

New Heights Academy Charter School

Financial Statements

June 30, 2018 and 2017



Independent Auditors' Report

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

Report on the Financial Statements

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, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 School as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years 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 School's 2017 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated September 11, 2017. In our opinion, the summarized comparative statement of functional expenses presented herein for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it was derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018, 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
October 12, 2018

New Heights Academy Charter School

Statements of Financial Position

	June 30,	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,410,754	\$ 2,604,637
Grants and contracts receivable	733,742	705,779
Prepaid expenses and other receivables	106,138	21,354
Total Current Assets	3,250,634	3,331,770
Property and equipment, net	2,268,229	2,438,296
Restricted cash	75,708	75,632
Security deposits	693,732	694,732
Deferred rent asset	274,478	655,899
	\$ 6,562,781	\$ 7,196,329
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 134,796	\$ 295,397
Accrued payroll and payroll taxes	622,406	622,974
Total Current Liabilities	757,202	918,371
Net assets, unrestricted	5,805,579	6,277,958
	\$ 6,562,781	\$ 7,196,329

See notes to financial statements

New Heights Academy Charter School

Statements of Activities

	Year Ended June 30,	
	2018	2017
REVENUE AND SUPPORT		
State and local per pupil operating revenue	\$ 12,460,465	\$ 12,186,341
Federal grants	740,976	582,206
Federal IDEA and E-Rate	115,103	116,769
State and city grants	66,059	65,709
Contributions and grants	20,311	21,466
Interest and other income	12,193	22,942
Total Revenue and Support	13,415,107	12,995,433
EXPENSES		
Program Services		
Regular education	9,772,415	9,562,765
Special education	2,755,175	2,434,584
Other programs	212,767	276,673
Total Program Services	12,740,357	12,274,022
Supporting Services		
Management and general	1,100,908	1,256,335
Fundraising	46,221	49,314
Total Expenses	13,887,486	13,579,671
Change in Net Assets	(472,379)	(584,238)
NET ASSETS, UNRESTRICTED		
Beginning of year	6,277,958	6,862,196
End of year	\$ 5,805,579	\$ 6,277,958

See notes to financial statements

New Heights Academy Charter School

Statement of Functional Expenses
Year Ended June 30, 2018
(with summarized totals for the year ended June 30, 2017)

	2018				2017			
	Program Services			Total	Supporting Services		Total	
	Regular Education	Special Education	Supplemental Education		Management and General	Fundraising		
Salaries	\$ 5,215,522	\$ 1,656,943	\$ 147,885	\$ 7,020,350	\$ 450,968	\$ 11,563	\$ 7,482,881	\$ 7,138,840
Employee benefits and payroll taxes	1,141,392	362,614	32,364	1,536,370	98,692	2,530	1,637,592	1,445,607
Auditing/Accounting fees	-	-	-	-	29,000	-	29,000	32,360
Professional fees	50,457	-	-	50,457	5,606	-	56,063	100,771
Legal fees	-	-	-	-	27,229	-	27,229	16,957
Consultants - temps	69,870	12,994	-	82,864	-	-	82,864	91,380
Staff development	142,842	49,430	-	192,272	12,351	317	204,940	198,938
Teacher recruitment	25,702	8,894	-	34,596	2,222	57	36,875	23,459
Student recruiting and marketing	26,436	4,916	-	31,352	-	-	31,352	46,262
Student management	47,192	8,776	-	55,968	-	-	55,968	43,333
Student/Staff events	87,922	30,425	-	118,347	7,602	195	126,144	198,619
Food service	254,852	48,534	6,117	309,503	-	-	309,503	264,180
Field trips	12,847	2,389	-	15,236	-	-	15,236	44,675
Supplies and materials	135,566	43,068	3,844	182,478	11,722	301	194,501	323,156
Textbooks	24,740	4,601	-	29,341	-	-	29,341	125,242
Rent and utilities	1,853,567	344,720	-	2,198,287	362,071	25,862	2,586,220	2,355,462
Maintenance and repairs	80,462	14,964	-	95,426	15,717	1,123	112,266	229,257
Janitorial	140,407	44,607	3,981	188,995	12,141	311	201,447	202,501
Security	72,415	23,006	2,053	97,474	6,261	161	103,896	76,627
Lease - equipment	38,931	12,368	1,104	52,403	3,366	87	55,856	56,122
Insurance	45,855	8,528	-	54,383	8,957	640	63,980	54,572
Dues and fees	32,338	10,273	917	43,528	2,796	72	46,396	106,130
Postage/Printing/Copying	9,035	2,870	256	12,161	781	20	12,962	18,417
Telephone and internet	82,299	26,146	2,334	110,779	7,116	182	118,077	104,857
Depreciation and amortization	179,471	33,377	-	212,848	35,057	2,504	250,409	265,833
Miscellaneous	2,295	732	11,912	14,939	1,253	296	16,488	16,114
Total Expenses	\$ 9,772,415	\$ 2,755,175	\$ 212,767	\$ 12,740,357	\$ 1,100,908	\$ 46,221	\$ 13,887,486	\$ 13,579,671

New Heights Academy Charter School

Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (472,379)	\$ (584,238)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Deferred rent asset	381,421	(868,642)
Depreciation and amortization	250,409	265,833
Realized gain on investments	-	(5,724)
Changes in operating assets and liabilities		
Grants and contracts receivable	(27,963)	(180,524)
Prepaid expenses and other receivables	(84,784)	(16,354)
Security deposits	1,000	-
Accounts payable and accrued expenses	(160,601)	102,912
Accrued payroll and payroll taxes	(568)	37,558
Net Cash from Operating Activities	(113,465)	(1,249,179)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Sale of investments	-	1,529,058
Purchases of property and equipment	(80,342)	(77,244)
Restricted cash	(76)	(75)
Net Cash from Investing Activities	(80,418)	1,451,739
Net Change in Cash and Cash Equivalents	(193,883)	202,560
 CASH AND CASH EQUIVALENTS		
Beginning of year	2,604,637	2,402,077
End of year	\$ 2,410,754	\$ 2,604,637

See notes to financial statements

New Heights Academy Charter School

Notes to Financial Statements
June 30, 2018 and 2017

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 2017-2018 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, 2018 and 2017

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, 2018 and 2017.

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.

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, in which case such assets are expensed as incurred.

New Heights Academy Charter School

Notes to Financial Statements
June 30, 2018 and 2017

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

Property and Equipment (continued)

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 its fair value. There were no asset impairments for the years ended June 30, 2018 and 2017.

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.

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, 2018 and 2017 amounted to \$68,227 and \$69,721.

New Heights Academy Charter School

Notes to Financial Statements
June 30, 2018 and 2017

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

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, 2015.

Prior Year Summarized Comparative Financial Information

The statement of functional expenses include prior-year summarized comparative information in total but not by function. 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 statement of functional expenses for the year ended June 30, 2017, from which the summarized information was derived.

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 October 12, 2018.

3. 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.

4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Computers and equipment	1,711,169	1,667,155
Furniture and fixtures	430,032	411,653
Software	184,517	184,517
Website development	17,000	17,000
Leasehold improvements	<u>2,963,029</u>	<u>2,945,242</u>
	5,305,747	5,225,567
Accumulated depreciation and amortization	<u>(3,037,518)</u>	<u>(2,787,271)</u>
	<u>\$ 2,268,229</u>	<u>\$ 2,438,296</u>

New Heights Academy Charter School

Notes to Financial Statements
June 30, 2018 and 2017

5. 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, 2018 and 2017 amounted to \$223,721 and \$166,712

6. 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, 2018 and 2017, approximately \$1,730,000 and \$1,927,000 of cash was maintained with two institutions in excess of FDIC limits.

7. 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, 2018 and 2017, the School received approximately 93% and 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.

8. 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:

2019	\$ 1,784,304
2020	1,827,468
2021	1,871,931
2022	1,917,729
2023	1,964,898
Thereafter	<u>35,760,039</u>
	<u>\$ 45,126,369</u>

New Heights Academy Charter School

Notes to Financial Statements
June 30, 2018 and 2017

8. 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:

2019	\$	124,153
2020		127,875
2021		131,709
2022		135,662
2023		139,732
Thereafter		<u>2,881,962</u>
	\$	<u>3,541,093</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 \$2,244,354 and \$1,976,660 for the years ended June 30, 2018 and 2017.

9. Contingency

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



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, 2018, 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 October 12, 2018.

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
October 12, 2018