

THE NEW AMERICAN ACADEMY CHARTER SCHOOL

BROOKLYN, NEW YORK

AUDITED FINANCIAL STATEMENTS

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2017

(With Comparative Totals for 2016)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

<u>AUDITED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditor's Report	3
Statement of Financial Position	5
Statement of Activities and Changes in Net Assets	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9
 <u>REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS</u>	
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 <i>Government Auditing Standards</i>	15

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The New American Academy Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of The New American Academy Charter School (the "Charter School") which comprise the statement of financial position as of June 30, 2017, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The New American Academy Charter School as of June 30, 2017 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 The New American Academy Charter School's June 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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 25, 2017 on our consideration of The New American Academy Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The New American Academy Charter School's internal control over financial reporting and compliance.

Mengel, Metzger, Baw & Co. LLP

Rochester, New York
October 25, 2017

THE NEW AMERICAN ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(With Comparative totals for 2016)

<u>ASSETS</u>	<u>June, 30</u>	
	<u>2017</u>	<u>2016</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 794,798	\$ 676,023
Grants and other receivables	192,301	91,727
Prepaid expenses and other current assets	<u>76,886</u>	<u>50,759</u>
TOTAL CURRENT ASSETS	1,063,985	818,509
 <u>PROPERTY AND EQUIPMENT, net</u>	 590,938	 345,832
 <u>CASH IN ESCROW</u>	 <u>75,058</u>	 <u>75,021</u>
TOTAL ASSETS	<u>\$ 1,729,981</u>	<u>\$ 1,239,362</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 128,577	\$ 130,645
Accrued payroll and benefits	242,930	171,132
Deferred revenue	<u>48,292</u>	<u>1,912</u>
TOTAL CURRENT LIABILITIES	419,799	303,689
 <u>NET ASSETS, unrestricted</u>	 <u>1,310,182</u>	 <u>935,673</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,729,981</u>	<u>\$ 1,239,362</u>

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

THE NEW AMERICAN ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2017
(With Comparative totals for 2016)

	<u>Year ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
Operating revenue and support:		
State and local per pupil operating revenue	\$ 4,916,390	\$ 3,826,712
Federal grants	196,064	256,697
State and local grants	25,816	25,637
Contributions	-	1,098
Fundraising	405	400
Interest income	37	21
Other income	239	134
TOTAL OPERATING REVENUE AND SUPPORT	<u>5,138,951</u>	<u>4,110,699</u>
Expenses:		
Program:		
Regular education	3,489,703	2,595,221
Special education	591,755	407,278
TOTAL PROGRAM EXPENSES	<u>4,081,458</u>	<u>3,002,499</u>
Management and general	671,878	624,069
Fundraising and special events	-	12,500
TOTAL EXPENSES	<u>4,753,336</u>	<u>3,639,068</u>
Loss on disposal of property and equipment	<u>(11,106)</u>	<u>(274)</u>
CHANGE IN NET ASSETS	374,509	471,357
Unrestricted net assets at beginning of year	<u>935,673</u>	<u>464,316</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 1,310,182</u>	<u>\$ 935,673</u>

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

THE NEW AMERICAN ACADEMY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017
 (With Comparative totals for 2016)

	Year Ended June 30, 2017						June 30, 2016
	No. of Positions	Program Services			Supporting Services		
		Regular Education	Special Education	Sub-total	Management and general	Total	
Personnel services costs:							
Administrative staff personnel		\$ 196,146	\$ 33,261	\$ 229,407	\$ 397,871	\$ 627,278	\$ 526,994
Instructional personnel		1,875,798	318,081				
Non-instructional personnel			18,639				
Total salaries and wages	7 32	2,181,864	369,981	2,193,879	-	2,193,879	1,495,814
Fringe benefits and payroll taxes	2	109,920	82,037	128,559	397,871	128,559	61,270
Retirement	41		13,915	2,551,845	88,222	2,949,716	
Legal services					-		
Management company services		483,794	24,041	565,831	25,853	654,103	452,383
Accounting/audit services		82,057		95,972	14,964		73,706
Other professional services			26,269		64,413		18,700
Leased equipment		141,772	2,215	165,813	5,938	5,938	249,996
Insurance		-	4,322	-	19,300		143
Technology		154,911	1,344	181,180		19,300	205,404
Curriculum / Classroom expenses			18,136			245,593	90,529
Supplies and materials		13,063	6,947	15,278	2,382	17,540	16,443
Non-capitalized equipment and furnishings		25,488	963	29,810	4,648	7,470	28,492
Repairs and maintenance		706,250	230	925,086	1,446	10,717	3,949
Staff development			11,175		247	125,086	
Marketing and recruiting		40,967	3,124	47,914		55,384	38,287
Travel / Conferences			1,894	6,645	1,036	3,360	7,681
Food services		1,356	5,937	1,586		2,036	1,833
Office expense		65,901	825	77,076	12,017	888	89,093
Depreciation and amortization		18,423	18,084	21,547			29,865
Other		11,167	316	13,061	19,447	15,097	12,800
		35,012		40,949			7,050
		\$ 3,489,703	\$ 591,755	\$ 4,081,458	\$ 671,878	\$ 4,753,336	\$ 2,422
		100,842		120,726		648,173	95,604
		1,859		2,175	340	2,515	1,878

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

THE NEW AMERICAN ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017
(With Comparative totals for 2016)

	Year ended June 30,	
	<u>2017</u>	<u>2016</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 374,509	\$ 471,357
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	144,173	95,604
Loss on disposal of property and equipment	11,106	274
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(100,574)	(10,890)
Prepaid expenses and other current assets	(26,127)	636
Accounts payable and accrued expenses	(2,068)	69,121
Accrued payroll and benefits	71,798	38,225
Deferred revenue	<u>46,380</u>	<u>1,912</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	519,197	666,239
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(400,385)	(160,830)
Cash in escrow	<u>(37)</u>	<u>(75,021)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(400,422)</u>	<u>(235,851)</u>
NET INCREASE IN CASH	118,775	430,388
Cash at beginning of year	<u>676,023</u>	<u>245,635</u>
CASH AT END OF YEAR	<u>\$ 794,798</u>	<u>\$ 676,023</u>

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

THE NEW AMERICAN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(With Comparative totals for 2016)

NOTE A: THE SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

The New American Academy Charter School (“the Charter School”) is an educational corporation that operates as a charter school in Brooklyn, New York. On November 5, 2012, the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration.

The Charter School was established to provide its students in grades kindergarten through 5th with the academic skills necessary to promote the culture of learning.

Financial Statement presentation

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

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2017 or 2016.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School had no temporarily restricted net assets at June 30, 2017 or 2016.

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

Revenue and support recognition

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

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

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

THE NEW AMERICAN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative totals for 2016)

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

Contributions

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

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash

Cash balances are maintained at a financial institution located in New York and are insured by the FDIC up to \$250,000 at each institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Cash in escrow

The School maintains cash in an escrow account in accordance with the terms of its charter agreement. The amount in escrow was approximately \$75,000 at June 30, 2017 and 2016.

Grants and other receivables

Grants and other receivables 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, 2017 and 2016.

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 range from two to seven years.

Deferred revenue

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

THE NEW AMERICAN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative totals for 2016)

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

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income. The Charter School has filed for and received income tax exemptions in the various jurisdictions where it is required to do so. The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2014 through June 30, 2017 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

Contributed services

The Charter School receives contributed services from volunteers to develop its academic program and to serve on the Board of Trustees. These services are not valued in the financial statements because they do not require “specialized skills” and would typically not be purchased if they were not contributed. The Charter School received transportation services, security agents, and meals from the local district.

In-kind contributions

Gifts and donations other than cash are recorded at fair market value at the date of contribution.

Marketing and recruiting costs

The Charter School expenses marketing and recruiting costs as they are incurred. Total marketing and recruiting costs approximated \$24,900 and \$12,800 for the years ended June 30, 2017 and 2016, respectively.

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.

Comparatives for year ended June 30, 2016

The financial statements include certain prior year summarized comparative information in total but not by functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School’s financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 25, 2017, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted, except as disclosed in Note H.

THE NEW AMERICAN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative totals for 2016)

NOTE B: SCHOOL FACILITY

As part of the New York City Chancellor's Charter School Initiative, the New York City Department of Education has committed space to the Charter School at no charge under a verbal agreement. In July 2016, the Charter School moved to a new Department of Education building. Total approximate square footage usage as of June 30, 2017 and 2016 was 48,000 and 36,000, respectively.

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Furniture and fixtures	\$ 342,080	\$ 237,461
Computers and software	305,277	205,308
Office equipment	64,251	48,765
Leasehold improvements	<u>199,094</u>	<u>37,058</u>
	910,702	528,592
Less accumulated depreciation and amortization	<u>319,764</u>	<u>182,760</u>
	<u>\$ 590,938</u>	<u>\$ 345,832</u>

Total depreciation and amortization expense was \$144,173 and \$95,604 for the years ended June 30, 2017 and 2016, respectively.

NOTE D: OPERATING LEASE

The Charter School leases office equipment under non-cancelable lease agreements expiring in August 2018 and June 2019. The future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2018	\$ 14,604
2019	<u>6,414</u>
	<u>\$ 21,018</u>

THE NEW AMERICAN ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2017

(With Comparative totals for 2016)

NOTE E: RETIREMENT PLAN

The Charter School sponsors a defined contribution 403(b) plan covering all regular employees. The Charter School matches employees' contributions up to 4% of base salary. The Charter School's total contribution to the Plan for the years ended June 30, 2017 and 2016 was \$104,555 and \$69,288, respectively.

NOTE F: CONTINGENCY

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

NOTE G: CONCENTRATIONS

At June 30, 2017, 72% and 38%, respectively of grants and other receivables are due from the State government relating to per pupil revenue and the Federal government relating to certain grants. At June 30, 2016, 61% and 39%, respectively of grants and other receivables are due from the State government relating to per pupil revenue and the Federal government relating to certain grants.

During the years ended June 30, 2017 and 2016, approximately 96% and 93%, respectively of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

NOTE H: COMMITMENT

The Charter School has a services agreement with The New American Initiative, Inc. (NAI), a non-profit organization. NAI provides summer training, leadership services, board governance support, political outreach and advocacy, teacher recruitment and hiring, and marketing. The yearly agreement expired on June 30, 2017, which was for approximately \$200,000 for the year. On July 1, 2017 a segment of the agreement was renewed through September 30, 2017 for approximately \$70,000 for summer training and leadership services.

The Charter School paid approximately \$200,000 and \$250,000, in accordance with the agreement to NAI for the each of years ended June 30, 2017 and 2016, respectively. which is included in management company services on the accompanying statement of functional expenses.

NOTE I: RENEWAL PROCESS

The Charter School is currently in the process of renewing its charter as granted by the New York State Board of Regents. The Charter currently expires June 30, 2018. The renewal process includes review by New York State Education Department (NYSED) of various operational and governance aspects, including fiscal health and internal controls, board governance, and academic performance. The Charter School has submitted its application for renewal. Upon review of the application and results, NYSED will determine if the charter should be renewed and if so, for how long. Successful charter renewals can range from one to five years. At this time, management of the Charter School expects the charter to be renewed.

THE NEW AMERICAN ACADEMY CHARTER SCHOOL

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
The New American Academy Charter School

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 The New American Academy Charter School, which comprise the statement of financial position as of June 30, 2017, 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 25, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 The New American Academy Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of The New American Academy Charter School in a separate letter dated October 25, 2017.

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 25, 2017