

**OUR WORLD
NEIGHBORHOOD CHARTER SCHOOL**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2010 AND 2009

OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

TABLE OF CONTENTS

Independent Auditor's Report on Financial Statements

Exhibit

A - Balance Sheet

B - Statement of Activities

C - Statement of Functional Expenses

D - Statement of Cash Flows

Notes to Financial Statements

**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with Government Auditing Standards**

Schedule of Findings and Questioned Costs

Corrective Action Plan



Independent Auditor's Report on Financial Statements

Board of Trustees Our World Neighborhood Charter School

We have audited the accompanying balance sheet of Our World Neighborhood Charter School as of June 30, 2010 and 2009, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Our World Neighborhood Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Our World Neighborhood Charter School's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Our World Neighborhood Charter School's as of June 30, 2010 and 2009, 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 5, 2010 on our consideration of Our World Neighborhood Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audits.

Loeb + Troper LLP

October 5, 2010

OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

BALANCE SHEET

JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets		
Cash	\$ 2,416,210	\$ 2,328,075
Grants and contracts receivable	270,364	142,469
Accounts receivable (net of allowance for doubtful accounts of \$10,000 in 2010 and \$13,000 in 2009)	9,550	14,442
Prepaid expenses	88,362	18,820
Security deposits	51,386	59,356
Deferred rent costs (Note 4)	<u>105,162</u>	<u>105,162</u>
Total current assets	2,941,034	2,668,324
Deferred rent costs (Note 4)	97,353	202,515
Fixed assets - net (Note 3)	<u>2,991,877</u>	<u>2,753,327</u>
Total assets	<u>\$ 6,030,264</u>	<u>\$ 5,624,166</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 252,890	\$ 183,572
Accrued salaries, vacations and related liabilities	724,608	478,511
Loan payable (Note 5)	<u>148,293</u>	<u>184,391</u>
Total current liabilities	1,125,791	846,474
Loan payable (Note 5)		<u>148,381</u>
Total liabilities	<u>1,125,791</u>	<u>994,855</u>
Net assets (Exhibit B)		
Unrestricted	4,898,202	4,629,311
Temporarily restricted (Note 7)	<u>6,271</u>	<u> </u>
Total net assets	<u>4,904,473</u>	<u>4,629,311</u>
Total liabilities and net assets	<u>\$ 6,030,264</u>	<u>\$ 5,624,166</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2010 AND 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2010</u>	<u>2009</u>
				(Restated)
Operating revenues and other support				
State and local per-pupil operating revenues	\$ 9,182,099		\$ 9,182,099	\$ 8,855,869
Government grants and contracts	215,548		215,548	255,940
Food program grants	132,982		132,982	125,181
Contributions (includes in-kind contributions of \$54,192 in 2010)	84,873	\$ 35,000	119,873	119,785
Interest income	7,350		7,350	14,522
Sales and other revenues	78,496		78,496	110,711
Net assets released from restrictions (Note 7)	<u>28,729</u>	<u>(28,729)</u>		
Total operating revenues and other support	<u>9,730,077</u>	<u>6,271</u>	<u>9,736,348</u>	<u>9,482,008</u>
Expenses (Exhibit C)				
Program services				
Education	7,432,942		7,432,942	6,802,929
Special education	<u>329,216</u>		<u>329,216</u>	<u>335,331</u>
Total program services	<u>7,762,158</u>		<u>7,762,158</u>	<u>7,138,260</u>
Supporting services				
Management and general	1,608,412		1,608,412	1,512,760
Fund raising	<u>90,616</u>		<u>90,616</u>	<u>116,228</u>
Total supporting services	<u>1,699,028</u>		<u>1,699,028</u>	<u>1,628,988</u>
Total expenses	<u>9,461,186</u>		<u>9,461,186</u>	<u>8,767,248</u>
Change in unrestricted net assets (Exhibit D)	268,891	6,271	275,162	714,760
Net assets - beginning of year	<u>4,629,311</u>		<u>4,629,311</u>	<u>3,914,551</u>
Net assets - end of year (Exhibit A)	<u>\$ 4,898,202</u>	<u>\$ 6,271</u>	<u>\$ 4,904,473</u>	<u>\$ 4,629,311</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

EXHIBIT C
-2-

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2010 AND 2009

	Program Services		Total	Supporting Services		Total
	Education (Restated)	Special Education		Management and General (Restated)	Fund Raising	
Salaries	\$ 3,440,115	\$ 237,117	\$ 3,677,232	\$ 851,226	\$ 75,315	\$ 926,541
Payroll taxes and employee benefits	897,209	61,842	959,051	222,005	19,643	241,648
Occupancy (Note 4)	719,814		719,814	79,979		79,979
Contracted services	206,228	33,975	240,203	52,956		52,956
Supplies and equipment	518,042	2,397	520,439	108,208	12,982	121,190
Repairs and maintenance	201,604		201,604	22,400		22,400
Printing and postage				12,966		12,966
Professional fees				34,420		34,420
Security	69,262		69,262	7,696		7,696
Dues and subscription	8,844		8,844	9,219		9,219
Insurance	74,793		74,793	8,310		8,310
Advertising				21,192		21,192
Telephone	64,834		64,834	7,203		7,203
Bad debts				26,791		26,791
Travel						
Interest (Note 5)	16,830		16,830			16,830
Food services	32,979		32,979	3,664		3,664
Professional development	170,030		170,030			170,030
Depreciation and amortization	221,466		221,466	21,813	8,288	30,101
Miscellaneous expenses	160,879		160,879	17,875		17,875
				4,837		4,837
Total expenses (Exhibit B)	\$ 6,802,929	\$ 335,331	\$ 7,138,260	\$ 1,512,760	\$ 116,228	\$ 1,628,988
						\$ 8,767,248

See independent auditor's report.

The accompanying notes are an integral part of these statements.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 275,162	\$ 714,760
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	234,712	339,633
Decrease (increase) in assets		
Grants and contracts receivable	(127,895)	(61,355)
Accounts receivable	4,892	5,243
Prepaid expenses	(69,542)	7,435
Security deposits	7,970	5,509
Deferred rent costs	105,162	105,164
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	69,318	(60,327)
Accrued salaries, vacations and related liabilities	246,097	59,404
Net cash provided by operating activities	745,876	1,115,466
Cash flows from investing activities		
Fixed asset acquisitions net of disposals	(473,262)	(400,217)
Cash flows from financing activities		
Principal payments on loans	(184,479)	(170,320)
Net increase in cash	88,135	544,929
Cash - beginning of year	2,328,075	1,783,146
Cash - end of year	<u>\$ 2,416,210</u>	<u>\$ 2,328,075</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 22,533</u>	<u>\$ 36,643</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 1 - NATURE OF ORGANIZATION

Our World Neighborhood Charter School (OWN) is an educational corporation that operates as a charter school in the borough of Queens, New York. On March 20, 2007, the Board of Regents and the Board of Trustees of the University of the State of New York on behalf of the State Education Department granted OWN a charter valid for a term of 5 years and renewable upon expiration. OWN was organized to increase learning opportunities for students through innovative educational programs and to enable parents to be more involved in their children's education. In both fiscal year 2010 and 2009, OWN operated classes for approximately 700 students in grades K-8.

Our World Neighborhood Charter School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. OWN is supported primarily by state and local per-pupil operating revenues.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

FASB Accounting Standards Codification - In July 2009, the FASB released FASB Accounting Standards Codification (ASC) as the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards documents are superseded as described in FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. All other accounting literature not included in the Codification is considered nonauthoritative.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts receivable - Accounts receivable consist of unpaid tuition balances. Accounts receivable are presented net of allowances for doubtful accounts. The allowances are based on management's evaluation of the collectibility of the related accounts. Interest is not accrued or recorded on outstanding receivables.

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OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for doubtful accounts - OWN determines whether an allowance for uncollectibles should be provided for pledges and accounts receivable. Such estimates are based on management's assessment of the aged basis of its contributions and other sources, current economic conditions and historical information. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

Prepaid expenses - Payments made to vendors that cover future periods are recorded as prepaid expenses.

Fixed assets - Fixed assets are recorded at cost. Items with a cost of \$1,000 or more and an estimated useful life of more than one year are capitalized.

Unrestricted net assets - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

Revenues - Revenues from the state and local governments resulting from OWN's charter status and based on the number of students enrolled are recorded when services are performed in accordance with the charter agreement. These grants are recorded as revenue by OWN when services are rendered.

Government grants - Revenues from other government grants to which OWN is entitled is recognized mostly on student enrollment. Some grants are provided for specific educational endeavors which are not based on student enrollment and are recorded when related expenditures are incurred by OWN.

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

In-kind contributions - In-kind contributions of textbooks, supplies and software are recorded at fair value at the date of donation.

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OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation and amortization - Leasehold improvements are amortized on the straight-line basis over the lesser of their useful lives or the term of the lease, whichever is shorter. Depreciation and amortization are provided on the straight-line basis over the estimated following useful lives of assets:

Leasehold improvements	37-39 years
Furniture and equipment	3-5 years

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Restatement - Certain numbers for 2009 were restated to conform with the current year's presentation.

Accounting for uncertainty in income taxes - Effective January 1, 2009, the School adopted the provision pertaining to uncertain tax positions, ASC Topic 740, and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Subsequent events - Subsequent events have been evaluated through October 5, 2010 which is the date the financial statements were available to be issued.

NOTE 3 - FIXED ASSETS

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 3,384,556	\$ 3,272,602
Furniture and equipment	763,412	1,201,985
Construction in progress	<u>250,555</u>	<u> </u>
	4,398,523	4,474,587
Accumulated depreciation and amortization	<u>(1,406,646)</u>	<u>(1,721,260)</u>
	<u>\$ 2,991,877</u>	<u>\$ 2,753,327</u>

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OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 4 - LEASE COMMITMENT

On July 15, 2002, OWN entered into a sublease agreement with Mosaica Education, Inc. (the Sublandlord) for premises located at 36-12 35th Avenue, Astoria, New York (Lower School) for a term ending September 30, 2008, which was extended for an additional five years. In consideration of value under the Sublease Agreement, OWN reimbursed the Landlord (New York City Economic Development Corporation) for executing various agreements of Purchase, Assignment and Assumption of the leased premises, OWN incurred cost of \$267,063, which represents deferred rent expenses, which is being amortized over the life of the sublease. On November 6, 2006, OWN purchased the lease agreement from Mosaica Education, Inc. for \$480,000. The \$480,000 represents deferred rent expense, which is being amortized over the life of the lease.

OWN entered into a two-year lease of a school building located at 31-20 37th Street, Astoria, NY (Middle School), which expired on June 30, 2007. OWN opted to extend the lease for an additional four-year period ending June 30, 2011. The annual rent will be \$148,680.

The future minimum lease payments as of June 30, 2010 are:

2011	\$	532,053
2012		407,359
2013		<u>101,841</u>
	\$	<u>1,041,253</u>

Rent expense for the years ended June 30, 2010 and 2009 was \$615,748 and \$597,933, respectively.

NOTE 5 - LOANS PAYABLE

On February 8, 2006, OWN entered into a loan for \$840,000, which consists of a variable rate unsecured note payable to the lender (NCB Development Corp.). The interest rate is calculated at 325 basis points above the five-year U.S. Treasury rate. The loan matures on March 1, 2011. The interest rate at June 30, 2010 was 7.875%. Current monthly payments of \$17,032 include principal and interest. The balance due on the loan as of June 30, 2010 and 2009 was \$148,293 and \$332,747, respectively.

Future principal payments are as follows:

2011	\$	<u>148,293</u>
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OUR WORLD NEIGHBORHOOD CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 5 - LOANS PAYABLE (continued)

Interest expense on the loan was \$22,533 in 2010 and \$36,643 in 2009.

NOTE 6 - PENSIONS

OWN had a defined contribution retirement plan with Teachers Insurance and Annuity Association and College Retirement Equities Fund which covered substantially all full-time employees. OWN contributed an amount equal to 25% of the employees' contribution to the plan up to the legal maximum amount allowed. This plan was terminated in 2008. Effective October 1, 2008, OWN joined a 401(k) plan administered by ADP Total Source. Pension expense under this plan for the years ended June 30, 2010 and 2009 was \$341,276 and \$246,862, respectively.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

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

Our World Neighborhood Charter School II	\$ <u>6,271</u>
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During 2010, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purpose:

Our World Neighborhood Charter School II	\$ <u>28,729</u>
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NOTE 8 - CONTINGENCIES

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE 9 - CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject OWN to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.



**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards**

**Board of Trustees
Our World Neighborhood Charter School**

We have audited the financial statements of Our World Neighborhood Charter School as of and for the year ended June 30, 2010 and 2009, and have issued our report thereon dated October 5, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Our World Neighborhood Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Our World Neighborhood Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Our World Neighborhood Charter School's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we did identify certain deficiencies in internal control over financial reporting, described in the accompanying *Schedule of Findings and Questioned Costs* that we consider to be a significant deficiency in internal control over financial reporting (10-01). 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.

Compliance and Other Matters

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

Our World Neighborhood Charter School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Our World Neighborhood Charter School's response and, accordingly, we express no opinion on it.

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

Loeb & Troper LLP

October 5, 2010

OUR WORLD NEIGHBORHOOD CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEARS ENDED JUNE 30, 2010 AND 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<u>Unqualified</u>		
Internal control over financial reporting:			
Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	
Significant deficiency(ies) identified not considered to be material weaknesses?	<u> X </u> yes	<u> </u>	none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no	

Section II - Financial Statement Findings

10-01 Reporting

Criteria

The NYC Department of Education Reconciliation Report (Final Claim) requires full-time equivalence (FTEs) to be calculated based on the admittance and discharge date of each student.

Condition

The executive assistant miscalculated the FTEs on the Final Claim, resulting in an over claiming of approximately \$9,000 for general education and an underclaiming of \$17,000 for special education.

Cause

The Business Manager's review process included a review of the reasonableness of the FTEs and the recalculation of a sample of students. Although those sampled did not have errors, other student FTEs did.

Follow-up

A revised Final Claim was submitted to correct the error.

Recommendation

We recommend that all FTEs submitted to the NYS Department of Education be reviewed by the Business Manager.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOL
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEARS ENDED JUNE 30, 2010 AND 2009

Section II - Financial Statement Findings

None.



Our World Neighborhood Charter School
36-12 35th Avenue
Astoria, NY 11106

Corrective Action Plan

10-01 Reporting

For the years ended June 30, 2010 and 2009

In the future, the Business Manager will perform a recalculation of all FTEs less than 1. In addition, we will include other key staff members who work directly with student enrollment to review the report prior to submission to the New York City Board Of Education.


Karrine Montaque
Business Manager