World Neighborhood Charter Schools in a separate letter dated October 31, 2018.

Our World Neighborhood Charter Schools' Response to Findings

Our World Neighborhood Charter Schools' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Our World Neighborhood Charter Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 31, 2018



MENGEL METZGER BARR & CO. LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Board of Trustees
Our World Neighborhood Charter Schools

Report on Compliance for the Major Federal Program

We have audited Our World Neighborhood Charter Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on Our World Neighborhood Charter Schools' major federal program for the year ended June 30, 2018. Our World Neighborhood Charter Schools' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Our World Neighborhood Charter Schools' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about Our World Neighborhood Charter Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Our World Neighborhood Charter Schools' compliance.

Opinion on the Major Federal Program

In our opinion, Our World Neighborhood Charter Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of Our World Neighborhood Charter Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Our World Neighborhood Charter Schools' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Our World Neighborhood Charter Schools' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Our World Neighborhood Charter Schools as of and for the year ended June 30, 2018, and have issued our report thereon dated October 31, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 31, 2018

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Education:			
<u>Passed through NYS Department of Education</u>			
Title I - Grants to Local Educational Agencies	84.010	0021-17-4175	\$ 22,315
Title I - Grants to Local Educational Agencies	84.010	0021-18-4175	<u>159,434</u>
			181,749
Title IIA - Improving Teacher Quality	84.367	0147-17-4175	1,004
Title IIA - Improving Teacher Quality	84.367	0147-18-4175	<u>111,707</u>
			112,711
Charter School Program - State Educational Agencies (SEA) Grant	84.282A	C402860	<u>603,707</u>
TOTAL DEPARTMENT OF EDUCATION			898,167
U.S. Department of Agriculture:			
<u>Passed through NYS Department of Education</u>			
National School Lunch Program	10.555	343000860836	<u>138,576</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>138,576</u>
TOTAL ALL PROGRAMS			<u>\$ 1,036,743</u>

NOTE A: BASIS OF PRESENTATION

The accompanying schedule of federal awards (the "schedule") includes the federal grant activity of Our World Neighborhood Charter Schools and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Our World Neighborhood Charter Schools has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2018

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? x yes no
- Significant deficiency(ies) identified? yes x none reported
- Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes x no
- Significant deficiency(ies) identified? yes x none reported
- Type of auditor's report issued on compliance for major federal programs: Unmodified
- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes x no

Identification of major federal program:

CFDA Number:

84.282A

Name of Federal Program or Cluster:

Charter School Program - State Educational Agencies (SEA) Grant

Dollar threshold used to distinguish between type A and type B programs:

 \$750,000

Auditee qualified as low-risk auditee?

 yes x no

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Cont'd

YEAR ENDED JUNE 30, 2018

FINDINGS – FINANCIAL STATEMENT AUDIT

Financial Statement Audit Finding 2018-001

Criteria: Financial reporting in accordance with GAAP requires leasehold improvements to be amortized over the remaining term of the underlying lease.

Condition and Context: During our audit, we noted the prior year financial statements were materially misstated as the Charter School was using depreciable lives for leasehold improvements of 39 years. The Charter School was following the useful lives as described in a Financial Policies and Procedures Manual developed in the past with the assistance of prior advisors, however Generally Accepted Accounting Principles (“GAAP”) requires that the lives be limited to the lesser of the remaining term of the lease or the useful life of the improvement. The lease terms ranged from 2-15 years. When considering the size of the restatement, we believe the adjustments indicate a material weakness in internal control over financial reporting is present.

Cause: The Charter School using depreciable lives for leasehold improvements which were in excess of the terms of the underlying lease agreements.

Effect or Potential Effect: Material errors were present in the financial statements and period expenses for depreciation were understated.

Recommendation: Depreciable lives should reflect the useful lives of the asset or, in the case of leasehold improvements, the lesser of the useful life or the remaining lease term.

Views of Responsible Officials: Since the inception of Our World Neighborhood Charter Schools, leasehold improvement was calculated based on its policy and procedures manual which stated that leasehold improvement be amortized over 39 years. Under the guidance of other independent audit firm management believed that the depreciation method was in accordance with the accounting principles. While management believes that the aggregate amount to correct the depreciation of leasehold improvement is material, management does not believe that there is a material weakness of internal control over financial reporting as the prior year financial statement was restated to reflect the changes. Accordingly, the audited financial statement as of June 30, 2018 reflects depreciation of leasehold improvement based on generally accepted accounting principles.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.



Our World Neighborhood Charter Schools

Elementary School

Kindergarten to Grade 5
36-12 35th Avenue
Astoria, NY 11106

Middle School

Grade 6 to Grade 8
31-20 37th Street
Astoria, NY 11103

CORRECTIVE ACTION PLAN

Audit Finding Reference: Financial Statement Audit Finding 2018-001

Planned Corrective Action: The management of Our World Neighborhood Charter Schools will reflect the depreciable lives of all leasehold improvements to be stated in accordance to generally accepted accounting principles which required that the lives of all leasehold improvements be limited to the lesser of the remaining term of the lease or the useful life of the improvement. Accordingly, management has reviewed, recalculate and record the depreciation for all leasehold improvement costs at the lesser of the remaining term of the lease or the useful life of the improvement.

Name of Contact Person: Karrine Montaque, Chief Financial Officer is responsible for the corrective actions. Such corrective actions were implemented within the financial statement as of June 30, 2018.



Our World Neighborhood Charter Schools

Elementary School

Kindergarten to Grade 5
36-12 35th Avenue
Astoria, NY 11106

Middle School

Grade 6 to Grade 8
31-20 37th Street
Astoria, NY 11103

October 30, 2018.

Summary Schedule of Prior Audit Findings

Audit Finding Reference: Financial Statement Audit Finding, *2017-001*

Status of Prior Finding: Planned corrective action completed this fiscal year.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

ADVISORY COMMENT LETTER

JUNE 30, 2018



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 31, 2018

To the Board of Trustees
Our World Neighborhood Charter Schools

In planning and performing our audit of the financial statements of Our World Neighborhood Charter Schools (the “Charter School”) as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter School’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, material weaknesses may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 over financial reporting, 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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- Reasonably possible. The chance of the future event or events occurring is more than remote but less than likely.
- Probable. The future event or events are likely to occur.

We consider the following deficiency in the entity’s internal control to be a material weakness:

Significant audit adjustment

During our audit, we noted the prior year and current year financial statements were materially misstated as the Charter School was using depreciable lives for leasehold improvements of 39 years. The Charter School was following the useful lives as described in a Financial Policies and Procedures Manual developed in the past with the assistance of prior advisors, however Generally Accepted Accounting Principles (“GAAP”) requires that the lives be limited to the lesser of the remaining term of the lease or the useful life of the improvement. The lease terms ranged from 2-15 years. When considering the size of the restatement, we believe the adjustments indicate a material weakness in internal control over financial reporting is present.

Recommendation

Depreciable lives should reflect the useful lives of the asset or, in the case of leasehold improvements, the lesser of the useful life or the remaining lease term.

Management’s response

The management of Our World Neighborhood Charter Schools will reflect the depreciable lives of all leasehold improvements to be stated in accordance to generally accepted accounting principles which required that the lives of all leasehold improvements be limited to the lesser of the remaining term of the lease or the useful life of the improvement. Accordingly, management has reviewed, recalculated and recorded the depreciation for all leasehold improvement costs at the lesser of the remaining term of the lease or the useful life of the improvement.

During the course of our audit of the financial statements of Our World Neighborhood Charter Schools as of June 30, 2018, we observed the Charter School’s significant accounting policies and certain business, financial and administrative practices. As a result of our observations, we noted the following, which we do not consider to be a significant deficiency or material weakness:

Minutes

During our audit, we noted minutes of meetings of the Finance Committee, Development Committee, and Audit Committee were not maintained or were not readily accessible.

Recommendation

We recommend minutes of all Board committees be maintained. The current Form 990 inquires if all committee meetings were documented as well as meetings of the governing body. Keeping minutes of all meetings is also an indication of good governance.

* * * * *

This communication is intended solely for the information and use of Management, Finance Committee Members and Board Members and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation from your staff that our personnel received during the audit of the Charter School's financial statements. Should you have any questions or comments, please contact Jackie Lee or Ryan Snyder.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP