

Northside Charter High School

Financial Statements

June 30, 2017 and 2016

Independent Auditors' Report

Board of Trustees Northside Charter High School

We have audited the accompanying financial statements of Northside Charter High 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 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 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 16, 2016.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 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 12, 2017

Northside Charter High School

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

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,951,072	\$ 4,109,331
Grants and contracts receivable	238,452	102,272
Prepaid expenses and other current assets	<u>105,055</u>	<u>178,312</u>
Total Current Assets	5,294,579	4,389,915
Property and equipment, net	191,030	280,276
Restricted cash	<u>75,247</u>	<u>75,495</u>
	<u>\$ 5,560,856</u>	<u>\$ 4,745,686</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 60,479	\$ 45,339
Accrued payroll and payroll taxes	359,144	333,999
Refundable advances	<u>45,504</u>	<u>12,836</u>
Total Current Liabilities	465,127	392,174
Net Assets, Unrestricted	<u>5,095,729</u>	<u>4,353,512</u>
	<u>\$ 5,560,856</u>	<u>\$ 4,745,686</u>

Northside Charter High 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	\$ 6,368,655	\$ 6,096,490
Federal grants	289,169	253,093
State grants	28,311	25,398
Other revenue	<u>21,493</u>	<u>2,777</u>
Total Revenue and Support	<u>6,707,628</u>	<u>6,377,758</u>
EXPENSES		
Program services		
Regular education	3,917,199	3,838,540
Special education	<u>1,231,115</u>	<u>1,053,694</u>
Total program services	5,148,314	4,892,234
Supporting services		
Management and general	<u>817,097</u>	<u>696,714</u>
Total Expenses	<u>5,965,411</u>	<u>5,588,948</u>
Change in Net Assets	742,217	788,810
NET ASSETS, UNRESTRICTED		
Beginning of year	<u>4,353,512</u>	<u>3,564,702</u>
End of year	<u>\$ 5,095,729</u>	<u>\$ 4,353,512</u>

See notes to financial statements

Northside Charter High School

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

	No. of Positions	2017			2016		
		Program Services		Total	Management and General	Total	
		Regular Education	Special Education		Total		
Personnel services cost							
Administrative staff personnel	14	\$ 530,141	\$ 95,464	\$ 625,605	\$ 417,071	\$ 1,042,676	\$ 826,096
Instructional personnel	41	1,842,597	762,987	2,605,584	-	2,605,584	2,586,798
Non-Instructional personnel	8	393,663	70,888	464,551	-	464,551	455,165
Total salaries and staff	<u>63</u>	<u>2,766,401</u>	<u>929,339</u>	<u>3,695,740</u>	<u>417,071</u>	<u>4,112,811</u>	<u>3,868,059</u>
Payroll taxes and employee benefits		544,299	182,851	727,150	82,059	809,209	715,852
Retirement		20,972	7,045	28,017	3,162	31,179	29,728
Legal fees		-	-	-	5,758	5,758	-
Audit fees		-	-	-	22,000	22,000	22,250
Financial management services		-	-	-	225,000	225,000	220,000
Contractual services		78,313	24,351	102,664	9,913	112,577	65,258
Marketing and recruiting		29,355	6,715	36,070	1,382	37,452	40,680
Staff development		38,601	6,951	45,552	-	45,552	43,155
Office expense		36,789	12,359	49,148	5,548	54,696	37,251
Telephone and internet		26,135	5,227	31,362	10,454	41,816	40,249
Travel and conferences		4,045	-	4,045	-	4,045	14,863
Textbooks and classroom supplies		90,146	16,234	106,380	-	106,380	130,187
Student activities and fees		41,151	-	41,151	-	41,151	32,521
School events		58,401	10,516	68,917	-	68,917	84,613
Insurance		77,730	9,716	87,446	9,716	97,162	97,656
Dues and subscriptions		-	-	-	10,081	10,081	14,637
Technology and equipment		12,914	3,974	16,888	2,979	19,867	17,258
Depreciation and amortization		79,183	15,837	95,020	10,557	105,577	105,513
Bad debt expense		-	-	-	-	-	3,291
Miscellaneous		12,764	-	12,764	1,417	14,181	5,927
Total Expenses		<u>\$ 3,917,199</u>	<u>\$ 1,231,115</u>	<u>\$ 5,148,314</u>	<u>\$ 817,097</u>	<u>\$ 5,965,411</u>	<u>\$ 5,588,948</u>

See notes to financial statements

Northside Charter High School

Statement of Cash Flows Year Ended June 30, 2017

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

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 742,217	\$ 788,810
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	105,577	105,513
Bad debt expense	-	3,291
Changes in operating assets and liabilities		
Grants and contracts receivable	(136,180)	(38,498)
Prepaid expenses and other current assets	73,257	(97,628)
Accounts payable and accrued expenses	15,140	10,014
Accrued payroll and payroll taxes	25,145	16,747
Refundable advances	32,668	(22,697)
Net Cash from Operating Activities	<u>857,824</u>	<u>765,552</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(16,331)	(130,125)
Restricted cash	<u>248</u>	<u>(38)</u>
Net Cash from Investing Activities	<u>(16,083)</u>	<u>(130,163)</u>
Net Change in Cash and Cash Equivalents	841,741	635,389
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>4,109,331</u>	<u>3,473,942</u>
End of year	<u>\$ 4,951,072</u>	<u>\$ 4,109,331</u>

See notes to financial statements

Northside Charter High School

Notes to Financial Statements
June 30, 2017 and 2016

1. Organization and Tax Status

Nature of Organization

Northside Charter High School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on January 13, 2009 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 January 13, 2009, 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 on June 30, 2022. The School's mission is to provide a nine through twelve grade educational program that results in mastery of the New York State Learning Standards, high school graduation, and acceptance to colleges and universities of choice by all students. In addition, the School will develop and maintain a school culture that endorses high expectations that challenge each student to recognize and achieve his/her full potential within a school environment that is nurturing, professional and that fosters within each student an appreciation for life-long learning. The School provided education to approximately 404 students in ninth through twelfth grades during the 2016-2017 academic year.

The School shares space with a New York City public school beginning in August 2009. The School occupies approximately 23,100 square feet on one floor of a public school building. The School also shares the gymnasium, auditorium and cafeteria with the public school which approximate 16,300 square feet. The School is not responsible for rent, utilities, custodial services, maintenance and school safety services other than security related to the School's programs that take place outside the district's school day. The School was unable to determine a value for the contributed space and related services and did not record any value for use of donated facilities.

The New York City Department of Education provides free lunches and transportation directly to some of the School's students. Such costs are not included in these financial statements. The School covers a portion of the cost of lunches for children not entitled to the free lunches.

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.

Northside Charter High School

Notes to Financial Statements
June 30, 2017 and 2016

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

Net Asset 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.

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.

Northside Charter High School

Notes to Financial Statements
June 30, 2017 and 2016

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

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 which is five years. 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	5 years
Furniture and fixtures	5 years
Software	5 years
Leasehold improvements	5 years
Website	5 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.

Northside Charter High 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.

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.

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 12, 2017.

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.

Northside Charter High School

Notes to Financial Statements
June 30, 2017 and 2016

4. Property and Equipment

Property and equipment consists of the following at June 30:

	<u>2017</u>	<u>2016</u>
Computers and equipment	\$ 601,823	\$ 589,067
Furniture and fixtures	40,302	39,202
Software	27,956	25,481
Leasehold improvements	25,375	25,375
Website	<u>27,999</u>	<u>27,999</u>
	723,455	707,124
Less: Accumulated depreciation and amortization	<u>(532,425)</u>	<u>(426,848)</u>
	<u>\$ 191,030</u>	<u>\$ 280,276</u>

5. Employee Benefit Plan

The School maintains a pension plan qualified under Internal Revenue Code 403(b), for the benefit of its eligible employees. Under the plan, the School provided matching contributions up to 1% to the plan. Employer match for the years ended June 30, 2017 and 2016 amounted to \$31,179 and \$29,728, respectively.

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. As of June 30, 2017, approximately \$4,770,000 of cash was maintained with an institution 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, 2017 and 2016, the School received approximately 95% 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.

Northside Charter High School

Notes to Financial Statements
June 30, 2017 and 2016

8. 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.

Independent Auditors' 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
Northside Charter High 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 Northside Charter High 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 12, 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 12, 2017