

PAVE ACADEMY CHARTER SCHOOL
FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

PAVE ACADEMY CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016

(with comparative financial information as of June 30, 2015)

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,062,098	\$ 1,485,114
Grants and contracts receivable	418,829	174,778
Due from related party	-	79,540
Prepaid expenses and other current assets	86,562	80,771
Total current assets	2,567,489	1,820,203
Other assets:		
Property and equipment, net of accumulated depreciation and amortization of \$379,168 and \$321,672 respectively	124,103	105,088
Restricted cash	76,099	75,985
Total other assets	200,202	181,073
TOTAL ASSETS	\$ 2,767,691	\$ 2,001,276
 LIABILITIES AND UNRESTRICTED NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 293,819	\$ 121,767
Accrued payroll and payroll taxes	282,111	231,172
Due to related party	428,227	-
Refundable advances	-	45,563
Total current liabilities	1,004,157	398,502
Unrestricted net assets	1,763,534	1,602,774
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	\$ 2,767,691	\$ 2,001,276

The accompanying notes are an integral part of the financial statements.

PAVE ACADEMY CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(with summarized comparative financial information for the year ended June 30, 2015)

	<u>2016</u>	<u>2015</u>
Revenue and support:		
State and local per pupil operating revenue	\$ 7,581,258	\$ 6,283,382
Federal grants	486,074	485,185
Federal grants - E-Rate and IDEA	83,413	74,345
State and city grants	39,817	20,657
Contributions and grants	5,098	56,326
Donated services	1,155	15,107
Rental income	77,128	91,872
Interest and other income	<u>2,065</u>	<u>1,111</u>
Total revenue and support	<u>8,276,008</u>	<u>7,027,985</u>
Expenses:		
Program services		
Regular education	6,124,069	5,004,707
Special education	<u>1,166,794</u>	<u>964,912</u>
Total program expenses	7,290,863	5,969,619
Supporting services		
Management and general	824,385	643,390
Fundraising	<u>-</u>	<u>34,459</u>
Total expenses	<u>8,115,248</u>	<u>6,647,468</u>
Changes in unrestricted net assets	160,760	380,517
Unrestricted net assets - beginning of year	1,602,774	1,258,018
Refund of temporarily restricted donation	<u>-</u>	<u>(35,761)</u>
Unrestricted net assets - end of year	<u><u>\$ 1,763,534</u></u>	<u><u>\$ 1,602,774</u></u>

The accompanying notes are an integral part of the financial statements.

PAVE ACADEMY CHARTER SCHOOL
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

(with summarized comparative financial information for the year ended June 30, 2015)

	2016				Total	2015
	Regular Education	Special Education	Total Program Services	Management and General		
Salaries and wages	\$ 2,946,746	\$ 562,609	\$ 3,509,355	\$ 441,121	\$ 3,950,476	\$ 3,607,479
Employee benefits and payroll taxes	658,595	125,057	783,652	98,997	882,649	788,835
Outside services and consulting	259,338	49,244	308,582	38,983	347,565	210,000
Instructional materials	99,698	19,035	118,733	-	118,733	106,166
Professional development	60,376	11,465	71,841	9,076	80,917	199,740
Student meals	335,456	64,047	399,503	-	399,503	373,235
Classroom and office supplies	389,693	74,403	464,096	-	464,096	283,683
Management fee	539,796	102,499	642,295	81,138	723,433	-
Legal	19,411	3,686	23,097	2,918	26,015	30,231
Donated legal services	862	164	1,026	130	1,156	15,107
Auditing and accounting fees	-	-	-	29,650	29,650	18,300
Recruiting and marketing	35,818	6,801	42,619	5,384	48,003	38,930
Insurance	3,995	759	4,754	600	5,354	129,642
Facility expenses	588,275	111,705	699,980	88,426	788,406	582,154
Non-capitalized equipment and technology	33,055	6,277	39,332	4,969	44,301	29,857
Postage, printing and shipping	2,623	498	3,121	395	3,516	9,119
Staff lunches and team building	28,666	5,443	34,109	4,309	38,418	34,512
Telephone and internet	18,432	3,500	21,932	2,771	24,703	51,472
Travel and conference	38,908	7,388	46,296	5,848	52,144	50,984
Depreciation and amortization	42,901	8,146	51,047	6,449	57,496	59,084
Technology	21,233	4,032	25,265	3,191	28,456	26,008
Miscellaneous	192	36	228	30	258	2,930
	<u>\$ 6,124,069</u>	<u>\$ 1,166,794</u>	<u>\$ 7,290,863</u>	<u>\$ 824,385</u>	<u>\$ 8,115,248</u>	<u>\$ 6,647,468</u>

The accompanying notes are an integral part of the financial statements.

PAVE ACADEMY CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(with summarized comparative financial information for the year ended June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in unrestricted net assets	\$ 160,760	\$ 380,517
Adjustments to reconcile changes in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	57,496	59,084
Refund of temporarily restricted donation	-	(35,761)
Changes in certain assets and liabilities:		
(Increase) in grants and contracts receivable	(244,051)	(52,546)
Decrease (Increase) in due from related party	79,540	(79,540)
(Increase) Decrease in prepaid expenses and other current assets	(5,791)	136,107
Increase (Decrease) in accounts payable and accrued expenses	172,052	(68,277)
Increase in accrued payroll and payroll taxes	50,939	220,940
Increase (Decrease) in due to related party	428,227	(1,000)
(Decrease) Increase in refundable advances	(45,563)	27,321
	653,609	586,845
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) in restricted cash	(114)	(114)
Purchase of property and equipment	(76,511)	(71,177)
	(76,625)	(71,291)
NET CASH (USED IN) INVESTING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	576,984	515,554
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	1,485,114	969,560
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,062,098	\$ 1,485,114

The accompanying notes are an integral part of the financial statements.

PAVE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

PAVE Academy Charter School (the "School") is a New York State, not-for-profit educational corporation that was incorporated on January 15, 2008 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 15, 2008 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 School renewed its charter for additional five-year terms expiring June 30, 2018. The School will prepare kindergarten to eighth grade students to thrive in competitive high schools and four year colleges. The School will provide the children of Brooklyn with a rigorous academic program and a school community built on the School's core values of Perseverance, Achievement, Vibrance, and Excellent character (PAVE). Classes commenced in Red Hook, Brooklyn, New York, in August 2008 and the School provided education to approximately 454 students in kindergarten through eighth grade in the 2015-2016 academic year.

The School was approved to enter into a three year contract with the New York City Department of Education commencing with the 2015-2016 school year to operate a pre-kindergarten program. This contract is separate from the School's charter and is administered from the Department of Education's Division of Early Childhood. The pre-kindergarten program provided education to 36 students and is located in a separate, privately-owned facility in Brooklyn, New York.

Transportation Services

The New York City Department of Education provides free transportation directly to some of the School's students. Such costs are not included in these financial statements.

Tax Status

The School is exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(ii). The School is subject to income taxes only on net unrelated business income. The School did not have any unrelated business income for the years ended June 30, 2016 and 2015.

The School's accounting policy provides that a tax expense or benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. The School has no uncertain tax position resulting in an accrual of tax expense or benefit.

IRS Forms 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms filed by the School are no longer subject to examination for the fiscal years ended June 30, 2012, and prior.

PAVE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Basis of Presentation

The School's financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The financial statement presentation follows the requirements of the Financial Accounting Standards Board ("FASB") in its Accounting Standards Codification ("ASC") No. 958-205 which provides guidance for the classification of net assets. The amounts for each of the three classes of net assets are based on the existence or absence of donor-imposed restrictions described as follows:

Unrestricted

Net assets of the School whose use has not been restricted by an outside donor or by law. The unrestricted net assets represent the portion of expendable funds that are available for the support of the operations of the School.

Temporarily Restricted

Net assets of the School whose use has been limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the School. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted

Net assets of the School whose use has been permanently limited by donor-imposed restrictions. Such assets include contributions required to be invested in perpetuity, the income from which is available to support charitable purposes designated by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2016 and 2015.

Revenue and support

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.

PAVE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Revenue and support (Continued)

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.

Cash and Cash Equivalents

The School considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments which potentially subject the School to concentrations of credit risk are cash and cash equivalents. The School places its cash and cash equivalents on deposit in what it believes to be highly credited financial institutions. Cash balances may exceed the FDIC insured levels of \$250,000 per institution at various times during the year. At June 30, 2016 account balances exceeded insured levels by approximately \$1,782,000. The School believes that there is little risk in any losses and has not experienced any losses in such accounts.

Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur.

Property and Equipment

Purchased property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding, whereas the government agency retains legal title to the long lived asset is expensed as incurred. Depreciation and amortization is provided on the straight line method over the estimated useful lives as follows:

Computers and Equipment	3 and 5 years
Furniture and Fixtures	7 years
Software	3 years

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.

Comparative Financial Information

The accompanying statements of activities and statement of functional expenses are presented with summarized comparative information. Such prior year information is not presented by net asset class in the statements of activities or by functional category in the Statement of Functional Expenses. Accordingly, such information should be read in conjunction with the School's 2015 financial statements from which the summarized information was derived.

PAVE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Reclassifications

Certain 2015 accounts have been reclassified to conform to the 2016 financial statement presentation. The reclassifications have no effect on 2015 total assets, liabilities, net assets and change in net assets.

NOTE 2 - 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.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30,

	2016	2015
Computers and Equipment	\$ 347,560	\$ 320,816
Furniture and Fixtures	72,456	22,689
Software	83,255	83,255
	503,271	426,760
Less: Accumulated depreciation and amortization	(379,168)	(321,672)
Total	\$ 124,103	\$ 105,088

Depreciation and amortization expense was \$57,496 and \$59,084 for the years ended June 30, 2016 and 2015, respectively.

NOTE 4 - RELATED PARTY TRANSACTIONS

The School is an affiliate of PAVE Schools, Inc. (“PAVE Schools”) (F/K/A Friends of PAVE Academy Inc.), a New York State not-for-profit corporation. PAVE Schools supported the School through financial, fundraising and facility development efforts. Effective July 1, 2015, PAVE Schools acted as a Charter Management Organization. For the years ended June 30, 2016 and 2015, the School paid on behalf of PAVE Schools for shared expenses in the amount of \$171,213 and \$1,118,578 respectively. The net balance due (to)/from PAVE Schools at June 30, 2016 and 2015, was \$(428,227) and \$79,540, respectively.

During the year ended June 30, 2015, the School refunded PAVE Schools \$35,761 for a 2014 temporarily restricted donation whose purpose will be fulfilled by PAVE Schools.

PAVE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 4 - RELATED PARTY TRANSACTIONS (CONTINUED)

Facility Lease

On March 13, 2014, the School entered into a sub-sublease agreement with PACS 732 Henry LLC (“PACS 732”) (a single member LLC under PAVE Schools Inc., a related party) to occupy a new facility located at 732 Henry Street in Brooklyn, New York. The School pays for all facility expenses, upkeep, and insurance. The sub-sublease agreement will terminate on March 13, 2034. PACS 732’s sublease with Civic Builders, a non-profit charter school developer, expires on March 13, 2113 and it is envisioned that the School will continue to periodically renew its sub-sublease agreement with PACS 732. Rent is payable at \$1 per year, pursuant to the Ultimate Prime Lease that PACS 732 has with Civic Builders and the New York City School Construction Authority. On May 21, 2014, the School paid \$20 to PACS 732 as prepayment of its 20 year lease. The School did not record an amount for donated use of facilities.

Management Agreement

On June 15, 2015, the School entered into a management agreement with PAVE Schools to provide the School with educational management services and designs that expires June 30, 2018. Pursuant to the agreement, which was effective July 1, 2015, PAVE Schools selected and implemented educational programs, coaching and professional development to school-based leadership, manage the School’s business administration and support the Board in all governance issues. As compensation to PAVE Schools for these services, the School paid an annual fee of 10% of the School’s funding provided by the State of New York and the New York City Department of Education. Management fee expense for the years ended June 30, 2016 and 2015 was \$723,433 and \$-0-, respectively.

Lease Agreement-Pre-K Program

On May 18, 2015, PAVE Schools entered into a lease agreement with Bumblebee Child Care for classroom space for the School’s Pre-K program expiring July 31, 2017. The School pays monthly rent to one of PAVE School’s wholly owned subsidiaries equal to the rent under the lease agreement. For the years ended June 30, 2016 and 2015, rent expense was \$65,448 and \$-0-, respectively.

Future minimum lease payments under the preceding lease are as follow,

Year ending June 30, 2017	\$	93,454
2018		8,000
		\$ 101,454

PAVE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(with comparative financial information for June 30, 2015)

NOTE 5 - 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.

NOTE 6 - REVENUE CONCENTRATION

The School receives a substantial portion of its support and revenue 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.

NOTE 7 - FUNCTIONAL ALLOCATION OF EXPENSES

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expense includes those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the School.

NOTE 8 - DONATED SERVICES

Donated services are recognized as contributions in accordance with ASC 958-605, *Contributed Services*, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the School and (c) are measurable. One entity has provided legal services to the School at no charge. The value of these services meets the criteria for recognition in the financial statements and is recorded at fair value. For the years ended June 30, 2016 and 2015, the value of such donated services amounted to \$1,155 and \$15,107, respectively.

The value of these donated goods and services is allocated accordingly between program, management and general services in the accompanying statements of activities and statement of functional expenses.

NOTE 9 - PENSION PLAN

The School maintains a pension plan qualified under Internal Revenue Code 401(k) for the benefit of its eligible employees. Under the plan, the School provided matching contributions of 2% to the plan. The amount charged to operations for fees and matching contributions to this plan amounted to \$48,661 and \$50,934 for the years ended June 30, 2016 and 2015, respectively.

PAVE ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016
(with comparative financial information for June 30, 2015)

NOTE 10 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through September 27, 2016, the date the financial statements were available to be issued.