

PAVE Academy Charter School

Financial Statements

June 30, 2018 and 2017



Independent Auditors' Report

Board of Trustees PAVE Academy Charter School

We have audited the accompanying financial statements of PAVE Academy Charter School (the "School"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 the School as of June 30, 2018 and 2017, 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.

Report on Summarized Comparative Information

We have previously audited the School's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 11, 2017. In our opinion, the summarized comparative statement of functional expenses presented herein for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it was derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP
Harrison, New York
September 24, 2018

PAVE Academy Charter School

Statements of Financial Position

	June 30,	
	<u>2018</u>	<u>2017</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,973,511	\$ 1,397,273
Grants and contracts receivable	288,311	548,879
Prepaid expenses and other current assets	<u>117,644</u>	<u>138,644</u>
Total Current Assets	2,379,466	2,084,796
Property and equipment, net	187,090	142,879
Restricted cash	<u>76,396</u>	<u>76,213</u>
	<u>\$ 2,642,952</u>	<u>\$ 2,303,888</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 307,175	\$ 61,538
Accrued payroll and payroll taxes	289,648	311,872
Due to related party	184,967	205,000
Refundable advances	<u>15,704</u>	<u>21,694</u>
Total Current Liabilities	797,494	600,104
Net assets, unrestricted	<u>1,845,458</u>	<u>1,703,784</u>
	<u>\$ 2,642,952</u>	<u>\$ 2,303,888</u>

See notes to financial statements

PAVE Academy Charter School

Statements of Activities

	Year Ended June 30,	
	<u>2018</u>	<u>2017</u>
REVENUE AND SUPPORT		
State and local per pupil operating revenue	\$ 8,208,241	\$ 8,130,293
Federal grants	593,687	612,256
State grants	42,118	45,046
Contributions and grants	37,188	177,341
Donated services	17,688	46,239
Rental income	34,120	34,890
Interest and other income	787	1,209
Total Revenue and Support	<u>8,933,829</u>	<u>9,047,274</u>
EXPENSES		
Program services		
Regular education	6,507,081	6,850,239
Special education	<u>1,794,786</u>	<u>1,382,319</u>
Total Program Services	8,301,867	8,232,558
Supporting services		
Management and general	<u>490,288</u>	<u>874,466</u>
Total Expenses	<u>8,792,155</u>	<u>9,107,024</u>
Change in Net Assets	141,674	(59,750)
NET ASSETS, UNRESTRICTED		
Beginning of year	<u>1,703,784</u>	<u>1,763,534</u>
End of year	<u>\$ 1,845,458</u>	<u>\$ 1,703,784</u>

See notes to financial statements

PAVE Academy Charter School

Statement of Functional Expenses

Year Ended June 30, 2018

(with summarized totals for the year ended June 30, 2017)

	2018			2017		
	Program Services			Management and General	Total	
	No. of Positions	Regular Education	Special Education	Total	Total	
Personnel services costs						
Administrative staff personnel	7	\$ 418,338	\$ 95,818	\$ 514,156	\$ 257,076	\$ 771,232
Instructional personnel	51	3,059,647	700,792	3,760,439	-	3,760,439
Total salaries and staff	58	3,477,985	796,610	4,274,595	257,076	4,531,671
Fringe benefits and payroll taxes		765,470	252,244	1,017,714	58,933	1,076,647
Retirement		30,294	9,983	40,277	2,333	42,610
Management company fees		583,585	192,308	775,893	44,931	820,824
Legal service		17,404	5,735	23,139	1,340	24,479
Accounting / audit services		21,451	7,069	28,520	1,652	30,172
Other purchased / professional / consulting services		311,993	102,811	414,804	24,021	438,825
Repairs and maintenance		293,328	96,660	389,988	22,584	412,572
Insurance		71,074	23,421	94,495	5,472	99,967
Utilities		72,431	23,868	96,299	5,577	101,876
Supplies / materials		148,351	48,886	197,237	11,422	208,659
Equipment / furnishings		582	192	774	45	819
Staff development		63,320	20,866	84,186	4,875	89,061
Marketing / recruitment		27,402	9,030	36,432	2,110	38,542
Technology		100,115	32,991	133,106	7,708	140,814
Food service		273,419	90,099	363,518	21,051	384,569
Student services		82,399	27,153	109,552	6,343	115,895
Office expense		71,624	23,602	95,226	5,514	100,740
Depreciation and amortization		42,088	13,870	55,958	3,240	59,198
Other		52,766	17,388	70,154	4,061	74,215
Total expenses		<u>\$ 6,507,081</u>	<u>\$ 1,794,786</u>	<u>\$ 8,301,867</u>	<u>\$ 490,288</u>	<u>\$ 8,792,155</u>
						<u>\$ 9,107,024</u>

PAVE Academy Charter School

Statements of Cash Flows

	Year Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 141,674	\$ (59,750)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	59,198	61,052
Changes in operating assets and liabilities		
Grants and contracts receivable	260,568	(130,050)
Prepaid expenses and other current assets	21,000	(52,082)
Accounts payable and accrued expenses	245,637	(232,281)
Accrued payroll and payroll taxes	(22,224)	29,761
Due to related party	(20,033)	(223,227)
Refundable advances	(5,990)	21,694
Net Cash from Operating Activities	679,830	(584,883)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(103,409)	(79,828)
Restricted cash	(183)	(114)
Net Cash from Investing Activities	(103,592)	(79,942)
 Net Change in Cash and Cash Equivalents	576,238	(664,825)
 CASH AND CASH EQUIVALENTS		
Beginning of year	1,397,273	2,062,098
End of year	\$ 1,973,511	\$ 1,397,273

See notes to financial statements

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2018 and 2017

1. Organization and Tax Status

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 Board of regents approved and issued several renewals to the School's charter expiring on June 30, 2023. During March of 2017, the School applied to change their authorizer and transfer its charter from the New York City Department of Education to the State University of New York, ("SUNY"). On October 11, 2017, SUNY approved the transfer of the School's charter effective for the 2017-2018 school year. The School's mission is to prepare kindergarten through eighth grade students to thrive in competitive high schools and four year colleges and 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 483 students in kindergarten through eighth grade in the 2017-2018 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 35 students and is located in a separate, privately-owned facility in Brooklyn, New York. The lease for the privately-owned facility expired July 31, 2017. The School was not given an option to renew the lease and decided to discontinue the pre-kindergarten program because it could not find alternate space.

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.

Except for taxes that may be due for unrelated business income, the School is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state and local income taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly actual results could differ from those estimates.

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2018 and 2017

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

Net Assets Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Unrestricted - consist of resources available for the general support of the School's operations. Unrestricted net assets may be used at the discretion of the School's management and Board of Trustees.

Temporarily Restricted - represent amounts restricted by donors for specific activities of the School or to be used at some future date. The School records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, when restrictions on donor-restricted contributions are met in the same accounting period in which they are received, such amounts are reported as unrestricted net assets.

Permanently Restricted - consist of net assets that are subject to donor imposed restrictions that require the School to maintain them permanently, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. Income and gains earned on endowment fund investments are available to be used in the unrestricted or temporarily restricted net asset classes based upon stipulations by the donors.

The School had no temporarily or permanently restricted net assets at June 30, 2018 and 2017.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances held in bank accounts and highly liquid debt instruments with maturities of three months or less at the time of purchase.

Restricted Cash

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

Property and Equipment

The School follows the practice of capitalizing all expenditures for property and equipment with costs in excess of \$1,000 and a useful life in excess of one year. Leasehold improvements are amortized over the shorter of the term of the lease, inclusive of all renewal periods, which are reasonably assured, or the estimated useful life of the asset ranging from two to three years. Purchased property and equipment are recorded at cost at the date of acquisition.

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2018 and 2017

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

Property and Equipment (continued)

Minor costs of maintenance and repairs are expensed as incurred. All property and equipment purchased with government funding is capitalized, unless the government agency retains legal title to such assets, in which case it is expensed as incurred.

Depreciation and amortization is recognized on the straight line method over the estimated useful lives of such assets as follows:

Computers and equipment	3 and 5 years
Furniture and fixtures	7 years
Software	3 years

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is identified. If the carrying amount for the asset is not recoverable, the asset is written down to its fair value. There were no asset impairments for the years ended June 30, 2018 and 2017.

Refundable Advances

The School records certain government operating revenue as refundable advances until related services are performed, at which time they are recognized as revenue.

Revenue and support

Revenue from the state and local governments resulting from the School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement. Federal and other state and local funds are recorded when expenditures are incurred and billable to the government agency.

Contribution revenue is recognized when a donor makes a gift to the School or a promise to make a gift to the School which 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.

Functional Expense Allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function have been allocated among program and supporting services classifications on the basis of periodic time and expense studies and other basis as determined by management of the School to be appropriate.

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2018 and 2017

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

Accounting for Uncertainty in Income Taxes

The School recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the School had no uncertain tax positions that would require financial statement recognition or disclosure. The School is no longer subject to examinations by the applicable taxing jurisdictions for years prior to June 30, 2015.

Prior Year Summarized Comparative Financial Information

The statement of functional expenses includes prior-year summarized comparative information in total but not by function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's statement of functional expenses for the year ended June 30, 2017, from which the summarized information was derived.

Reclassifications

Certain 2017 accounts have been reclassified to conform to the 2018 financial statement presentation. The reclassifications had no effect on 2017 net assets and change in net assets.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is September 24, 2018.

3. Grants and Contracts Receivable

Grants and contracts receivable consist of federal, state, and city entitlements and grants. The School expects to collect these receivables within one year.

4. Related Party Transactions (not disclosed elsewhere)

The School is an affiliate of PAVE Schools, Inc. ("PAVE Schools"), 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, 2018 and 2017, the School paid PAVE Schools for shared expenses in the amount of \$27,931 and \$46,339. The net balance due to PAVE Schools at June 30, 2018 and 2017 was \$184,967 and \$205,000.

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2018 and 2017

4. Related Party Transactions (not disclosed elsewhere) (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 expired June 30, 2018. The School is in the process of renewing the management agreement. Pursuant to the agreement, 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, 2018 and 2017 was \$820,824 and \$779,355.

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 which expired 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, 2018 and 2017, rent expense was \$8,000 and \$93,454. The School was not offered to renew the lease agreement.

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2018 and 2017

5. Property and Equipment

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

	<u>2018</u>	<u>2017</u>
Computers and Equipment	\$ 493,525	\$ 395,016
Furniture and Fixtures	78,651	78,651
Software	90,358	90,358
Leasehold Improvements	14,175	14,175
Construction in progress	<u>9,800</u>	<u>4,900</u>
	686,509	583,100
Accumulated depreciation and amortization	<u>(499,419)</u>	<u>(440,221)</u>
	<u>\$ 187,090</u>	<u>\$ 142,879</u>

6. Employee Benefit 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 \$42,610 and \$42,209 for the years ended June 30, 2018 and 2017.

7. Concentration of Credit Risk

Financial instruments that potentially subject the School to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation ("FDIC") limit. The School does not believe that a significant risk of loss due to the failure of a financial institution presently exists. As of June 30, 2018 and 2017, approximately \$1,733,000 and \$880,000 of cash was maintained with institutions in excess of FDIC limits.

8. Concentration of Revenue and Support

The School receives a substantial portion of its support and revenue from the New York City Department of Education. For the years ended June 30, 2018 and 2017, the School received approximately 92% and 90% of its total revenue and support from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues, the School's finances could be materially adversely affected.

9. Donated Services

Donated services are recognized as contributions in accordance with U.S. GAAP, if the services create or enhance non-financial assets, require specialized skills, are performed by people with those skills, would otherwise be purchased by the School, and are measurable. One entity has provided legal services to the School at no charge. The value of these services

PAVE Academy Charter School

Notes to Financial Statements
June 30, 2018 and 2017

9. Donated Services (*continued*)

meets the criteria for recognition in the financial statements and is recorded at fair value. For the years ended June 30, 2018 and 2017, the value of such donated services amounted to \$17,688 and \$46,239.

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

10. Contingency

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. 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.



Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Independent Auditors' Report

**Board of Trustees
PAVE Academy Charter School**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of PAVE Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Harrison, New York
September 24, 2018