

NEW WORLD PREPARATORY CHARTER SCHOOL

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2014 AND 2013

NEW WORLD PREPARATORY CHARTER SCHOOL

INDEX

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	2-3
FINANCIAL STATEMENTS	
Statements of Financial Position	4
Statements of Activities	5
Statements of Cash Flows	6
NOTES TO FINANCIAL STATEMENTS	7-12
SUPPLEMENTARY INFORMATION	
Schedule of Functional Expenses	13
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	14-15



KOCH GROUP & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS
333 Seventh Avenue
New York, NY 10001
(212) 631-0700 FAX (212) 631-0109

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
New World Preparatory Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of New World Preparatory Charter School, which comprise the statement of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New World Preparatory Charter School as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the School taken as a whole. The accompanying schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic 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 functional expenditures is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2014, on our consideration of New World Preparatory Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

New York, New York
October 29, 2014

Koch Group + Company, LLP
Certified Public Accountants

NEW WORLD PREPARATORY CHARTER SCHOOL

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash	\$ 1,125,825	\$ 1,227,373
Grants and contracts receivable	53,099	38,267
Prepaid expenses	<u>17,317</u>	<u>39,208</u>
Total Current Assets	1,196,241	1,304,848
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	<u>501,369</u>	<u>371,207</u>
Total Assets	<u><u>\$ 1,697,610</u></u>	<u><u>\$ 1,676,055</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 46,284	\$ 113,725
Accrued expenses	400,014	325,096
Due to management company	<u>5,895</u>	<u>2,476</u>
Total Current Liabilities	452,193	441,297
NET ASSETS - UNRESTRICTED	<u>1,245,417</u>	<u>1,234,758</u>
Total Liabilities and Net Assets	<u><u>\$ 1,697,610</u></u>	<u><u>\$ 1,676,055</u></u>

See notes to financial statements.

NEW WORLD PREPARATORY CHARTER SCHOOL

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30,

UNRESTRICTED NET ASSETS	<u>2014</u>	<u>2013</u>
REVENUE, GAINS AND OTHER SUPPORT		
Public School District		
Resident student enrollment	\$ 5,531,597	\$ 4,716,897
Grants and Contracts		
State and local	24,241	26,541
Federal - Title and IDEA	142,096	154,605
Federal - Other	24,811	-
Interest and other income	17,535	584
Contributions - Foundation/Individual/Corporation	60,689	20,582
Food Service/Child Nutrition Program	91,014	92,340
Total Public Support and Revenue	<u>5,891,983</u>	<u>5,011,549</u>
EXPENSES		
Program Expenses		
Regular education	4,206,183	3,209,364
Special education	1,305,000	1,198,653
Supporting Services		
Management and general	309,165	249,755
Fundraising	60,976	-
Total Expenses	<u>5,881,324</u>	<u>4,657,772</u>
Change in Net Assets	10,659	353,777
NET ASSETS		
Beginning of year	<u>1,234,758</u>	<u>880,981</u>
End of year	<u><u>\$ 1,245,417</u></u>	<u><u>\$ 1,234,758</u></u>

See notes to financial statements.

NEW WORLD PREPARATORY CHARTER SCHOOL

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30,

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 10,659	\$ 353,777
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	245,517	205,731
Changes in Assets and Liabilities		
Accrued expenses	(14,832)	173,858
Prepaid expenses	21,891	(30,789)
Grants and contracts receivable	3,419	2,190
Accounts payable	(67,441)	42,410
Accrued expenses	<u>74,918</u>	<u>136,121</u>
Net Cash Provided by Operating Activities	<u>274,131</u>	<u>883,298</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets	<u>(375,679)</u>	<u>(109,363)</u>
Net Cash Used in Investing Activities	<u>(375,679)</u>	<u>(109,363)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(101,548)	773,935
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,227,373</u>	<u>453,438</u>
End of year	<u>\$ 1,125,825</u>	<u>\$ 1,227,373</u>

See notes to financial statements.

NEW WORLD PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

1. Organization

New World Preparatory Charter School (the “School”), a 501(c)(3) tax-exempt organization, is a middle grade charter school located in Staten Island, New York. The School was granted a five year charter in February 2010 and commenced sixth grade classes in September 2010. Seventh grade was added in September 2011 and eighth grade was added in September 2012. The School provides an exceptional education for students by employing research-proven strategies to raise middle school academic achievement including academic rigor and relevance, personalization, focused professional development, and meaningful engagement of families and the larger community.

2. Summary of Significant Accounting Policies

a) Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

b) Financial Statement Presentation

The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

- i. Unrestricted net assets – Net assets that are not subject to grantor or donor-imposed stipulations.
- ii. Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the School and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There are no temporarily restricted net assets at June 30, 2014 and 2013.
- iii. Permanently restricted net assets – Net assets subject to grantor or donor-imposed stipulations that they be maintained permanently by the School to use all or part of the assets for general or specific purposes. There are no permanently restricted net assets at June 30, 2014 and 2013.

Furthermore, information is required to segregate program service expenses from support expenses.

NEW WORLD PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

2. Summary of Significant Accounting Policies (Continued)

c) Cash and Cash Equivalents

The School maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to significant credit risk on cash and equivalents.

For purposes of the statement of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

d) Grants and Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as grants and contribution receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met.

e) Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

f) Property and Equipment

Purchase of property and equipment are capitalized at cost. Donated assets are capitalized at the estimated fair value at date of receipt. The cost of maintenance and repairs is charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$500. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 7 years.

g) Donated Services

No amounts are reflected in the financial statements for donated services, as the services do not meet the specialized skill requirements prescribed under accounting principles generally accepted in the United States of America.

NEW WORLD PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

2. Summary of Significant Accounting Policies (Continued)

h) Revenue Recognition

Revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled and 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 School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

i) Functional Allocation of Expenses

Costs and expenses of various programs and other activities have been analyzed on a functional basis. Accordingly, all costs and expenses incurred have been allocated among the programs and supporting services benefited.

j) Income Taxes

New World Preparatory Charter School filed and received approval of its application for tax exempt status from the Internal Revenue Service under section 501(c)(3) of the Internal Revenue code to be classified as a publicly supported organization as described in Internal Revenue Code section 509 (A)(1) and 170 (B)(1)(A)(II).

Management has determined that the School had no uncertain tax positions that would require financial statement recognition. The School is no longer subject to income tax examination by federal, state or local tax authorities for years before 2011, which is the standard statute of limitations look-back period.

k) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NEW WORLD PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

3. Pupil Enrollment and Other Revenues from Government Agencies

Under the Charter School Agreement and the Charter Schools Act, the School is entitled to receive funding from governmental sources that are available to public schools. The calculation of the amounts to be paid to the School under these programs is determined by the State, and is based on complex laws and regulations, enrollment levels, and economic information related to the home school districts of the children enrolled in the School. If these regulations, some of which are relatively new in the State of New York, were to change, or other factors included in the calculations were to change, the level of funding that the School receives could vary significantly.

The amounts are based upon actual amounts received as well as estimates by management based upon the best information available at the time. However, actual amounts received, as determined by the funding source, could vary based on changes in the factors used to calculate the amounts owed.

4. Property and Equipment

At June 30, 2014 and 2013, property and equipment consisted of the following:

	2014	2013	Estimated Useful Life
Improvements	\$ 667,736	\$ 386,091	5 years
Furniture and fixtures	127,683	91,097	7 years
Computer equipment	419,626	371,482	3 years
Office equipment	5,812	3,719	3 years
Telephone equipment	14,063	6,852	3 years
	1,234,920	859,241	
Less: Accumulated depreciation	(733,551)	(488,034)	
Total	\$ 501,369	\$ 371,207	

5. Accrued Expenses

Accrued expenses consist primarily of amounts due to staff for payroll earned during the school year but paid out over the summer months.

NEW WORLD PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

6. Defined Contribution Plan

The School offers a 401(k) plan for all employees. Employees are eligible for the plan immediately upon employment and participation in the plan is voluntary. Employees can make pretax contributions up to a maximum of 100% of their annual compensation, subject to IRS restrictions. The School matches the employee contribution up to 4% of the employee's annual compensation. The employer contribution recognized in the statement of activities was \$53,742 and \$20,995 for the years ended June 30, 2014 and 2013. Plan assets are held in a separate trust and are not included in the accompanying financial statements. All plan assets are held for the exclusive benefit of the Plan's participants and beneficiaries.

7. Concentration of Risk

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues the School's finances could be materially adversely affected.

8. Management

In July 2012, the School entered into an agreement with Victory Schools, Inc. (VSI) d/b/a Victory Education Partners (VEP) to provide services related to certain education and operational aspects of the School. Victory serves as an advisor regarding functions associated with the educational services to be provided to the students at the School and consults with the School with respect to its legal and operational compliance in accordance with the terms of its charter and the Charter School Act.

The terms of the agreement call for a fee of \$400,000 in 2013 with an increase of 2.5% annually. The fee is payable bi-monthly. Any fee not paid within 30 days of its due date bears interest at 7.5% per annum until such amount is paid in full.

For the year ended June 30, 2014 and 2013, management service fee totaled \$410,000 and \$400,000.

NEW WORLD PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

9. Commitments

The School entered into an operating lease for administrative offices which commenced August 1, 2012 and expires August 31, 2015 with monthly rent of \$1,900. The School is also occupying classroom space on month-to-month tenancy for \$7,708 per month. Rent expense for the year ended June 30, 2014 and 2013 was \$115,301 and \$84,792.

10. Contingency

The School participates in a number of federal and state programs. These programs require that the School comply with certain requirements of laws, regulations, contracts, and agreements applicable to the programs in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government grants and contracts by government agencies is presently not determinable, it should not, in the opinion of the management, have a material effect on the financial position or results of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

11. Subsequent Events

Management has evaluated subsequent events through October 29, 2014, the date that the financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment or disclosure in the accompanying financial statements.

NEW WORLD PREPARATORY CHARTER SCHOOL

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30,

(With Summarized Comparative Information for the Year Ended June 30, 2013)

	Regular Education	Special Education	Total Programs	Management & General	Fundraising	Total 2014	Total 2013
<u>Personnel Expenses</u>							
Salaries and wages	\$ 2,311,288	\$ 706,676	\$ 3,017,964	\$ 120,150	\$ -	\$ 3,138,114	\$ 2,394,940
Payroll taxes and fringe benefits	389,075	118,960	508,035	20,226	-	528,261	381,094
Pension	39,579	12,102	51,681	2,061	-	53,742	20,995
Total Personnel Expenses	<u>2,739,942</u>	<u>837,738</u>	<u>3,577,680</u>	<u>142,437</u>	<u>-</u>	<u>3,720,117</u>	<u>2,797,029</u>
<u>Operating Expenses</u>							
Contracted services							
- financial and administrative	252,000	96,000	348,000	62,000	-	410,000	400,000
Consultant - other	55,551	16,985	72,536	2,893	60,976	136,405	86,156
Administrative	22,685	6,936	29,621	1,182	-	30,803	21,081
Marketing and recruitment	9,332	2,853	12,185	486	-	12,671	12,711
Insurance	37,007	11,315	48,322	30,424	-	78,746	63,395
Legal and professional	-	-	-	13,000	-	13,000	11,800
Repairs and maintenance	92,223	28,198	120,421	4,803	-	125,224	46,024
Building and land rent and lease	84,921	25,965	110,886	4,415	-	115,301	84,792
School and staff development	242,202	74,056	316,258	12,615	-	328,873	325,762
Student services	75,294	23,022	98,316	3,922	-	102,238	106,162
Supplies and instructional material	133,587	40,845	174,432	6,958	-	181,390	197,211
Equipment and furnishings	85,867	26,254	112,121	4,472	-	116,593	105,085
Technology	14,915	4,560	19,475	777	-	20,252	29,836
Utilities	46,802	14,310	61,112	2,438	-	63,550	46,981
Depreciation	180,814	55,285	236,099	9,418	-	245,517	205,731
Other facility costs	36,633	11,201	47,834	1,904	-	49,738	-
Other expenses	96,408	29,477	125,885	5,021	-	130,906	118,016
Total Operating Expenses	<u>1,466,241</u>	<u>467,262</u>	<u>1,933,503</u>	<u>166,728</u>	<u>60,976</u>	<u>2,161,207</u>	<u>1,860,743</u>
TOTAL EXPENSES	<u>\$ 4,206,183</u>	<u>\$ 1,305,000</u>	<u>\$ 5,511,183</u>	<u>\$ 309,165</u>	<u>\$ 60,976</u>	<u>\$ 5,881,324</u>	<u>\$ 4,657,772</u>



KOCH GROUP & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

333 Seventh Avenue

New York, NY 10001

(212) 631-0700 FAX (212) 631-0109

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

To the Partners of New World Preparatory Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of New World Preparatory Charter School, which comprise the balance sheet as of June 30, 2014 and 2013, and the related statements of income and expense, changes in partner's capital, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered New World Preparatory Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of New World Preparatory Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of New World Preparatory Charter School's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New World Preparatory Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Koch Group + Company, LLP
Certified Public Accountants

New York, New York
October 29, 2014