

**ATLANTA NEIGHBORHOOD
CHARTER SCHOOL, INC.**

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

DRAFT

**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
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JUNE 30, 2015 AND 2014**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Atlanta Neighborhood Charter School, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Atlanta Neighborhood Charter School, Inc. (a Georgia not-for-profit organization) which comprise the statement of financial position as of June 30, 2015 and 2014 and the related statements of activities 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Atlanta Neighborhood Charter School, Inc. as of June 30, 2015 and 2014, 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.

Atlanta, Georgia

DATE

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ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

ASSETS		
	2015	2014
CURRENT ASSETS		
Cash	\$ 384,141	\$ 844,592
Certificates of deposit	437,096	431,301
Receivable from Atlanta Public Schools – Title 1	31,288	71,641
Current portion of grants receivable	212,567	162,376
Prepaid expenses	7,224	-
Total current assets	1,072,316	1,509,910
OTHER ASSETS		
Reserve accounts	239,409	536,219
Loan closing costs, net	12,762	14,889
Grants receivable net of current portion	175,000	-
Property and equipment, net	2,418,693	1,832,736
Total other assets	2,845,864	2,383,844
TOTAL ASSETS	\$ 3,918,180	\$ 3,893,754
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 915,772	\$ 686,366
Current portion of notes payable	36,579	34,093
Total current liabilities	952,351	720,459
LONG TERM LIABILITIES		
Notes payable, net of current portion	1,098,846	1,440,907
TOTAL LIABILITIES	2,051,197	2,161,366
NET ASSETS		
Unrestricted	1,566,983	1,732,388
Temporarily restricted	300,000	-
Total net assets	1,866,983	1,732,388
TOTAL LIABILITIES AND NET ASSETS	\$ 3,918,180	\$ 3,893,754

See notes to financial statements.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015			2014 Total
	Unrestricted	Temporarily Restricted	Total	
PUBLIC SUPPORT AND REVENUE				
Atlanta Public School Funding	\$ 6,787,043	\$ -	\$ 6,787,043	\$ 6,606,708
Contributions	281,575	-	281,575	335,854
Title I funding	87,595	-	87,595	105,101
Title II funding	13,283	-	13,283	-
Government grants	506,103	-	506,103	352,128
Other grants	397,105	300,000	697,105	100,225
In kind contributions	13,370	-	13,370	8,995
After school program	249,190	-	249,190	245,897
Student meal income	242,642	-	242,642	140,279
Other program income	226,992	-	226,992	148,001
Other income	47,313	-	47,313	486,604
TOTAL PUBLIC SUPPORT AND REVENUE	8,852,211	300,000	9,152,211	8,529,792
EXPENSES				
Program services				
Instructional expenses	6,812,553	-	6,812,553	6,109,306
Facilities expenses	549,424	-	549,424	473,136
Staff development expenses	212,152	-	212,152	112,848
Educational materials expenses	267,010	-	267,010	196,559
After school program expenses	189,947	-	189,947	206,514
Other program expenses	162,334	-	162,334	343,610
Supporting expenses				
Fundraising expenses	62,482	-	62,482	53,310
General and administrative expenses	761,714	-	761,714	488,461
TOTAL EXPENSES	9,017,616	-	9,017,616	7,983,744
CHANGES IN NET ASSETS	(165,405)	300,000	134,595	546,048
NET ASSETS AT BEGINNING OF YEAR	1,732,388	-	1,732,388	1,186,340
NET ASSETS AT END OF YEAR	\$ 1,566,983	\$ 300,000	\$ 1,866,983	\$ 1,732,388

See notes to financial statements.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 134,595	\$ 546,048
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	209,801	172,369
Income reinvested in certificates of deposit	(5,795)	(14,645)
(Increase) decrease in prepaid expenses	(7,224)	7,357
Increase in receivables	(184,838)	(110,323)
Increase in accounts payable and accrued expenses	229,406	52,227
Net cash provided by operating activities	<u>375,945</u>	<u>653,033</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(793,631)</u>	<u>(169,723)</u>
Net cash used in investing activities	<u>(793,631)</u>	<u>(169,723)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan closing costs	-	(14,889)
Principal payments on (proceeds from) note payable	(310,000)	310,000
Change in reserve accounts	296,810	(444,969)
Principal payments on note payable	(29,575)	(26,513)
Principal payments on capital lease obligation	-	(849)
Net cash used in financing activities	<u>(42,765)</u>	<u>(177,220)</u>
NET (DECREASE) INCREASE IN CASH	(460,451)	306,090
CASH AT BEGINNING OF YEAR	<u>844,592</u>	<u>538,502</u>
CASH AT END OF YEAR	<u>\$ 384,141</u>	<u>\$ 844,592</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid during the year	<u>\$ 60,017</u>	<u>\$ 76,639</u>

See notes to financial statements.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

1. ORGANIZATION

Neighborhood Charter School, Inc. (NCS), a Georgia not-for-profit organization, was formed on November 20, 1998 to operate a charter elementary school in Grant Park to serve Grant Park, Ormewood Park and other in town areas of Atlanta, Georgia. Southeast Atlanta Charter Middle School, Inc. (ACMS), a Georgia not-for-profit corporation, was formed on June 20, 2003 to operate a charter middle school in Ormewood Park to serve Grant Park, Ormewood Park and other in-town areas of Atlanta, Georgia.

Effective May 19, 2011, the two schools merged and became Atlanta Neighborhood Charter School, Inc. (the School). The School was granted a charter by the Board of Education of the City of Atlanta for the five-year term ending on June 30, 2016. The Charter permits the School to operate as a Charter School under the Atlanta Public School system, provided the School operates within the guidelines of the Charter and the applicable state and federal laws. Under the terms of the Charter, the School receives an allocation from the Atlanta Public Schools (APS) which is based on enrollment. The School's support comes primarily from state and local funding through the Atlanta Public Schools and from grants and contributions.

The mission of the School is to provide a learning environment for all students that demands high educational standards and high levels of parent/guardian involvement and responsibility.

Combined enrollment for the two campuses for the years ended June 30, 2015 and 2014 was 666 and 669 students, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The School prepares its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ACS) 958-205, *Not-For-Profit Entities*. Under FASB ACS 958, the 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. As of June 30, 2015 and 2014, the School did not have any permanently restricted net assets. As of June 30, 2014, the School did not have any temporarily restricted net assets.

Contributions

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. During the years ended June 30, 2015 and 2014, the School did not receive any permanently restricted contributions. During the year ended June 30, 2014, the School did not receive any temporarily restricted contributions.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Contributed Services

Contributed services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributed legal and accounting services during the years ended June 30, 2015 and 2014, totaled \$13,370 and \$8,995 respectively.

In addition, many individuals volunteer their time and perform a variety of tasks that assist in the School's activities. The School receives numerous volunteer hours each year that are not valued in the financial statements.

Revenue Recognition

Revenue from Atlanta Public Schools funding and revenue from program fees are recognized in the period the service is delivered. Grants are recognized as revenue when the related required expenditures have been incurred.

Cash

For the purpose of reporting cash flows, the School considers all demand notes and short-term investments with maturities of 90 days or less to be cash equivalents. At times the School's cash balances exceed the federally insured limit. At June 30, 2015 and 2014 the School's uninsured cash balance was \$142,879 and \$657,823, respectively.

Loan Closing Costs

Loan closing costs are amortized on a straight line basis over the life of the loan.

Fair Values of Financial Instruments

At June 30, 2015 and 2014, the carrying value of financial instruments such as cash, receivables, accounts payable and borrowings under notes payable approximated their fair values.

Property and Equipment

The School capitalizes all expenditures for property and equipment in excess of \$500. Property and equipment are recorded at cost or fair value, if donated. Leasehold improvements are amortized over the life of the lease. Other property and equipment are depreciated using straight line methods over their estimated useful lives as follows:

Building and building improvements	40 years
Computer equipment and software	5 years
Library books	7 years
Other equipment, furniture and fixtures	7 years

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Tax Status

The School is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is classified as an organization which is not a private foundation under Section 509(a) of the U.S. Internal Revenue Code. The School qualifies for the charitable contribution deduction.

Management does not believe there are any uncertain tax positions as defined by FASB ASC 740, *Income Taxes*. The School could be subject to income tax examinations for its U.S. federal tax filings for the current tax year and previous filings for years 2014, 2013, and 2012 still open under the statute of limitations.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain indirect costs have been allocated among the programs and supporting services benefited.

Use of Estimates

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Events Occurring After Report Date

The School has evaluated events and transactions that occurred between June 30, 2015 and **DATE**, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

3. GRANTS

Conditional Promise to Give

During 2014 the School received a \$260,330 grant that requires a financial match. The grant is to be used for the renovation of current facilities and development of new green construction. The School must fund \$1 for each \$1 of grant funds used on the project. Therefore, the grant is considered a conditional promise to give and grant revenue is recorded at 50% of qualifying project expenditures. For the years ended June 30, 2015 and 2014 the School expended \$402,460 and \$118,200 and recorded grant revenue of \$201,230 and \$59,100, respectively. There was no remaining balance available on the grant as of June 30, 2015.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

3. GRANTS – CONTINUED

Grants Receivable

Grants receivable at June 30, 2015 are due to be received in the following years:

Year ending June 30,		
2016	\$	212,567
2017		125,000
2018		50,000
		<u>50,000</u>
	\$	<u>387,567</u>

4. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2015 and 2014, is composed of the following:

	<u>2015</u>	<u>2014</u>
Buildings and building improvements	\$ 1,772,029	\$ 1,255,143
Leasehold improvements	1,204,068	1,094,727
Computer equipment and software	248,123	167,549
Library books	134,978	125,387
Other equipment	252,000	201,067
Furniture and fixtures	238,871	212,565
Less accumulated depreciation	<u>(1,431,376)</u>	<u>(1,223,702)</u>
Net property and equipment	<u>\$ 2,418,693</u>	<u>\$ 1,832,736</u>

Depreciation expense amounted to \$207,674 and \$166,893 for the years ended June 30, 2015 and 2014, respectively.

5. NOTES PAYABLE AND LINE OF CREDIT

Note Payable – Building Purchase

During the year ended June 30, 2008, the School (middle school campus) purchased a building from the Atlanta Public Schools. The School financed the building purchase and cost of improvements with a \$1,300,000 loan. The note bore interest at a fixed rate of 6.41% and required monthly principal and interest installments of \$8,661 based on a 25 year amortization. The loan was secured by the building. The loan was refinanced in June 2014.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

5. NOTES PAYABLE AND LINE OF CREDIT – CONTINUED

Note Payable – Senior Loan

In June 2014, the School refinanced the above note with a \$1,165,000 loan bearing a 5.11% fixed interest rate. On the fifth anniversary of the closing date, the interest rate will be adjusted to the greater of 4.5% or the mid-market semi-annual swap rate for USD swap transactions with a 2 year maturity plus 3.35%. The note requires monthly principal and interest installments based on a 20 year amortization with a final payment of all unpaid principal and interest due on its July 2021 maturity date. The loan is subject to a prepayment premium. The outstanding balance at June 30, 2015 and 2014 was \$1,135,425 and \$1,165,000, respectively.

Note Payable – Junior Loan

In June 2014, the School also entered into a \$310,000 note payable to finance property improvements. This note was subordinate to the Senior Loan described above. The note bore interest of 3.85% per annum and required monthly installments of principal and interest based on a 20 year amortization with a final payment of all unpaid principal and interest due on its July 2021 maturity date. The outstanding balance at June 30, 2014 was \$310,000. The loan was paid off in September 2014.

Reserve Accounts

The Senior and Junior loans require that the School maintain a minimum balance of \$225,000 in the account providing additional collateral for the loans. The balance in the reserve account was \$227,496 and \$226,219 at June 30, 2015 and 2014, respectively.

The Senior and Junior loans also require the School to maintain a Capital Asset Account. All proceeds from the Junior loan (\$310,000) were required to be deposited into the account. Disbursements for property improvements shall be authorized by the lender. In addition, the School is required to make \$966 monthly deposits into the account to serve as an asset renewal reserve. Costs and expenses for asset replacement and renovation during the term of the loan require lender approval. The balance in the account was \$11,913 and \$310,000 at June 30, 2015 and 2014, respectively. When the Junior loan was repaid in July 2014, the \$310,000 Junior loan deposit was refunded.

The Senior loan is secured by the building and improvements and requires minimum liquidity and debt service coverage ratio as described in the loan documents. At June 30, 2015 and 2014 the School was in compliance with these covenants.

**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

5. NOTES PAYABLE AND LINE OF CREDIT – CONTINUED

Future maturities of the note payable are as follows:

Year ending June 30:		
2016	\$	36,579
2017		38,657
2018		40,679
2019		42,807
2020		44,856
Thereafter		931,847
		<u>\$ 1,135,425</u>

Total interest expense on all debt for the years ended June 30, 2015 and 2014 amounted to approximately \$60,000 and \$76,000, respectively

6. LOAN CLOSING COSTS

Loan closing costs consist of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Gross Carrying Amount	\$ 14,889	\$ 14,889
Accumulated Amortization	(2,127)	-
	<u>\$ 12,762</u>	<u>\$ 14,889</u>

Amortization expense amounted to \$2,127 and \$5,476 for the years ended June 30, 2015 and 2014, respectively.

7. OTHER INCOME

In August 2012 Atlanta Neighborhood Charter School and several other charter school boards filed a petition against the Atlanta Public Schools (APS), its board members and superintendent alleging that the manner in which APS is calculating funding for charter schools is in violation of state law and will result in the charter schools being underfunded. The dispute related to APS's allocation of a substantial unfunded pension liability. In December 2012 the petition was granted. APS filed an appeal with the Supreme Court of Georgia. The issues were briefed and oral argument was had in June 2013. On September 23, 2013 the Supreme Court of Georgia issued an opinion in favor of the charter schools.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

7. OTHER INCOME – CONTINUED

During the year ended June 30, 2014 the School received \$415,169 from APS that was previously withheld from the School's APS funding for the year ended June 30, 2013. This amount is included in other income on the accompanying Statement of Activities for the year ended June 30, 2014.

8. COMMITMENTS AND CONTINGENCIES

Operating Lease – Facility

The School (elementary campus) leases its building from the Atlanta Public Schools. The lease extends through August 31, 2016 unless the School loses its charter or Atlanta Public Schools needs the property in which case the lease requires sixty days' notice to be given. The School is not responsible for payment of any rent, however, is responsible for maintaining and repairing the property.

Operating Leases – Equipment

The School leases office equipment and a modular building unit under non-cancelable operating leases. Rent expense for the years ended June 30, 2015 and 2014 amounted to approximately \$8,000 and \$9,000, respectively. All leases expire in 2016 and the future minimum lease payments for the year ending June 30, 2016 is \$3,005.

Contingencies

The School participated in a mediation session related to a due process complaint involving alleged deficiencies in special education services provided to a student while attending the School. The charter requires that the School indemnify APS for all such claims asserted against APS by the School's students. APS agreed that the student should be provided with \$90,000 of educational services from a private provider and the case was settled and dismissed in June 2015. The School and APS are still discussing what share of the settlement cost each should bear. APS is claiming that the School should pay \$80,000 of the educational expenses plus pay 90% of the legal fees charged to APS by its outside counsel. This would make the total amount due to APS approximately \$100,000. The School continues to negotiate with APS seeking a 50/50 division of the costs. The School has accrued \$100,000 as of June 30, 2015 for this contingent liability.

A federal lawsuit was filed against the School by the mother of a child who was not allowed to return to the School for the spring semester due to a question about her legal residence. A settlement was reached allowing the child to return on a provisional basis while APS investigates and determines the residency issue. As part of the settlement, the School agreed to pay reasonable attorney's fees. The School offered to pay \$2,000, while the attorney in question claimed about \$11,000. The School is awaiting the judge's ruling as to the amount of fees for which the School is liable. The School estimates that the judge will likely award an amount somewhere between the two positions and \$2,000 was accrued at June 30, 2015.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

9. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at June 30, 2015 are available as follows:

For the year ending June 30,

2016	\$ 125,000
2017	125,000
2018	<u>50,000</u>
	<u>\$ 300,000</u>

10. RETIREMENT PLAN

The School participates in the Teachers Retirement System of Georgia (TRS). TRS, a cost-sharing multiple employer defined benefit plan, is administered by the TRS Board of Trustees. Participation is available to all full-time public school employees as defined by the Plan. Participant employees contributed 6% of their annual salary for the years ended June 30, 2015 and 2014. The School contributed 13.15% and 12.28% of each participant's annual salary for the years ended June 30, 2015 and 2014, respectively. Employer contributions totaled approximately \$722,000 and \$521,000 for the years ended June 30, 2015 and 2014, respectively.