

**ATLANTA NEIGHBORHOOD  
CHARTER SCHOOL, INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2014**

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

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## INDEPENDENT AUDITORS' REPORT

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

### **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, 2014 and the related statements of activities 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atlanta Neighborhood Charter School, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited Atlanta Neighborhood Charter School, Inc.'s 2013 financial statements, and our report dated September 26, 2013 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Warren Averett, LLC*

Atlanta, Georgia  
September 29, 2014

**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2014 AND 2013**

<b>ASSETS</b>		
	<b>2014</b>	<b>2013</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 844,592	\$ 538,502
Certificates of deposit	431,301	416,656
Receivable from Atlanta Public Schools-Title 1	71,641	5,441
Grants receivable	162,376	118,253
Prepaid expenses	-	7,357
Total current assets	1,509,910	1,086,209
<b>OTHER ASSETS</b>		
Reserve accounts	536,219	91,250
Loan closing costs, net	14,889	5,476
Property and equipment, net	1,832,736	1,829,906
Total other assets	2,383,844	1,926,632
<b>TOTAL ASSETS</b>	<b>\$ 3,893,754</b>	<b>\$ 3,012,841</b>
<b>LIABILITIES AND NET ASSETS</b>		
	<b>2014</b>	<b>2013</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 686,366	\$ 634,139
Current portion of capital lease obligation	-	849
Current portion of notes payable	34,093	29,089
Total current liabilities	720,459	664,077
<b>LONG TERM LIABILITIES</b>		
Notes payable, net of current portion	1,440,907	1,162,424
Total long term liabilities	1,440,907	1,162,424
<b>TOTAL LIABILITIES</b>	2,161,366	1,826,501
<b>NET ASSETS</b>		
Unrestricted	1,732,388	1,158,390
Temporarily restricted	-	27,950
Total net assets	1,732,388	1,186,340
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,893,754</b>	<b>\$ 3,012,841</b>

See notes to financial statements.

**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2014**  
(with comparative totals for 2013)

	<b>2014</b>			<b>2013</b> <b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>	
<b>PUBLIC SUPPORT AND REVENUE</b>				
Atlanta Public School Funding	\$ 6,606,708	\$ -	\$ 6,606,708	\$ 5,373,905
Contributions	335,854	-	335,854	365,692
Title I funding	105,101	-	105,101	24,455
Government grants	352,128	-	352,128	608,878
Other grants	100,225	-	100,225	-
In kind contributions	8,995	-	8,995	18,364
After school program	245,897	-	245,897	216,747
Student meal income	140,279	-	140,279	151,231
Other program income	148,001	-	148,001	72,575
Other income	486,604	-	486,604	41,835
Net assets released from restrictions	27,950	(27,950)	-	-
<b>TOTAL PUBLIC SUPPORT AND REVENUE</b>	<b>8,557,742</b>	<b>(27,950)</b>	<b>8,529,792</b>	<b>6,873,682</b>
<b>EXPENSES</b>				
Program services				
Instructional expenses	6,109,306	-	6,109,306	5,599,819
Facilities expenses	473,136	-	473,136	441,183
Staff development expenses	112,848	-	112,848	130,555
Educational materials expenses	196,559	-	196,559	222,984
After school program expenses	206,514	-	206,514	201,704
Other program expenses	343,610	-	343,610	217,936
Supporting expenses				
Fundraising expenses	53,310	-	53,310	41,215
General and administrative expenses	488,461	-	488,461	483,179
<b>TOTAL EXPENSES</b>	<b>7,983,744</b>	<b>-</b>	<b>7,983,744</b>	<b>7,338,575</b>
<b>CHANGES IN NET ASSETS</b>	<b>573,998</b>	<b>(27,950)</b>	<b>546,048</b>	<b>(464,893)</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>1,158,390</b>	<b>27,950</b>	<b>1,186,340</b>	<b>1,651,233</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 1,732,388</b>	<b>\$ -</b>	<b>\$ 1,732,388</b>	<b>\$ 1,186,340</b>

See notes to financial statements.

**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 546,048	\$ (464,893)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	172,369	185,363
Income reinvested in certificates of deposit	(14,645)	(641)
Decrease in prepaid expenses	7,357	58,257
Increase in receivables	(110,323)	(76,204)
Decrease in deferred revenue	-	(38,528)
Increase (decrease) in accounts payable and accrued expenses	52,227	(42,333)
Net cash provided by (used in) by operating activities	653,033	(378,979)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(169,723)	(22,393)
Net cash used in investing activities	(169,723)	(22,393)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan closing costs	(14,889)	-
Proceeds from borrowings	310,000	-
Payments into reserve accounts	(444,969)	(550)
Principal payments on note payable	(26,513)	(25,594)
Principal payments on capital lease obligation	(849)	(16,099)
Net cash used in financing activities	(177,220)	(42,243)
<b>NET INCREASE (DECREASE) IN CASH</b>	306,090	(443,615)
<b>CASH AT BEGINNING OF YEAR</b>	538,502	982,117
<b>CASH AT END OF YEAR</b>	\$ 844,592	\$ 538,502
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid during the year	\$ 76,639	\$ 79,112

See notes to financial statements.

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

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**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 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, 2014 and 2013 was 669 and 635 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, 2014 and 2013, the School did not have any permanently 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, 2014 and 2013, the School did not receive any permanently restricted contributions.



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

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**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, 2014 and 2013, totaled \$8,995 and \$18,364, 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. Revenue from reimbursement basis grants is recognized as related expenditures are made.

**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. The School maintains balances with the bank in excess of federally insured limits. Management believes the exposure to loss from such balances to be minimal.

**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, 2014 and 2013, 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, 2014**

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**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 2013, 2012, and 2011 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, 2014 and September 29, 2014, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**3. 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 year ended June 30, 2014 the School expended \$118,200 in total and recorded grant revenue of \$59,100. The remaining balance available on the grant, as of June 30, 2014, was \$201,200.

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

**4. PROPERTY AND EQUIPMENT**

Property and equipment as of June 30, 2014 and 2013, is composed of the following:

	<u>2014</u>	<u>2013</u>
Buildings and building improvements	1,255,143	\$ 1,136,944
Leasehold improvements	1,094,727	1,091,027
Computer equipment and software	167,549	471,556
Library books	125,387	153,249
Other equipment	201,067	217,683
Furniture and fixtures	212,565	212,550
Less accumulated depreciation	<u>(1,223,702)</u>	<u>(1,453,103)</u>
Net property and equipment	<u>\$ 1,832,736</u>	<u>\$ 1,829,906</u>

Depreciation expense amounted to \$166,893 and \$179,885 for the years ended June 30, 2014 and 2013, 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 had an outstanding balance at June 30, 2013 of \$1,191,513 and was refinanced in June 2014.

**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, 2014 was \$1,165,000.

**Note Payable – Junior Loan**

The School also entered into a \$310,000 note payable to finance property improvements. This note is subordinate to the Senior Loan described above. The note bears interest of 3.85% per annum and requires 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.

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

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**5. NOTES PAYABLE AND LINE OF CREDIT– CONTINUED**

**Reserve Accounts**

The original building purchase loan required a debt service reserve account. 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 \$226,219 and \$91,250 at June 30, 2014 and 2013, 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 \$310,000 at June 30, 2014.

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

Future maturities of the notes payable are as follows:

Year ending June 30:	
2015	\$ 34,093
2016	36,735
2017	38,657
2018	40,679
2019	42,807
Thereafter	<u>1,282,029</u>
	<u><u>\$ 1,475,000</u></u>

**Line of Credit**

As of June 30, 2013, the School had a \$450,000 unsecured bank line of credit that bore interest at prime plus 0.5%. The line expired in December 2013 and was not renewed. There was no outstanding balance as of June 30, 2013.

Total interest expense on all debt for the years ended June 30, 2014 and 2013 amounted to approximately \$76,000 and \$78,000, respectively

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

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**6. LOAN CLOSING COSTS**

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

	<u>2014</u>	<u>2013</u>
Gross Carrying Amount	\$ 14,889	\$ 36,289
Accumulated Amortization	-	(30,813)
	<u>\$ 14,889</u>	<u>\$ 5,476</u>

Amortization expense amounted to \$5,476 and \$5,478 for the years ended June 30, 2014 and 2013, 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.

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. LEASE COMMITMENTS**

**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, 2014 and 2013 amounted to approximately \$9,000 and \$24,000, respectively. All leases expire in 2015 and the future minimum lease payments for the year ending June 30, 2015 is \$7,332.

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

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**8. LEASE COMMITMENTS – CONTINUED**

**Capital Lease**

The School also leased computer equipment under a capital lease. The cost (\$279,319) and accumulated amortization (\$278,470) of equipment under capital lease are included in property and equipment in the accompanying financial statements as of June 30, 2013. The lease was paid off in the year ended June 30, 2014 and the equipment was disposed of. Amortization expense is included in depreciation expense on the accompanying statements of activities and cash flows.

**9. RETIREMENT PLAN**

The School participates in the Teachers Retirement System of Georgia. 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, 2014 and 2013. The School contributed 12.28% and 11.41% of each participant's annual salary for the years ended June 30, 2014 and 2013, respectively. Employer contributions totaled approximately \$521,000 and \$460,000 for the years ended June 30, 2014 and 2013, respectively.

**10. RESTRICTIONS ON NET ASSETS**

Temporarily restricted assets consisted of the following as of June 30, 2013.

Capital campaign	\$ 20,000
Music program	1,000
Building improvements	<u>6,950</u>
	<u>\$ 27,950</u>

These restrictions were satisfied during the year ended June 30, 2014.