

New Heights Academy Charter School

Financial Statements

June 30, 2017 and 2016

Independent Auditors' Report

Board of Trustees New Heights Academy Charter School

We have audited the accompanying financial statements of New Heights Academy Charter School (the "School"), which comprise the statements of financial position as of June 30, 2017, and the related statements of activities, 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.

Auditors' 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 auditors' 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 School'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 School'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 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.

Prior Period Financial Statements

The summarized comparative financial statements as of June 30, 2016 and for the year then ended, were audited by other auditors who ceased operations. Those auditors expressed an unmodified opinion on those financial statements in their report dated September 29, 2016.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2017, on our consideration of the 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 solely 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 effectiveness of the School's 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 the School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Harrison, New York
September 11, 2017

New Heights Academy Charter School

Statement of Financial Position June 30, 2017 (with comparative amounts at June 30, 2016)

	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,604,637	\$ 2,402,077
Investments	-	1,523,334
Grants and contracts receivable	705,779	525,255
Prepaid expenses and other receivables	21,354	5,000
Total Current Assets	3,331,770	4,455,666
Property and equipment, net	2,438,296	2,626,885
Restricted cash	75,632	75,557
Security deposits	694,732	694,732
Deferred rent asset	655,899	-
	\$ 7,196,329	\$ 7,852,840
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 295,397	\$ 192,485
Accrued payroll and payroll taxes	622,974	585,416
Total Current Liabilities	918,371	777,901
Deferred rent	-	212,743
Total Liabilities	918,371	990,644
Net Assets, Unrestricted		
Undesignated	6,277,958	5,338,862
Board-designated	-	1,523,334
Total Net Assets, Unrestricted	6,277,958	6,862,196
	\$ 7,196,329	\$ 7,852,840

See notes to financial statements

New Heights Academy Charter School

Statement of Activities
Year Ended June 30, 2017
(with summarized totals for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT		
State and local per pupil operating revenue	\$ 12,186,341	\$ 11,829,484
Federal grants	698,975	617,796
State and city grants	65,709	62,932
Contributions and grants	21,466	16,866
Investment and other income	<u>22,942</u>	<u>25,062</u>
Total Revenue and Support	<u>12,995,433</u>	<u>12,552,140</u>
EXPENSES		
Program Services		
Regular education	9,562,765	8,697,026
Special education	2,434,584	2,535,184
Other programs	<u>276,673</u>	<u>135,407</u>
Total Program Services	12,274,022	11,367,617
Supporting services		
Management and general	1,256,335	1,414,217
Fundraising	<u>49,314</u>	<u>52,385</u>
Total Expenses	<u>13,579,671</u>	<u>12,834,219</u>
Change in Net Assets	(584,238)	(282,079)
NET ASSETS, UNRESTRICTED		
Beginning of year	<u>6,862,196</u>	<u>7,144,275</u>
End of year	<u>\$ 6,277,958</u>	<u>\$ 6,862,196</u>

See notes to financial statements

New Heights Academy Charter School

Statement of Functional Expenses

Year Ended June 30, 2017

(with summarized totals for the year ended June 30, 2016)

	2017						
	Program Services			Total	Supporting Services		
	Regular Education	Special Education	Supplemental Education		Management and General	Fundraising	Total
Salaries	\$ 4,944,828	\$ 1,407,607	\$ 202,524	\$ 6,554,959	\$ 569,284	\$ 14,597	\$ 7,138,840
Employee benefits and payroll taxes	1,001,321	285,039	41,011	1,327,371	115,280	2,956	1,445,607
Auditing/Accounting fees	-	-	-	-	32,360	-	32,360
Professional fees	90,694	-	-	90,694	10,077	-	100,771
Legal fees	-	-	-	-	16,957	-	16,957
Consultants - temps	77,493	13,887	-	91,380	-	-	91,380
Staff development	137,797	44,869	-	182,666	15,865	407	198,938
Teacher recruitment	16,249	5,291	-	21,540	1,871	48	23,459
Student recruiting and marketing	39,231	7,031	-	46,262	-	-	46,262
Student management	36,748	6,585	-	43,333	-	-	43,333
Student/Staff events	137,576	44,798	-	182,374	15,839	406	198,619
Food service	216,536	40,149	7,495	264,180	-	-	264,180
Field trips	37,886	6,789	-	44,675	-	-	44,675
Supplies and materials	223,838	63,719	9,168	296,725	25,770	661	323,156
Textbooks	106,209	19,033	-	125,242	-	-	125,242
Rent and utilities	1,697,871	304,271	-	2,002,142	329,765	23,555	2,355,462
Maintenance and repairs	165,254	29,615	-	194,869	32,095	2,293	229,257
Janitorial	140,265	39,928	5,745	185,938	16,149	414	202,501
Security	53,077	15,109	2,174	70,360	6,110	157	76,627
Lease - equipment	38,873	11,066	1,592	51,531	4,476	115	56,122
Insurance	39,337	7,049	-	46,386	7,640	546	54,572
Dues and fees	73,514	20,927	3,010	97,451	8,463	216	106,130
Postage/Printing/Copying	12,757	3,631	522	16,910	1,469	38	18,417
Telephone and internet	72,630	20,675	2,975	96,280	8,363	214	104,857
Depreciation and amortization	191,619	34,339	-	225,958	37,217	2,658	265,833
Miscellaneous	11,162	3,177	457	14,796	1,285	33	16,114
Total Expenses	\$ 9,562,765	\$ 2,434,584	\$ 276,673	\$ 12,274,022	\$ 1,256,335	\$ 49,314	\$ 13,579,671

New Heights Academy Charter School

Statement of Cash Flows Year Ended June 30, 2017

(with comparative amounts for the year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (584,238)	\$ (282,079)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Deferred rent asset/liability	(868,642)	57,615
Depreciation and amortization	265,833	320,608
Realized gain on investments	(5,724)	-
Unrealized gain on investments	-	(30)
Changes in operating assets and liabilities		
Grants and contracts receivable	(180,524)	(301,063)
Prepaid expenses and other receivables	(16,354)	431,343
Security deposits	-	1,000
Accounts payable and accrued expenses	102,912	(58,835)
Accrued payroll and payroll taxes	37,558	(87,099)
Refundable advances	-	(12,303)
Net Cash from Operating Activities	(1,249,179)	69,157
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	-	(14,394)
Sale of investments	1,529,058	-
Purchases of property and equipment	(77,244)	(201,254)
Restricted cash	(75)	(77)
Net Cash from Investing Activities	1,451,739	(215,725)
Net Change in Cash and Cash Equivalents	202,560	(146,568)
CASH AND CASH EQUIVALENTS		
Beginning of year	2,402,077	2,548,645
End of year	\$ 2,604,637	\$ 2,402,077

See notes to financial statements

New Heights Academy Charter School

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Tax Status

New Heights Academy Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on April 15, 2005 to operate a charter school pursuant to Article 56 of the Education Law of the State of New York. The School was granted a provisional charter on April 15, 2005 valid for a term of five years and renewable upon expiration by the Board of Regents of the University of the State of New York. The Board of Regents approved and issued several renewals to the School's charter expiring June 30, 2020. The School's mission is to provide a college preparatory education for students in Washington Heights and Inwood neighborhoods of upper Manhattan. The School's academically rigorous curriculum will ensure that all students set and meet postsecondary education and career goals. Simultaneously, the School's nurturing environment of small class sizes and a focus on character education will ensure that our students develop a strong self-identity conducive to leading responsible lives as citizens in our global society. The School provided education to approximately 750 students in grades five through twelve during the 2016-2017 academic year.

The School retains an outside vendor to provide meals for students in which the School receives reimbursement from the New York State Education Department. The Office of Pupil Transportation provides free transportation to the majority of the students.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which 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. Accordingly actual results could differ from those estimates.

Net Assets Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees. Board designated net assets were established by the Board of Trustees to provide a reserve for unseen operating and capital expenses. During the year ended June 30, 2017, the Board of Trustees undesignated this reserve and used it to refinance the Civic Builders, Inc. facility operating lease.

New Heights Academy Charter School

Notes to Financial Statements
June 30, 2017 and 2016

2. Summary of Significant Accounting Policies (continued)

Net Assets Presentation (continued)

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2017 and 2016.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Fair Value Measurements

The School follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investments Valuation

Investments are carried at fair value.

New Heights Academy Charter School

Notes to Financial Statements
June 30, 2017 and 2016

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

Investment Income Recognitions

Purchases and sales of securities are recorded on a trade-basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of change in net assets.

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset. Purchased property and equipment are recorded at cost at the date of acquisition. Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, is expensed as incurred.

Depreciation and amortization is recognized on the straight-line method over the estimated useful lives of such assets as follows:

Computers and equipment	3 to 5 years
Furniture and fixtures	7 years
Software	3 years
Website development	3 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to the fair value. There were no asset impairments for the years ended June 30, 2017 and 2016.

Refundable Advances

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

Revenue and Support

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Grants and other contributions of cash are reported as temporarily restricted support if they are received with donor stipulations. Restricted contributions and grants that are made to support the School's current year activities are recorded as unrestricted revenue. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation.

New Heights Academy Charter School

Notes to Financial Statements
June 30, 2017 and 2016

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

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

Recruiting and Marketing

Recruitment and marketing costs are expensed as incurred. Recruitment and marketing costs for the years ended June 30, 2017 and 2016 amounted to \$69,721 and \$53,275.

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2014.

Prior Year Summarized Comparative Financial Information

The financial statements include prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Reclassifications

Certain 2016 accounts have been reclassified to conform to the 2017 financial statement presentation. The reclassifications had no effect on 2016 net assets and change in net assets.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is September 11, 2017.

New Heights Academy Charter School

Notes to Financial Statements
June 30, 2017 and 2016

3. Fair Value of Investments

The School had no investments at June 30, 2017. The School's investments as of June 30, 2016 consisted of fixed income - ultra short duration bond fund in the amount of \$1,523,334 categorized as Level 1 in the fair value hierarchy. The investments were liquidated and used to refinance the Civic Builders, Inc. facility operating lease.

The composition of investment income as reported in the statement of activities for the years ended June 30 is as follows:

	2017	2016
Interest and dividends	\$ 13,015	\$ 25,032
Realized gain	5,724	-
Unrealized gain	-	30
	<u>\$ 18,739</u>	<u>\$ 25,062</u>

4. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state, and city entitlements and grants. The School expects to collect these receivables within one year.

5. Property and Equipment

Property and equipment consists of the following at June 30:

	2017	2016
Computers and equipment	\$ 1,667,155	\$ 1,628,841
Furniture and fixtures	411,653	397,412
Software	184,517	184,517
Website development	17,000	17,000
Leasehold improvements	<u>2,945,242</u>	<u>2,920,254</u>
	5,225,567	5,148,024
Accumulated depreciation and amortization	<u>(2,787,271)</u>	<u>(2,521,139)</u>
	<u>\$ 2,438,296</u>	<u>\$ 2,626,885</u>

6. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 401(k), for the benefit of its eligible employees. Under the plan, the School matched employee contributions up to 5% of annual compensation. Employee match for the years ended June 30, 2017 and 2016 amounted to \$166,712 and \$175,558.

New Heights Academy Charter School

Notes to Financial Statements
June 30, 2017 and 2016

7. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. At June 30, 2017, approximately \$1,927,000 of cash was maintained with two institutions in excess of FDIC limits.

8. Concentration of Revenue and Support

The School receives a substantial portion of its revenue and support from the New York City Department of Education. For the years ended June 30, 2017 and 2016, the School received approximately 94% of total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

9. Commitments

Operating Lease - Civic Builders, Inc.

During the year ended June 30, 2010, the School finalized a non-cancellable sublease agreement with Civic Builders, Inc. ("Civic") on the expansion of their facility expiring on May 30, 2039. As a result of this agreement, Civic took over the School's prior lease obligation and secured options for an additional two floors. The agreement enabled the School to expand its infrastructure to service approximately 750 students. In addition, the agreement requires the School to fund Civic a reserve amount of \$500,000, payable at \$100,000 per year starting in September 2010, which is included in security deposits in the accompanying statement of financial position. On March 28, 2017, this agreement was amended to refinance the related loan and as result the School prepaid \$1,082,641 to Civic.

The future minimum lease payments under this operating lease are as follows for the years ending June 30:

2018	\$ 1,742,399
2019	1,784,307
2020	1,827,472
2021	1,871,932
2022	1,917,726
Thereafter	<u>37,530,589</u>
	<u>\$ 46,674,425</u>

New Heights Academy Charter School

Notes to Financial Statements
June 30, 2017 and 2016

10. Commitments (*continued*)

Operating Lease - 1818-1838 Amsterdam Avenue, LLC

On April 1, 2012, the School entered into a non-cancellable lease agreement with 1818-1838 Amsterdam Avenue, LLC (“Amsterdam”) on the expansion of their facility expiring on May 31, 2039. In addition, the agreement requires the School to fund Amsterdam a reserve amount of \$17,200, which is included in security deposits in the accompanying statement of financial position.

The future minimum lease payments under this operating lease are as follows for the years ending June 30:

2018	\$	120,537
2019		124,152
2020		127,875
2021		131,709
2022		135,662
Thereafter		<u>3,021,695</u>
	\$	<u>3,661,630</u>

The School recognizes rent expense on a straight-line basis over the term of the lease. Rent expense in excess of payments is recorded as deferred rent in the accompanying statement of financial position. Rent expense under all operating leases amounted to \$1,976,660 and \$1,833,086 for the years ended June 30, 2017 and 2016.

11. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursements. 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.



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

Independent Auditors' Report

**Board of Trustees
New Heights Academy Charter School**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of New Heights Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, 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 September 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
September 11, 2017