

**ATLANTA NEIGHBORHOOD  
CHARTER SCHOOL, INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.**  
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**JUNE 30, 2017**

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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, 2017 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 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, 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.

**Report on Summarized Comparative Information**

We have previously audited Atlanta Neighborhood Charter School, Inc.'s 2016 financial statements, and our report dated September 15, 2016 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Warren Averett, LLC*

Atlanta, Georgia  
October 25, 2017

**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2017 AND 2016**

<b>ASSETS</b>		
	<b>2017</b>	<b>2016</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 1,663,437	\$ 715,692
Certificates of deposit	529,677	659,677
Grants receivable	96,815	130,997
Current portion of contributions receivable	140,000	125,000
Prepaid expenses	1,774	750
Total current assets	2,431,703	1,632,116
<b>OTHER ASSETS</b>		
Reserve accounts	229,550	252,539
Contributions receivable, net of current portion	-	50,000
Property and equipment, net	2,654,217	2,471,260
Total other assets	2,883,767	2,773,799
<b>TOTAL ASSETS</b>	<b>\$ 5,315,470</b>	<b>\$ 4,405,915</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ -	\$ 19,940
Accrued payroll and benefits	919,501	899,362
Current portion of notes payable	40,507	38,493
Total current liabilities	960,008	957,795
<b>LONG TERM LIABILITIES</b>		
Notes payable, net of current portion and unamortized loan costs	1,012,011	1,050,948
<b>TOTAL LIABILITIES</b>	1,972,019	2,008,743
<b>NET ASSETS</b>		
Unrestricted	3,066,986	2,071,489
Temporarily restricted	276,465	325,683
Total net assets	3,343,451	2,397,172
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 5,315,470</b>	<b>\$ 4,405,915</b>

See notes to financial statements.

**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
(with comparative totals for 2016)

	<b>2017</b>			<b>2016</b> <b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>	
<b>PUBLIC SUPPORT AND REVENUE</b>				
Atlanta Public School Funding	\$ 9,145,237	\$ -	\$ 9,145,237	\$ 8,496,748
Contributions and grants	371,579	169,000	540,579	364,000
Title I funding	-	-	-	12,622
Title II funding	1,819	-	1,819	36,601
Federal grants	830,792	-	830,792	517,742
Other government grants	106,325	-	106,325	275,462
In kind contributions	3,255	-	3,255	3,600
After school program	277,626	-	277,626	266,152
Student meal income	231,442	-	231,442	203,389
Other program income	273,039	-	273,039	282,848
Other income	6,846	-	6,846	8,896
<b>TOTAL PUBLIC SUPPORT AND REVENUE</b>	<b>11,247,960</b>	<b>169,000</b>	<b>11,416,960</b>	<b>10,468,060</b>
<b>NET ASSETS RELEASED</b>				
<b>FROM RESTRICTIONS</b>				
Satisfaction of Restrictions	218,218	(218,218)	-	-
<b>TOTAL PUBLIC SUPPORT, REVENUE AND NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>11,466,178</b>	<b>(49,218)</b>	<b>11,416,960</b>	<b>10,468,060</b>
<b>EXPENSES</b>				
Program services				
Instructional expenses	6,534,329	-	6,534,329	6,254,366
Facilities expenses	476,198	-	476,198	584,743
Staff development expenses	1,435,333	-	1,435,333	1,200,251
Educational media services	304,480	-	304,480	295,230
After school program expenses	248,741	-	248,741	257,443
Student meal expenses	427,719	-	427,719	374,454
Other program expenses	43,875	-	43,875	43,481
Supporting expenses				
Fundraising expenses	61,484	-	61,484	56,832
General and administrative expenses	938,522	-	938,522	871,071
<b>TOTAL EXPENSES</b>	<b>10,470,681</b>	<b>-</b>	<b>10,470,681</b>	<b>9,937,871</b>
<b>CHANGES IN NET ASSETS</b>	<b>995,497</b>	<b>(49,218)</b>	<b>946,279</b>	<b>530,189</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>2,071,489</b>	<b>325,683</b>	<b>2,397,172</b>	<b>1,866,983</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 3,066,986</b>	<b>\$ 276,465</b>	<b>\$ 3,343,451</b>	<b>\$ 2,397,172</b>

See notes to financial statements.

**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
(with comparative totals for 2016)

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 946,279	\$ 530,189
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	230,837	221,866
Income reinvested in certificates of deposit	-	(22,581)
(Increase) decrease in prepaid expenses	(1,024)	6,474
Decrease in receivables	69,182	112,858
Decrease in accounts payable and accrued expenses	(19,940)	(83,234)
Increase in accrued payroll and benefits	20,139	86,764
Net cash provided by operating activities	<u>1,245,473</u>	<u>852,336</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Redemption of (investment in) certificate of deposit	130,000	(200,000)
Purchase of property and equipment	<u>(411,667)</u>	<u>(272,306)</u>
Net cash used in investing activities	<u>(281,667)</u>	<u>(472,306)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in reserve accounts	22,989	(13,130)
Principal payments on note payable	<u>(39,050)</u>	<u>(35,349)</u>
Net cash used in financing activities	<u>(16,061)</u>	<u>(48,479)</u>
<b>NET INCREASE IN CASH</b>	947,745	331,551
<b>CASH AT BEGINNING OF YEAR</b>	<u>715,692</u>	<u>384,141</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 1,663,437</u>	<u>\$ 715,692</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid during the year	<u>\$ 54,622</u>	<u>\$ 58,324</u>

See notes to financial statements.

**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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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 was renewed for an additional five-year term beginning on July 1, 2016 and expiring on June 30, 2021. 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, 2017 and 2016 was 646 and 655 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, 2017 and 2016, 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, 2017 and 2016, the School did not receive any permanently restricted contributions.



**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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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 services during the years ended June 30, 2017 and 2016, totaled \$3,255 and \$3,600, 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.

**Loan Closing Costs**

Effective June 30, 2017, the Company adopted FASB Accounting Standards Update (ASU) No. 2015-03, *Interest-Imputation Subtopic (835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the consolidated statement of financial position as a direct deduction from the carrying amount of that debt liability. This update was applied retrospectively to the 2016 consolidated statement of financial position presentation.

Loan closing costs are amortized to interest expense on a straight line basis over the life of the loan which approximates the effective interest method.

**Fair Values of Financial Instruments**

At June 30, 2017 and 2016, 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, 2017**

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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 2016, 2015, and 2014 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.

**Reclassifications**

Certain 2016 amounts have been reclassified to conform to the 2017 presentation. The reclassifications do not effect net assets or changes in net assets.

**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, 2017 and October 25, 2017, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**3. PROPERTY AND EQUIPMENT**

Property and equipment as of June 30, 2017 and 2016, is composed of the following:

	<u>2017</u>	<u>2016</u>
Buildings and building improvements	\$ 2,022,297	\$ 1,952,014
Leasehold improvements	1,424,705	1,208,725
Computer equipment and software	398,055	311,618
Library books	161,126	145,054
Other equipment	273,205	257,924
Furniture and fixtures	254,654	247,040
Less accumulated depreciation	<u>(1,879,825)</u>	<u>(1,651,115)</u>
Net property and equipment	<u>\$ 2,654,217</u>	<u>\$ 2,471,260</u>

Depreciation expense amounted to \$228,710 and \$219,739 for the years ended June 30, 2017 and 2016, respectively.

**4. NOTES PAYABLE**

	<u>2017</u>	<u>2016</u>
Note payable	\$ 1,061,026	\$ 1,100,076
Less unamortized loan cost	<u>(8,508)</u>	<u>(10,635)</u>
Note payable net of unamortized loan cost	<u>1,052,518</u>	<u>1,089,441</u>
Less current portion	<u>(40,507)</u>	<u>(38,493)</u>
	<u>\$ 1,012,011</u>	<u>\$ 1,050,948</u>

In June 2014 the School refinanced existing debt 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, 2017 and 2016 was \$1,061,026 and \$1,100,076, respectively.

The loan requires that the School maintain a minimum balance of \$225,000 in a reserve account providing additional collateral for the loan. The balance in the reserve account was \$229,550 and \$228,940 at June 30, 2017 and 2016, respectively.

The 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, 2017 and 2016 the School was in compliance with these covenants.

**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**4. NOTES PAYABLE – CONTINUED**

Future maturities of the note payable are as follows:

Year ending June 30:	
2018	\$ 40,507
2019	42,626
2020	44,856
2021	<u>933,037</u>
	<u>\$ 1,061,026</u>

As described in Note 2, the Company adopted FASB ASU No. 2015-03 which requires the debt issuance cost to be presented as a direct deduction against the related debt. The net unamortized amount of debt issuance cost as of June 30, 2017 and 2016 amounted to \$8,508 and \$10,635, respectively. The unamortized loan cost includes \$14,889 of loan costs at June 30, 2017 and 2016 and accumulated amortization of \$6,381 and \$4,254, respectively. Amortization expense amounted to \$2,127 for 2017 and 2016.

Total interest expense on all debt for the years ended June 30, 2017 and 2016 amounted to approximately \$55,000 and \$58,000, respectively.

**5. COMMITMENTS AND CONTINGENCIES**

**Operating Lease – Facility**

The School (elementary campus) leases its building from the Atlanta Public Schools. The lease extends through August 31, 2021 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, the School is responsible for maintaining and repairing the property.

**Operating Leases – Other**

The School leases a modular building unit and various office equipment under non-cancelable operating leases. Rent expense for the years ended June 30, 2017 and 2016 amounted to approximately \$57,000 and \$8,000. The leases require the following payments for the years ending June 30:

2018	\$ 55,242
2019	36,828
2020	20,532
2021	20,532
	15,399

**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

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**6. RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets at June 30, 2017 and 2016 are available as follows:

	<u>2017</u>	<u>2016</u>
CREATE Teacher Residency program	\$ 261,465	\$ 325,683
Capital Improvements	15,000	-
	<u>\$ 276,465</u>	<u>\$ 325,683</u>

Of this amount \$140,000 is also time restricted in line with the contributions receivable.

**7. RETIREMENT PLAN**

The School participates in the Teachers Retirement System of Georgia (TRS). TRS, a cost-sharing multiple employer defined benefit plan (the 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, 2017 and 2016. The School contributed 14.27% of each participant's annual salary for the years ended June 30, 2017 and 2016, respectively. School contributions totaled approximately \$747,000 and \$737,000 for the years ended June 30, 2017 and 2016, respectively.