

**NEW WORLD PREPARATORY CHARTER SCHOOL**

**FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORT**

**JUNE 30, 2012 AND 2011**

**NEW WORLD PREPARATORY CHARTER SCHOOL**

**INDEX**

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



**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

We have audited the accompanying statements of financial position of New World Preparatory Charter School of June 30, 2012 and 2011, and the related statements of activities and cash flows for years then ended. These financial statements are the responsibility of the 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 present fairly, in all material respects, the financial position of New World Preparatory 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 8, 2012 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.

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 schedule of functional expenses is presented for purposes of additional analysis and is 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.

*Loeb Group + Company, LLP*

Certified Public Accountants

New York, New York  
October 8, 2012

NEW WORLD PREPARATORY CHARTER SCHOOL

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

ASSETS

	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 453,438	\$ 233,114
Grants and contracts receivable	212,125	7,017
Prepaid expenses	<u>8,419</u>	<u>16,468</u>
Total Current Assets	673,982	256,599
<b>PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation</b>	<u>467,575</u>	<u>248,421</u>
Total Assets	<u><u>\$ 1,141,557</u></u>	<u><u>\$ 505,020</u></u>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 71,315	\$ 18,333
Accrued expenses	188,975	94,620
Due to management company	<u>286</u>	<u>4,000</u>
Total Current Liabilities	260,576	116,953
<b>NET ASSETS - UNRESTRICTED</b>	<u>880,981</u>	<u>388,067</u>
Total Liabilities and Net Assets	<u><u>\$ 1,141,557</u></u>	<u><u>\$ 505,020</u></u>

See notes to financial statements.

**NEW WORLD PREPARATORY CHARTER SCHOOL**

**STATEMENTS OF ACTIVITIES**

**YEAR ENDED JUNE 30,**

**UNRESTRICTED NET ASSETS**

	<u>2012</u>	<u>2011</u>
<b>REVENUE, GAINS AND OTHER SUPPORT</b>		
Public School District		
Resident student enrollment	\$ 3,016,546	\$ 1,652,512
Grants and Contracts		
State and local	106,200	9,820
Federal - Title and IDEA	74,764	91,445
Federal - Other	342,409	256,747
Interest and other income	512	159
Contribution - Foundation/Individual/Corporation	21,900	170,104
Food Service/Child Nutrition Program	<u>52,159</u>	<u>38,537</u>
<b>Total Public Support and Revenue</b>	<u><b>3,614,490</b></u>	<u><b>2,219,324</b></u>
<b>EXPENSES</b>		
Program Expenses		
Regular education	1,962,452	1,213,287
Special education	579,008	378,120
Supporting Services		
Management and general	<u>580,116</u>	<u>239,850</u>
<b>Total Expenses</b>	<u><b>3,121,576</b></u>	<u><b>1,831,257</b></u>
Change in Net Assets	492,914	388,067
<b>NET ASSETS</b>		
Beginning of year	<u>388,067</u>	<u>-</u>
End of year	<u><b>\$ 880,981</b></u>	<u><b>\$ 388,067</b></u>

See notes to financial statements.

**NEW WORLD PREPARATORY CHARTER SCHOOL**

**STATEMENTS OF CASH FLOWS**

**YEAR ENDED JUNE 30,**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in Net Assets	\$ 492,914	\$ 388,067
<b>ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Depreciation	133,502	148,800
<b>Changes in Assets and Liabilities</b>		
Accrued expenses	(205,108)	(7,017)
Prepaid expenses	8,049	(16,468)
Grants and contracts receivable	(3,714)	4,000
Accounts payable	52,982	18,333
Accrued expenses	<u>94,355</u>	<u>94,620</u>
<b>Net Cash Provided by Operating Activities</b>	<u>572,980</u>	<u>630,335</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of fixed assets	<u>(352,656)</u>	<u>(397,221)</u>
<b>Net Cash Used in Investing Activities</b>	<u>(352,656)</u>	<u>(397,221)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	220,324	233,114
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>233,114</u>	<u>-</u>
End of year	<u>\$ 453,438</u>	<u>\$ 233,114</u>

See notes to financial statements.

**NEW WORLD PREPARATORY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

**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 and seventh grade classes in September 2010. 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.

a) Unrestricted net assets – Net assets that are not subject to grant or donor-imposed stipulations.

b) 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, 2012 and 2011.

c) Permanently restricted net assets – Net assets subject to grant 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, 2012 and 2011.

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



**NEW WORLD PREPARATORY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

**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.

**NEW WORLD PREPARATORY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

**2. Summary of Significant Accounting Policies (Continued)**

**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.

**h) 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.

**i) Income Taxes**

New World Preparatory Charter School filed 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 believes that the organization has no uncertain tax positions that would require financial statement recognition. The organization filed its initial federal tax return form 990 for the calendar year 2010 which is still subject to income tax examination by federal, state and local tax authorities.

**j) 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.

**3. Reclassification**

Certain accounts relating to the prior year have been reclassified to conform to the current year's presentation. These reclassifications have no effect on changes in unrestricted net assets as previously reported.

NEW WORLD PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

4. 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.

5. Property and Equipment

At June 30, 2012 and 2011, property and equipment consisted of the following:

	<u>2012</u>	<u>2011</u>	<u>Estimated Useful Life</u>
Leasehold improvements	\$ 325,895	\$ 267,846	2 years
Furniture and fixtures	53,525	21,166	7 years
Computer equipment	359,886	97,638	3 years
Office equipment	3,719	3,719	3 years
Telephone equipment	<u>6,852</u>	<u>6,852</u>	3 years
	749,877	397,221	
Less: Accumulated depreciation	<u>(282,302)</u>	<u>(148,800)</u>	
Total	<u>\$ 467,575</u>	<u>\$ 248,421</u>	

Depreciation expense for the years ended June 30, 2012 and 2011 was \$133,502 and \$148,800.

NEW WORLD PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of amounts due to vendors and to staff for payroll earned during the school year but paid out over the summer months.

7. Defined Contribution Plan

The School offers a 401(k) plan for substantially all of its 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 \$22,849 and \$3,901 for the years ended June 30, 2012 and 2011. 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.

8. Management

Victory Education Partners ("Victory") manages the operations of the School under a management agreement executed on May 14, 2010. Under the Agreement, Victory assumes responsibility for all tasks and functions associated with the educational services to be provided to students in accordance with the terms of the charter, subject to the appropriate oversight from the School's Board of Trustees. Victory is responsible for designing the curriculum, acquiring educational materials, hiring all staff, and providing all financial and accounting functions.

In providing the above, Victory is paid a service fee in the amount equal to total full-time equivalent enrollment of students multiplied by \$2,000 on a yearly basis. The Per Pupil Fee is increased or decreased each year by the percentage increase or decrease in the Basic Education Funding and Special Education Funding for Charter Schools in New York City as calculated by the New York State Department annually.

Victory is entitled to receive the fees on a monthly basis. Any fee not paid within 30 days of its due date bears interest at 15% per annum until such amount is paid in full.

At June 30, 2012 and 2011 unpaid management service fees of \$1,836 and \$500 is included in due to management company. For the year ended June 30, 2012 and 2011, management service fee totaled \$378,370 and \$229,350.

**NEW WORLD PREPARATORY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2012 AND 2011**

**9. Commitments**

The School entered into an operating lease for classroom space and administrative offices. The lease commenced on August 1, 2010 and expires on July 31, 2012. Rent expense for the year ended June 30, 2012 and 2011 was \$91,875 and \$77,917.

Commencing August 1, 2012, the School is occupying the space on month-to-month tenancy for \$7,708 per month.

**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 8, 2012, 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, 2011)

	Regular Education	Special Education	Total Programs	Management & General	Total 2012	Total 2011
<u>Personnel Expenses</u>						
Salaries and wages	\$ 1,041,353	\$ 315,901	\$ 1,357,254	\$ 99,015	\$ 1,456,269	\$ 769,862
Payroll taxes and fringe benefits	192,236	58,317	250,553	18,278	268,831	158,327
Pension	16,339	4,956	21,295	1,554	22,849	3,901
Total Personnel Expenses	1,249,928	379,174	1,629,102	118,847	1,747,949	932,090
<u>Operating Expenses</u>						
Contracted services - financial and administrative	-	-	-	378,370	378,370	229,350
Consultant - other	40,256	12,212	52,468	3,828	56,296	38,060
Administrative	26,029	7,896	33,925	2,475	36,400	12,752
Marketing and recruitment	7,337	2,226	9,563	698	10,261	8,342
Insurance	14,129	4,286	18,415	10,807	29,222	24,841
Legal and professional	-	-	-	10,800	10,800	10,500
Repairs and maintenance	43,757	13,274	57,031	4,161	61,192	23,908
Building and land rent and lease	65,698	19,930	85,628	6,247	91,875	77,917
School and staff development	94,174	28,568	122,742	8,954	131,696	95,567
Student services	43,674	13,249	56,923	4,153	61,076	46,068
Supplies and instructional material	109,013	33,070	142,083	10,365	152,448	82,988
Equipment and furnishings	46,818	14,203	61,021	4,452	65,473	14,531
Technology	26,557	8,056	34,613	2,525	37,138	16,993
Utilities	27,978	8,487	36,465	2,660	39,125	32,881
Depreciation	110,789	17,293	128,082	5,420	133,502	148,800
Other expenses	56,315	17,084	73,399	5,354	78,753	35,669
Total Operating Expenses	712,524	199,834	912,358	461,269	1,373,627	899,167
<b>TOTAL EXPENSES</b>	<b>\$ 1,962,452</b>	<b>\$ 579,008</b>	<b>\$ 2,541,460</b>	<b>\$ 580,116</b>	<b>\$ 3,121,576</b>	<b>\$ 1,831,257</b>



**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 Board of Trustees of  
New World Preparatory Charter School

We have audited the financial statements of New World Preparatory Charter School as of and for the year ended June 30, 2012 and 2011 and have issued a report thereon dated October 8, 2012. 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.

**Internal Control Over Financial Reporting**

Management of New World Preparatory Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered New World Preparatory 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 New World Preparatory Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of New World Preparatory 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 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 New World Preparatory 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 audits, 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, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lochl Group + Company, LLP*  
Certified Public Accountants

New York, New York  
October 8, 2012