

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

QUEENS, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2019

(With Comparative Totals for 2018)



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 Schools"), which comprise the statement of financial position as of June 30, 2019, 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 Schools' 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 Schools' 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, 2019, 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.

Report on Summarized Comparative Information

We have previously audited Our World Neighborhood Charter Schools' June 30, 2018 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated October 31, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2019 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 22, 2019

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

(With Comparative Totals for 2018)

	<u>June 30,</u>	
<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 2,314,686	\$ 2,605,258
Grants and contracts receivable	469,916	609,421
Accounts receivable	-	8,997
Prepaid expenses	<u>149,211</u>	<u>146,971</u>
TOTAL CURRENT ASSETS	2,933,813	3,370,647
<u>PROPERTY AND EQUIPMENT, net</u>	1,480,782	845,382
<u>OTHER ASSETS</u>		
Cash in escrow	103,169	76,517
Security deposits	<u>501,386</u>	<u>451,386</u>
	<u>604,555</u>	<u>527,903</u>
TOTAL ASSETS	<u>\$ 5,019,150</u>	<u>\$ 4,743,932</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 417,549	\$ 316,937
Accrued payroll and benefits	1,280,937	753,699
Deferred revenue	<u>130,053</u>	<u>325,000</u>
TOTAL CURRENT LIABILITIES	1,828,539	1,395,636
<u>DEFERRED LEASE LIABILITY</u>	<u>980,435</u>	<u>24,743</u>
TOTAL LIABILITIES	2,808,974	1,420,379
<u>NET ASSETS, without donor restrictions, undesignated</u>	<u>2,210,176</u>	<u>3,323,553</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,019,150</u>	<u>\$ 4,743,932</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, 2019
 (With Comparative Totals for 2018)

	Without donor restrictions	
	Year ended June 30,	
	2019	2018
Revenue, gains and other support:		
Public school district		
Resident student enrollment	\$ 12,597,839	\$ 10,531,712
Students with disabilities	889,359	891,218
Grants and contracts		
State and local	642,716	317,646
Federal - Title and IDEA	317,103	351,445
Federal - other	196,293	658,099
NYC DOE rental assistance	455,091	-
Food service / child nutrition program	223,245	142,520
TOTAL REVENUE, GAINS AND OTHER SUPPORT	15,321,646	12,892,640
Expenses:		
Program services:		
Regular education	12,282,742	9,133,080
Special education	1,382,952	893,913
Total program services	13,665,694	10,026,993
Management and general	2,904,844	2,275,340
Fundraising	110,257	106,866
TOTAL OPERATING EXPENSES	16,680,795	12,409,199
(DEFICIT) SURPLUS FROM SCHOOL OPERATIONS	(1,359,149)	483,441
Support and other revenue:		
Contributions		
Foundations	194,947	-
Individuals	9,918	17,820
Fundraising	6,274	9,283
Interest income	2,634	17,973
Miscellaneous income	31,999	84,404
TOTAL SUPPORT AND OTHER REVENUE	245,772	129,480
CHANGE IN NET ASSETS	(1,113,377)	612,921
Net assets at beginning of year	3,323,553	2,710,632
NET ASSETS AT END OF YEAR	\$ 2,210,176	\$ 3,323,553

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

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2019
 (With Comparative Totals for 2018)

	No. of Positions	Year ended June 30,						Total	Total
		2019			2018				
		Program Services	Supporting Services						
Regular Education	Special Education	Sub-total	Management and general	Fundraising and special events	Sub-total	Total	Total		
Personnel services costs:									
Administrative staff personnel	33	\$ 968,601	\$ 181,270	\$ 1,149,871	\$ 1,166,152	\$ 82,175	\$ 1,248,327	\$ 2,398,198	\$ 2,019,003
Instructional personnel	90	5,028,876	846,213	5,875,089	-	-	-	5,875,089	4,976,649
Non-instructional personnel	1	84,068	-	84,068	44,277	-	44,277	128,345	129,055
Total personnel services costs	124	6,081,545	1,027,483	7,109,028	1,210,429	82,175	1,292,604	8,401,632	7,124,707
Fringe benefits and payroll taxes		1,370,883	175,151	1,546,034	257,713	20,421	278,134	1,824,168	1,463,978
Retirement		258,328	34,481	292,809	56,404	4,931	61,335	354,144	324,253
Legal service		-	-	-	38,422	-	38,422	38,422	32,962
Accounting / audit services		-	-	-	46,313	-	46,313	46,313	44,700
Other purchased / professional / consulting services		327,016	81,786	408,802	349,363	-	349,363	758,165	517,766
Building and land rent / lease / facility finance interest		2,073,602	-	2,073,602	502,088	-	502,088	2,575,690	964,439
Repairs and maintenance		330,165	-	330,165	68,628	-	68,628	398,793	268,438
Insurance		76,284	-	76,284	17,606	-	17,606	93,890	83,369
Utilities		336,798	-	336,798	78,033	-	78,033	414,831	296,247
Supplies / materials		241,243	800	242,043	101,564	-	101,564	343,607	283,093
Equipment / furnishings		28,105	-	28,105	20,875	-	20,875	48,980	50,511
Staff development		104,084	20,051	124,135	16,881	-	16,881	141,016	103,724
Marketing / recruitment		154,750	43,200	197,950	-	-	-	197,950	79,005
Technology		90,104	-	90,104	51,179	-	51,179	141,283	100,718
Food service		415,930	-	415,930	-	-	-	415,930	381,538
Student services		21,887	-	21,887	-	-	-	21,887	37,043
Office expense		84,962	-	84,962	23,825	-	23,825	108,787	81,671
Depreciation		263,774	-	263,774	40,197	-	40,197	303,971	95,703
Other		23,282	-	23,282	25,324	2,730	28,054	51,336	75,334
		<u>\$ 12,282,742</u>	<u>\$ 1,382,952</u>	<u>\$ 13,665,694</u>	<u>\$ 2,904,844</u>	<u>\$ 110,257</u>	<u>\$ 3,015,101</u>	<u>\$ 16,680,795</u>	<u>\$ 12,409,199</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, 2019
(With Comparative Totals for 2018)

	<u>Year ended June 30,</u>	
	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ (1,113,377)	\$ 612,921
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation	303,971	95,703
Bad debt expense	5,897	32,751
Changes in certain assets and liabilities affecting operations:		
Accounts receivable	3,100	(29,770)
Grants and contracts receivable	139,505	59,234
Prepaid expenses and other current assets	(2,240)	(43,380)
Accounts payable and accrued expenses	100,612	124,910
Due to New York State Department of Education	-	(791,128)
Accrued payroll and benefits	527,238	16,499
Deferred revenue	(194,947)	325,000
Deferred lease liability	<u>955,692</u>	<u>24,743</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	725,451	427,483
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(939,371)	(756,522)
Security deposits	(50,000)	(400,000)
Change in escrow account	<u>(26,652)</u>	<u>(41)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(1,016,023)</u>	<u>(1,156,563)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(290,572)	(729,080)
Cash and cash equivalents at beginning of year	<u>2,605,258</u>	<u>3,334,338</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,314,686</u>	<u>\$ 2,605,258</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, 2019
(With Comparative Totals for 2018)

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

The Charter School

Our World Neighborhood Charter Schools is an education corporation that has authority to operate the Charter Schools as described below. The education corporation 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 July 31, 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 Board of Regents of the University of the State of New York 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 2020. Operating activities have not commenced as of June 30, 2019.

Basis of presentation

The accompanying financial statements include the accounts of OWN, OWN 2 and OWN 3 (collectively referred to as the "Charter Schools"). All intercompany balances and transactions have been eliminated in the accompanying financial statements.

Financial Statement presentation

The financial statements of the Charter Schools 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 Schools report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

These classes of net assets are defined as follows:

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Charter Schools had no net assets with donor restrictions at June 30, 2019 or 2018.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

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

Net Assets Without Donor Restrictions – The net assets over which the Board of Trustees has discretionary control to use in carrying on the Charter Schools' operations in accordance with the guidelines established by the Charter Schools. The Board may designate portions of the current net assets without donor restrictions for specific purposes, projects or investment.

Revenue and support recognition

Revenue from state and local governments resulting from the Charter Schools' 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 Schools when qualifying expenditures are incurred and billable.

Contributions are recognized as revenue in the year the pledge is received and documented.

Contributions

Contributions received are recorded in the appropriate class of net assets 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 revenue without donor restrictions.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 Schools consider 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 Schools have not experienced any losses in such accounts and does not believe they are exposed to significant risk in cash and cash equivalents.

Cash in escrow

The Charter Schools maintain cash in escrow accounts, in accordance with the terms of the Charter Agreements. A portion of the 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 Schools, should this become necessary.

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, 2019 or 2018.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

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 twenty years.

Security deposits

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

Deferred revenue

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

Deferred lease liability

The Charter Schools leases their facilities. The leases contain pre-determined fixed escalations of the base rent. In accordance with GAAP, the Charter Schools recognize the related rent expense on a straight-line basis and record the difference between the recognized rental expense and the amounts payable under the lease as a deferred lease liability.

Tax exempt status

The education corporation 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 education corporation files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2016 through June 30, 2019 are still subject to potential audit by the IRS. Management of the education corporation believes it has no material uncertain tax positions and, accordingly it has not recognized any liability for unrecognized tax benefits.

Contributed services

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

Marketing and costs

The Charter Schools expense marketing costs as they are incurred. Total marketing and recruiting costs approximated \$198,000 and \$79,000 for the years ended June 30, 2019 and 2018, respectively.

Reclassifications

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

Comparatives for year ended June 30, 2018

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 Schools' financial statements for the year ended June 30, 2018, from which the summarized information was derived.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

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.

Change in accounting principle

During August 2016 FASB issued Accounting Standards Update No. 2016-14 “*Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities*”. The main provisions of ASU 2016-14 require a Not-For-Profit (NFP) to:

- 1) Present on the face of the statement of financial position amounts for two classes of net assets at the end of the period, rather than three classes. That is, an NFP will report amounts for *net assets with donor restrictions* and *net assets without donor restrictions*, as well as the currently required amount for total net assets.
- 2) Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted in item 1) rather than that of the required three classes as in prior years. An NFP would continue to report the currently required amount of the change in total net assets for the period.
- 3) Continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
- 4) Provide enhanced disclosures about:
 - a) Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
 - b) Qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date.
 - c) Quantitative information, and additional qualitative information, that communicates the availability of an NFP’s financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date. Availability of a financial asset may be affected by (1) its nature, (2) external limits imposed by donors, grantors, laws, and contracts with others, and (3) internal limits imposed by Board of Trustee decisions.
 - d) Amounts of expenses by both their natural classification and their functional classification. That analysis of expenses is to be provided in one location.
 - e) Method(s) used to allocate costs among program and support functions.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

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

ASU 2016-14 is effective for financial statements beginning after December 15, 2017 and was applied retrospectively except for disclosures regarding liquidity and availability of resources, which are presented only for the current year. There was no effect on total assets or changes in net assets. The Charter Schools have adopted the amendments effective July 1, 2018.

New accounting pronouncements

Revenue from contracts with customers

In May 2014, the Financial Accounting Standards Board (“FASB”) issued a new standard related to revenue recognition. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. For nonpublic entities, the guidance in this new standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Charter School is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Charter Schools’ financial position or results of operations.

Leases

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among entities by requiring the recognition of right-of-use (“ROU”) assets and lease liabilities on the statement of financial position. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. For nonpublic entities, the guidance in this new standard is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Recently an exposure draft was issued which would delay the effective date by one year. The Charter School is currently evaluating the provisions of this standard to determine the impact the new standard will have on the Charter Schools’ financial position or results of operations.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 22, 2019, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

NOTE B: LIQUIDITY AND AVAILABILITY

The Charter School regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Charter Schools' main source of liquidity is its cash accounts.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Charter School considers all expenditures related to its ongoing activities of education and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Charter School operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Charter Schools' cash and shows positive cash generated by operations for fiscal year 2019.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30, 2019:

	<u>Amount</u>
Cash and cash equivalents	\$ 2,314,686
Grants and contracts receivable	<u>469,916</u>
Total financial assets available to management for general expenditures within one year	<u>\$ 2,784,602</u>

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 4,242,268	\$ 4,148,651
Equipment and furniture and fixtures	<u>2,773,885</u>	<u>1,928,131</u>
	7,016,153	6,076,782
Less accumulated depreciation	<u>5,535,371</u>	<u>5,231,400</u>
	<u>\$ 1,480,782</u>	<u>\$ 845,382</u>

Total depreciation expense was \$303,971 and \$95,703 for the years ended June 30, 2019 and 2018, respectively.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 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 \$2,526,500 and \$915,200 for the years ended June 30, 2019 and 2018.

The Charter School leases office equipment under non-cancelable lease agreements expiring at various dates through July 2022. Total expense for these leases amounted to approximately \$106,500 and \$74,100 for the years ended June 30, 2019 and 2018.

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

The Charter School has also entered into a lease agreement with a lessor for an additional facility intended for OWN3. The lease terms are currently being negotiated, but partial payments of \$50,000 have been made toward a \$500,000 security deposit and \$21,213 (included in prepaid expenses at June 30, 2019) of an anticipated \$2,000,000 contribution for the Charter Schools' share of the landlord's construction work. The lease is expected to be finalized in December 2019.

<u>Year ending June 30,</u>	<u>Facilities Leases</u>	<u>Equipment Leases</u>	<u>Total</u>
2020	\$ 2,094,100	\$ 122,900	\$ 2,217,000
2021	2,130,400	107,200	2,237,600
2022	1,898,100	85,200	1,983,300
2023	2,143,800	2,700	2,146,500
2024	2,227,000	-	2,227,000
Thereafter	<u>58,334,200</u>	<u>-</u>	<u>58,334,200</u>
	<u>\$ 68,827,600</u>	<u>\$ 318,000</u>	<u>\$ 69,145,600</u>

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, 2019 and 2018, the Charter School contributed approximately \$354,100 and \$324,300, 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.

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

NOTES TO FINANCIAL STATEMENTS, Cont'd

YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

NOTE G: CONCENTRATIONS

At June 30, 2019, approximately 41% of grants and other receivables are due from New York State Department of Education relating to certain grants. During the year ended June 30, 2019, 92% 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 Schools' students are located.

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 Schools' students are located.

NOTE H: FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses (including salaries, benefits and payroll taxes, purchased services, occupancy costs, and supplies and materials) which are allocated to more than one program or supporting function are allocated on the basis of estimates of time, effort, and usage.

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, 2019, and have issued our report thereon dated October 22, 2019, which contained an unmodified opinion on those financial statements. Our audit was performed 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 as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 22, 2019

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS BY CHARTER

YEAR ENDED JUNE 30, 2019

	<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	\$ 11,081,635	\$ 1,516,204	\$ -	\$ 12,597,839
Students with disabilities	835,765	53,594	-	889,359
Grants and contracts				
State and local	389,749	252,967	-	642,716
Federal - Title and IDEA	268,035	49,068	-	317,103
Federal - other	-	196,293	-	196,293
NYC DOE rental assistance	-	455,091	-	455,091
Food service / child nutrition program	223,245	-	-	223,245
TOTAL REVENUE, GAINS AND OTHER SUPPORT	<u>12,798,429</u>	<u>2,523,217</u>	-	<u>15,321,646</u>
Expenses:				
Program services:				
Regular education	9,152,124	3,130,618	-	12,282,742
Special education	1,161,215	221,737	-	1,382,952
Total program services	10,313,339	3,352,355	-	13,665,694
Management and general	2,158,377	746,467	-	2,904,844
Fundraising	90,453	19,804	-	110,257
TOTAL OPERATING EXPENSES	<u>12,562,169</u>	<u>4,118,626</u>	-	<u>16,680,795</u>
SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS	236,260	(1,595,409)	-	(1,359,149)
Support and other revenue:				
Contributions				
Foundations	-	194,947	-	194,947
Individuals	9,918	-	-	9,918
Fundraising	6,274	-	-	6,274
Interest income	2,587	47	-	2,634
Miscellaneous income	27,929	4,070	-	31,999
TOTAL SUPPORT AND OTHER REVENUE	<u>46,708</u>	<u>199,064</u>	-	<u>245,772</u>
CHANGE IN NET ASSETS	282,968	(1,396,345)	-	(1,113,377)
Net assets at beginning of year	2,974,180	349,373	-	3,323,553
NET ASSETS AT END OF YEAR	<u>\$ 3,257,148</u>	<u>\$ (1,046,972)</u>	<u>\$ -</u>	<u>\$ 2,210,176</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

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

YEAR ENDED JUNE 30, 2019

	No. of Positions	Program Services			Supporting Services			Total
		Regular Education	Special Education	Sub-total	Management and general	Fundraising	Sub-total	
Personnel services costs:								
Administrative staff personnel	27	\$ 819,101	\$ 100,379	\$ 919,480	\$ 976,289	\$ 66,175	\$ 1,042,464	\$ 1,961,944
Instructional personnel	75	4,220,850	738,975	4,959,825	-	-	-	4,959,825
Non-instructional personnel	1	84,068	-	84,068	44,277	-	44,277	128,345
Total personnel services costs	103	5,124,019	839,354	5,963,373	1,020,566	66,175	1,086,741	7,050,114
Fringe benefits and payroll taxes		1,150,111	153,150	1,303,261	238,516	16,617	255,133	1,558,394
Retirement		230,146	29,074	259,220	52,514	4,931	57,445	316,665
Legal service		-	-	-	37,653	-	37,653	37,653
Accounting / audit services		-	-	-	39,300	-	39,300	39,300
Other purchased / professional / consulting services		222,056	81,786	303,842	239,547	-	239,547	543,389
Building and land rent / lease / facility finance interest		878,590	-	878,590	216,125	-	216,125	1,094,715
Repairs and maintenance		247,560	-	247,560	49,711	-	49,711	297,271
Insurance		65,016	-	65,016	14,789	-	14,789	79,805
Utilities		230,997	-	230,997	54,667	-	54,667	285,664
Supplies / materials		150,502	800	151,302	71,322	-	71,322	222,624
Equipment / furnishings		22,960	-	22,960	16,494	-	16,494	39,454
Staff development		89,878	20,051	109,929	13,856	-	13,856	123,785
Marketing / recruitment		49,708	37,000	86,708	-	-	-	86,708
Technology		74,920	-	74,920	47,850	-	47,850	122,770
Food service		415,930	-	415,930	-	-	-	415,930
Student services		18,218	-	18,218	-	-	-	18,218
Office expense		62,498	-	62,498	18,268	-	18,268	80,766
Depreciation		97,932	-	97,932	5,515	-	5,515	103,447
Other		21,083	-	21,083	21,684	2,730	24,414	45,497
		<u>\$ 9,152,124</u>	<u>\$ 1,161,215</u>	<u>\$10,313,339</u>	<u>\$ 2,158,377</u>	<u>\$ 90,453</u>	<u>\$ 2,248,830</u>	<u>\$ 12,562,169</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

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

YEAR ENDED JUNE 30, 2019

	No. of Positions	Program Services			Supporting Services			Total
		Regular Education	Special Education	Sub-total	Management and general	Fundraising	Sub-total	
Personnel services costs:								
Administrative staff personnel	6	\$ 149,500	\$ 80,891	\$ 230,391	\$ 189,863	\$ 16,000	\$ 205,863	\$ 436,254
Instructional personnel	15	808,026	107,238	915,264	-	-	-	915,264
Total personnel services costs	21	957,526	188,129	1,145,655	189,863	16,000	205,863	1,351,518
Fringe benefits and payroll taxes		220,772	22,001	242,773	19,197	3,804	23,001	265,774
Retirement		28,182	5,407	33,589	3,890	-	3,890	37,479
Legal service		-	-	-	769	-	769	769
Accounting / audit services		-	-	-	7,013	-	7,013	7,013
Other purchased / professional / consulting services		104,960	-	104,960	109,816	-	109,816	214,776
Building and land rent / lease		1,195,012	-	1,195,012	285,963	-	285,963	1,480,975
Repairs and maintenance		82,605	-	82,605	18,917	-	18,917	101,522
Insurance		11,268	-	11,268	2,817	-	2,817	14,085
Utilities		105,801	-	105,801	23,366	-	23,366	129,167
Supplies / materials		90,741	-	90,741	30,242	-	30,242	120,983
Equipment / furnishings		5,145	-	5,145	4,381	-	4,381	9,526
Staff development		14,206	-	14,206	3,025	-	3,025	17,231
Marketing / recruitment		105,042	6,200	111,242	-	-	-	111,242
Technology		15,184	-	15,184	3,329	-	3,329	18,513
Student services		3,669	-	3,669	-	-	-	3,669
Office expense		22,464	-	22,464	5,557	-	5,557	28,021
Depreciation		165,842	-	165,842	34,682	-	34,682	200,524
Other		2,199	-	2,199	3,640	-	3,640	5,839
		<u>\$ 3,130,618</u>	<u>\$ 221,737</u>	<u>\$ 3,352,355</u>	<u>\$ 746,467</u>	<u>\$ 19,804</u>	<u>\$ 766,271</u>	<u>\$ 4,118,626</u>

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS
REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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 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, 2019 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 22, 2019.

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.

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 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*.

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 22, 2019

OUR WORLD NEIGHBORHOOD CHARTER SCHOOLS

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2019

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

Finding 2018-001

Statement of condition

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.

Criteria and effect of conditions

According to accounting principles generally accepted in the United States of America, the Charter School requires leasehold improvements to be amortized over the remaining term of the underlying lease. 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.

Management response

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.

Current status

During the 2019 audit, we noted no material audit adjustments related to depreciation expense were necessary. Useful lives of leasehold improvements were properly determined by management.