

**ATLANTA NEIGHBORHOOD
CHARTER SCHOOL, INC.**

FINANCIAL REPORT

JUNE 30, 2019

DRAFT



PRELIMINARY DRAFT REPORT

This is a preliminary draft of the financial statements for the year ended June 30, 2019. We do not express an opinion at this time on the statements mentioned above because they are preliminary drafts and we have not as yet completed all of the auditing procedures which we consider necessary. These preliminary drafts are for review and discussion purposes only and are, therefore, subject to change. We ask that you delete all electronic records and destroy any printed copies when you have finished with them.

Mauldin & Jenkins, LLC

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ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.

FINANCIAL REPORT
JUNE 30, 2019

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INDEPENDENT AUDITOR'S 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, 2019, 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.

Auditor's 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 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 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, 2019, 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 the Atlanta Neighborhood Charter School's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 30, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated [REDACTED] 2019, on our consideration of Atlanta Neighborhood Charter School, Inc.'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 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 internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Atlanta Neighborhood Charter School, Inc.'s internal control over financial reporting and compliance.

Atlanta, Georgia
[REDACTED], 2019

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2019 AND 2018

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Current assets		
Cash	\$ 1,648,004	\$ 1,565,034
Certificates of deposit	548,990	530,828
Grants receivable	87,996	133,560
Current portion of contributions receivable	50,000	50,000
Prepaid expenses	-	6,941
Total current assets	<u>2,334,990</u>	<u>2,286,363</u>
Other assets		
Reserve accounts	238,634	235,874
Contributions receivable, net of current portion	100,000	50,000
Property and equipment, net	2,829,266	2,714,605
Total other assets	<u>3,167,900</u>	<u>3,000,479</u>
Total assets	<u>\$ 5,502,890</u>	<u>\$ 5,286,842</u>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 55,445	\$ 64,790
Accrued payroll and benefits	1,112,918	983,413
Current portion of notes payable	50,270	42,605
Total current liabilities	<u>1,218,633</u>	<u>1,090,808</u>
Long-Term liabilities		
Notes payable, net of current portion and unamortized loan costs	923,543	970,674
Total liabilities	<u>2,142,176</u>	<u>2,061,482</u>
Net assets		
Without donor restrictions	3,163,277	3,067,847
With donor restrictions	197,437	157,513
Total net assets	<u>3,360,714</u>	<u>3,225,360</u>
Total liabilities and net assets	<u>\$ 5,502,890</u>	<u>\$ 5,286,842</u>

See Notes to Financial Statements.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(with comparative totals for 2018)

	2019			2018 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Public support and revenue				
Atlanta Public School funding	\$ 9,837,645	\$ -	\$ 9,837,645	\$ 8,771,446
Contributions and grants	514,672	125,210	639,882	694,543
Title II funding	-	-	-	-
Federal grants	1,153,128	-	1,153,128	767,149
Other government grants	1,425	-	1,425	157,816
In kind contributions	-	-	-	1,500
Student meal income	312,925	-	312,925	234,542
Other program income	537,344	-	537,344	506,655
Other income	33,713	-	33,713	11,304
	<u>12,390,852</u>	<u>125,210</u>	<u>12,516,062</u>	<u>11,144,955</u>
Net assets released from restrictions				
Satisfaction of restrictions	<u>85,286</u>	<u>(85,286)</u>	<u>-</u>	<u>-</u>
Total public support, revenue, and net assets released from restrictions				
	<u>12,476,138</u>	<u>39,924</u>	<u>12,516,062</u>	<u>11,144,955</u>
Expenses				
Program services				
Instructional expenses	5,589,756	-	5,589,756	4,881,914
Facilities expenses	637,200	-	637,200	584,722
Staff development expenses	2,579,871	-	2,579,871	2,615,802
Educational media services	-	-	-	-
After school program expenses	365,273	-	365,273	250,137
Student meal expenses	495,312	-	495,312	432,832
Other program expenses	17,000	-	17,000	23,942
Supporting expenses				
Fundraising expenses	139,520	-	139,520	123,599
General and administrative expenses	2,556,776	-	2,556,776	2,350,098
	<u>12,380,708</u>	<u>-</u>	<u>12,380,708</u>	<u>11,263,046</u>
Change in net assets	95,430	39,924	135,354	(118,091)
Net assets, beginning of year	<u>3,067,847</u>	<u>157,513</u>	<u>3,225,360</u>	<u>3,343,451</u>
Net assets, end of year	<u><u>\$ 3,163,277</u></u>	<u><u>\$ 197,437</u></u>	<u><u>\$ 3,360,714</u></u>	<u><u>\$ 3,225,360</u></u>

See Notes to Financial Statements.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 135,354	\$ (118,091)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	227,907	211,962
Amortization	2,127	2,127
Decrease (increase) in prepaid expenses	6,941	(5,167)
(Increase) decrease in receivables	(4,436)	3,255
(Decrease) increase in accounts payable and accrued expenses	(9,345)	64,790
Increase in accrued payroll and benefits	129,505	63,912
Net cash provided by operating activities	488,053	222,788
CASH FLOWS FROM INVESTING ACTIVITIES		
Redemption of (investment in) certificate of deposit	(18,162)	(1,151)
Purchase of property and equipment	(342,568)	(272,350)
Net cash used in investing activities	(360,730)	(273,501)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in reserve accounts	(2,760)	(6,324)
Principal payments on note payable	(41,593)	(41,366)
Net cash used in financing activities	(44,353)	(47,690)
Net increase (decrease) in cash	82,970	(98,403)
Cash at beginning of year	1,565,034	1,663,437
Cash at end of year	\$ 1,648,004	\$ 1,565,034
SUPPLEMENTAL DISCLOSURES		
Interest paid during the year	\$ 52,079	\$ 52,306

See Notes to Financial Statements.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 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 a 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 all 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, 2019 and 2018 was 614 and 641 students, respectively.

NOTE 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 two classes of net assets: with donor restriction and without donor restriction.

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 net assets with donor restriction if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restriction depending on the nature of the restrictions. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction.

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, 2019 and 2018 totaled \$- and \$3,255, 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, 2019 and 2018, 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

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*.

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. The expenses that are allocated include salaries and benefits which are allocated on the basis of estimates of time and effort.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Accounting Pronouncement

In 2019, the School adopted ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of recourses, and the lack of consistency in the type of information provided about expense and investment return. The School has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented, which did not have an effect on total net assets for the year ended June 30, 2019.

NOTE 3. LIQUIDITY AND AVAILABILITY

The School manages its liquidity by developing annual budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due. Cash needs of the School are expected to be met on a monthly basis from contributions received without donor restriction, Atlanta Public School Funding, grant revenue, and other sources for general expenditures. Financial assets available for general expenditure, that is, without donor or other restriction limiting their use, within one year of the statement of financial position, comprise of the following:

Cash and cash equivalents	\$2,196,994
Grants receivable	<u>\$ 87,996</u>
	\$2,284,990

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2019 and 2018 is composed of the following:

	<u>2019</u>	<u>2018</u>
Buildings and building improvements	\$ 2,022,297	\$ 2,022,297
Leasehold improvements	1,651,783	1,555,741
Computer equipment and software	538,509	473,654
Library books	185,448	172,485
Other equipment	454,007	319,063
Furniture and fixtures	297,396	263,152
Less accumulated depreciation	<u>(2,319,694)</u>	<u>(2,091,787)</u>
Net property and equipment	<u>\$ 2,829,266</u>	<u>\$ 2,714,605</u>

Depreciation expense amounted to \$227,907 and \$211,962 for the years ended June 30, 2019 and 2018, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. NOTES PAYABLE

	2019	2018
Note payable	\$ 978,067	\$ 1,019,660
Less unamortized loan cost	(4,254)	(6,381)
Note payable, net of unamortized loan cost.	973,813	1,013,279
Less current portion	(50,270)	(42,605)
	\$ 923,543	\$ 970,674

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, 2019 and 2018 was \$978,067 and \$1,019,660, 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 \$238,634 and \$235,874 at June 30, 2019 and 2018, 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, 2019 and 2018, the School was in compliance with these covenants.

Future maturities of the note payable are as follows:

Year ending June 30:	
2020	\$ 50,270
2021	53,096
2022	874,701
	\$ 978,067

The net unamortized amount of debt issuance cost as of June 30, 2019 and 2018 amounted to \$4,254 and \$6,381, respectively. The unamortized loan cost includes \$14,889 of loan costs at June 30, 2019 and 2018, and accumulated amortization of \$10,635 and \$8,508, respectively. Amortization expense amounted to \$2,127 for 2019 and 2018.

Total interest expense on all debt for the years ended June 30, 2019 and 2018 amounted to \$52,079 and \$52,306, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 6. 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 Lease - 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, 2019 and 2018 amounted to \$36,828 and \$55,242, respectively. The leases require the following payments for the years ending June 30:

2020	\$ 36,372
2021	<u>34,661</u>
	<u>\$ 71,033</u>

NOTE 7. RESTRICTIONS ON NET ASSETS

Net Assets with donor restriction at June 30, 2019 and 2018 are available as follows and are included in contributions receivable and cash:

	<u>2019</u>	<u>2018</u>
CREATE Teacher Residency program	<u>\$ 197,437</u>	<u>\$ 157,513</u>
	<u>\$ 157,513</u>	<u>\$ 157,513</u>

Of this amount, \$150,000 is also time restricted in line with the contributions receivable, for both the years ended June 30, 2019 and 2018.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended June 30, 2019 and 2018 by incurring expenses or acquiring capital assets satisfying the restricted purposes specified by donors as follows:

	2019	2018
CREATE Teacher Residency program	\$ 85,286	\$ 203,952
Capital improvements	-	15,000
	\$ 85,286	\$ 218,952

NOTE 9. 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, 2019 and 2018. The School contributed 20.90% and 16.81% of each participant's annual salary for the years ended June 30, 2019 and 2018, respectively. School contributions totaled \$1,284,817 and \$966,312 for the years ended June 30, 2019 and 2018, respectively.

NOTE 10. FUNCTIONAL EXPENSES

Expenses for the year ended June 30, 2019 were as follows:

	Program	Management and General	Fundraising	Total
Salary & Benefits	\$ 5,990,645	\$ 2,018,548	\$ 65,000	\$ 8,074,193
Pension	1,284,817	-	-	1,284,817
Payroll Taxes	511,520	-	-	511,520
Professional Fees	244,178	65,351	-	309,529
Advertising	-	-	9,948	9,948
Office	163,137	41,007	-	204,144
Technology	18,729	9,417	-	28,146
Occupancy	445,187	53,173	-	498,360
Travel	86,034	20,607	-	106,641
Conferences, Conventions, Meetings	19,581	-	-	19,581
Insurance	-	45,971	-	45,971
Professional Development	318,475	-	-	318,475
Classroom Expenses	189,524	-	-	189,524
Nutrition Program Expenses	194,075	-	-	194,075
Other	218,510	72,668	64,572	355,750
Depreciation	-	230,034	-	230,034
	\$ 9,684,412	\$ 2,556,776	\$ 139,520	\$ 12,380,708
TOTALS				

NOTES TO FINANCIAL STATEMENTS

NOTE 10. FUNCTIONAL EXPENSES (Continued)

Expenses for the year ended June 30, 2018 were as follows:

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salary & Benefits	\$ 5,562,134	\$ 1,875,711	\$ 65,000	\$ 7,502,845
Pension	966,312	-	-	966,312
Payroll Taxes	455,697	-	-	455,697
Professional Fees	122,085	64,861	-	186,946
Advertising	-	-	15	15
Office	89,864	32,121	-	121,985
Technology	21,617	6,626	-	28,243
Occupancy	405,410	52,738	-	458,148
Travel	32,144	8,899	-	41,043
Conferences, Conventions, Meetings	37,845	-	-	37,845
Insurance	-	40,125	-	40,125
Professional Development	550,207	-	-	550,207
Classroom Expenses	214,670	-	-	214,670
Nutrition Program Expenses	179,260	-	-	179,260
Other	152,104	54,928	58,584	265,616
Depreciation	-	214,089	-	214,089
TOTALS	<u>\$ 8,789,349</u>	<u>\$ 2,350,098</u>	<u>\$ 123,599</u>	<u>\$ 11,263,046</u>

NOTE 11. SUBSEQUENT EVENTS

The School has evaluated subsequent events, through [REDACTED], 2019, the date the financial statements were available to be issued.

SINGLE AUDIT SECTION

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ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

<u>Pass-Through Grantor/Program Title</u>	<u>Date of Service</u>	<u>Grant Award #</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Expenditures</u>
U.S. Department of Education Collaboration and Reflection to Enhance Atlanta Teacher Effectiveness in Mathematics and Science	1/1/15-12/31/19	U411C140133	84.411C	\$ 2,999,203	\$ 639,763
Passed Through Georgia State Univeristy: Collaboration and Reflection to Enhance Atlanta Teacher Effectiveness in Mathematics and Science	10/1/17-9/30/19	SP00013145-01	84.411C	\$ 1,002,627	\$ 513,365
Total 84.411C					<u>1,153,128</u>
TOTAL FEDERAL AWARDS					<u><u>\$ 1,153,128</u></u>

See Accompanying Notes.

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ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Atlanta Neighborhood Charter School, Inc. under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of Atlanta Neighborhood Charter School, Inc., it is not intended and does not represent the financial position, changes in net assets, or cash flows of Atlanta Neighborhood Charter School, Inc.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3. INDIRECT COST RATE

Atlanta Neighborhood Charter School, Inc. has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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**INDEPENDENT AUDITOR'S 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***

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

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 Atlanta Neighborhood Charter School, Inc. (a not-for-profit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Organization's financial statements, and have issued our report thereon dated [REDACTED] 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Atlanta Neighborhood Charter School, Inc.'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Organization'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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Atlanta, Georgia
[REDACTED], 2019

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Atlanta Neighborhood Charter School, Inc.'s (a not-for-profit organization) compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2019. Atlanta Neighborhood Charter School, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Atlanta Neighborhood Charter School, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the uniform guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Atlanta Neighborhood Charter School, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Atlanta Neighborhood Charter School, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Atlanta Neighborhood Charter School, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of Atlanta Neighborhood Charter School, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Atlanta Neighborhood Charter School, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Atlanta Neighborhood Charter School, Inc.'s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Atlanta, Georgia
[REDACTED], 2019

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS:

Consolidated financial statements:

Type of auditors' report issued	<u>Unmodified</u>	
	<u>Yes</u>	<u>No</u>
Internal control over financial reporting:		
Material weaknesses identified?	<u> </u>	<u> X </u>
Significant deficiencies identified not considered to be material weaknesses?	<u> </u>	<u> None reported </u>
Noncompliance material to the financial statements noted?	<u> </u>	<u> X </u>

Federal Awards:

Internal controls over major programs:		
Material weaknesses identified?	<u> </u>	<u> X </u>
Significant deficiencies identified not considered to be material weaknesses?	<u> </u>	<u> None reported </u>
Type of auditors' report issued on compliance for major programs	<u>Unmodified</u>	
Audit findings required to be reported in accordance with the Uniform Guidance	<u>None</u>	

Identification of major programs:

Collaboration and Reflection to Enhance Atlanta Teacher Effectiveness in Mathematics and Science	84.411C	
Dollar threshold used to distinguish between type A and type B programs	\$ 750,000	
	<u>Yes</u>	<u>No</u>
Auditee qualified as low-risk auditee?	<u> X </u>	<u> </u>
Financial statement findings?	<u> </u>	<u> X </u>
Findings and questioned costs for Federal awards?	<u> </u>	<u> X </u>

**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019**

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None reported.

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**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 20198**

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

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

We have audited the financial statements of Atlanta Neighborhood Charter School, Inc. as of and for the year ended June 30, 2019, and have issued our report thereon dated [REDACTED], 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole.

The supplemental statement of net position, statement of activities, balance sheet - governmental funds, statement of revenues, expenditures, and changes in fund balances - governmental funds and related reconciliations and selected notes are presented in accordance with Government Accounting Standards Board pronouncements as required by Atlanta Public Schools and the Georgia Department of Education and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Atlanta, Georgia
[REDACTED], 2019

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.

STATEMENT OF NET POSITION JUNE 30, 2019

Assets

Cash	\$	1,648,004
Certificates of deposit		548,990
Grants receivable		87,996
Contributions receivable		150,000
Prepaid expenses		-
Long Term Assets		
Debt service reserve accounts		238,634
Capital assets (net of accumulated depreciation)		2,829,266
		<hr/>
Total assets		5,502,890

Deferred Outflows of Resources

Related to defined benefit pension plan		2,234,004
		<hr/>

Liabilities

Accounts payable		55,445
Accrued payroll and benefits		1,112,918
Long term liabilities		
Note payable due within one year		50,270
Note payable due in more than one year		927,797
Net pension liability (see Note 5)		8,566,243
		<hr/>
Total liabilities		10,712,673

Deferred Inflows of Resources

Related to defined benefit pension plan		346,343
		<hr/>

Net Position

Net investment in capital assets		2,829,266
With donor restriction		
Restricted for use in future years		197,437
Nonspendable		238,634
Without donor restriction		(6,587,459)
		<hr/>
Total Net Position	\$	(3,322,122)

See Independent Auditor's Report on Supplemental Information.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

		<u>PROGRAM REVENUES</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net Revenues (Expenses) and Changes in Net Positions</u>
GOVERNMENTAL ACTIVITIES				
Instruction	\$ 6,061,408	\$ 537,344	\$ -	\$ (5,524,064)
Support services				
Pupil services	23,234	-	-	(23,234)
Improvement of instructional services	2,475,031	-	1,800,794	(674,237)
Federal grant administration	591,110	-	-	(591,110)
General administration	64,737	-	-	(64,737)
School administration	925,001	-	-	(925,001)
Business administration	152,839	-	-	(152,839)
Maintenance and operation of plant services	898,585	-	-	(898,585)
Other support services	82,134	-	-	(82,134)
Operations of non-instructional services				
Debt service	52,079	-	-	(52,079)
After school services	365,273	-	-	(365,273)
Food services	496,928	312,925	0	(184,003)
	<u>\$ 12,188,359</u>	<u>\$ 850,269</u>	<u>\$ 1,800,794</u>	<u>\$ (9,537,296)</u>
GENERAL REVENUES				
Atlanta Public Schools Board of Education				\$ 9,837,645
Investment earnings				<u>27,354</u>
Total general revenues				<u>9,864,999</u>
CHANGE IN NET POSITION				327,703
NET POSITION - BEGINNING OF YEAR				<u>(3,649,825)</u>
NET POSITION - END OF YEAR				<u>\$ (3,322,122)</u>

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2019

Assets

Cash	\$	1,648,004
Certificates of deposit		548,990
Reserve accounts		238,634
Grants receivable		87,996
Contributions receivable		150,000
		<hr/>
Total assets	\$	<u><u>2,673,624</u></u>

Liabilities and Fund Balance

Liabilities		
Accounts payable	\$	55,445
Accrued payroll and benefits		1,112,918
		<hr/>
Total liabilities		<u>1,168,363</u>
Fund balance		
Nonspendable		238,634
Restricted		197,437
Unassigned		1,069,190
		<hr/>
Total fund balances		<u>1,505,261</u>
		<hr/>
Total liabilities and fund balance	\$	<u><u>2,673,624</u></u>

See Independent Auditor's Report on Supplemental Information.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	1,505,261
Amounts reported for Governmental Activities in the Statement of Net Position are different because:		
Capital assets used in Governmental Activities are not financial resources and, therefore, are not reported as assets in governmental funds		
These assets consist of:		
Buildings and building improvements	2,022,297	
Leasehold improvements	1,651,783	
Computer equipment and software	538,029	
Library books	185,448	
Other equipment	454,007	
Furniture and fixtures	297,396	
Accumulated depreciation	<u>(2,319,694)</u>	
		2,829,266
Some liabilities, including pension obligations, are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Net pension liability		(8,566,243)
Notes payable		(978,067)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds		
These consist of:		
Deferred outflows of resources - pension plan		2,234,004
Deferred inflows of resources - pension plan		<u>(346,343)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u><u>(3,322,122)</u></u>

See Independent Auditor's Report on Supplemental Information.

**ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

REVENUES

Federal funding	\$	1,153,128
State funding		1,425
Contributions		639,882
Student activity fees		537,344
Student meal income		312,925
Other revenue		33,713

Total revenues		2,678,417
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EXPENDITURES

Instruction		6,061,408
Pupil services		23,234
School administration		983,399
Business administration		152,839
General administration		64,737
Federal grant administration		626,282
Improvement of instructional services		2,546,212
Maintenance of operation of plant services		676,423
School nutrition program		516,654
After school program		365,273
Other support services		82,134
Capital outlays:		
Acquisition of capital assets		342,568
Debt service:		
Interest expense		52,079
Principal payments		41,593

Total expenditures		12,534,835
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EXCESS OF EXPENDITURES OVER REVENUES		(9,856,418)
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OTHER FINANCING SOURCES

Transfers from Atlanta Public Schools		9,837,645
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Total other financing sources		9,837,645
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NET CHANGE IN FUND BALANCE		(18,773)
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FUND BALANCE AT BEGINNING OF YEAR		1,524,034
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FUND BALANCE AT END OF YEAR		\$ 1,505,261
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See Independent Auditor's Report on Supplemental Information.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

TOTAL NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	\$	(18,773)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.		
In the current period, these amounts are:		
Capital outlay	\$ 342,568	
Depreciation expense	(227,907)	
Excess of capital outlay over depreciation expense		114,661
Principal debt payments are reported as expenditures in governmental funds		
Principal payments on notes payable		41,593
Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		
Pension expense		190,222
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	327,703

See Independent Auditor's Report on Supplemental Information.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
SELECTED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2018

1. CAPITAL ASSETS

Each class of capital assets is as follows as of and for the year ended June 30, 2019:

	<u>Cost</u>	<u>Depreciation</u>
BUILDINGS AND BUILDING IMPROVEMENTS		
Beginning of year balance	\$ 2,022,297	\$ 300,815
Acquisitions	-	-
Dispositions	-	-
Depreciation expense	-	28,424
	<u> </u>	<u> </u>
End of year balance	<u>\$ 2,022,297</u>	<u>\$ 329,239</u>
LEASEHOLD IMPROVEMENTS		
Beginning of year balance	\$ 1,555,741	\$ 809,609
Acquisitions	96,042	-
Dispositions	-	-
Depreciation expense	-	102,969
	<u> </u>	<u> </u>
End of year balance	<u>\$ 1,651,783</u>	<u>\$ 1,011,578</u>
COMPUTER EQUIPMENT AND SOFTWARE		
Beginning of year balance	\$ 473,654	\$ 327,337
Acquisitions	96,042	-
Dispositions	-	-
Depreciation expense	-	55,903
	<u> </u>	<u> </u>
End of year balance	<u>\$ 538,029</u>	<u>\$ 383,280</u>
LIBRARY BOOKS		
Beginning of year balance	\$ 172,485	\$ 132,337
Acquisitions	12,963	-
Dispositions	-	-
Depreciation expense	-	10,324
	<u> </u>	<u> </u>
End of year balance	<u>\$ 185,448</u>	<u>\$ 142,661</u>

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
SELECTED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

1. CAPITAL ASSETS (Continued)

Each class of capital assets is as follows as of and for the year ended June 30, 2019:

	Cost	Depreciation
OTHER EQUIPMENT		
Beginning of year balance	\$ 319,063	\$ 181,231
Acquisitions	126,446	-
Dispositions	-	-
Depreciation expense	-	11,485
	<u>\$ 545,007</u>	<u>\$ 192,716</u>
End of year balance	<u>\$ 545,007</u>	<u>\$ 192,716</u>
FURNITURE AND FIXTURES		
Beginning of year balance	\$ 254,654	\$ 241,418
Acquisitions	42,742	-
Dispositions	-	-
Depreciation expense	-	18,802
	<u>\$ 297,396</u>	<u>\$ 260,220</u>
End of year balance	<u>\$ 297,396</u>	<u>\$ 260,220</u>

2. LONG TERM LIABILITIES

Long term liabilities are as follows as of and for the year ended June 30, 2019:

Notes payable	
Beginning of year liability	\$ 1,019,660
Additions	-
Reductions	41,593
	<u>\$ 978,067</u>
End of year balance	<u>\$ 978,067</u>
Balance due within one year	<u>\$ 50,270</u>
Amounts due in future years	
Year ending June 30, 2020	\$ 50,270
Year ending June 30, 2021	53,096
Year ending June 30, 2022	874,701
	<u>\$ 978,067</u>
	<u>\$ 978,067</u>

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
SELECTED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

3. RESERVE ACCOUNTS

Beginning of year balance	\$ 235,874
Additions	2,760
Reductions	-
End of year balance	\$ 238,634

4. NET POSITION AND FUND BALANCE ACCOUNTS

Nonspendable funds:	
Reserve accounts	238,634
	\$ 238,634

Restricted net assets at June 30, 2019 are available as follows:

CREATE Teacher Residency program	\$ 197,437
	\$ 197,437

Of this amount, \$150,000 is also time restricted in line with the contributions receivable.

5. RETIREMENT PLAN

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Teachers Retirement System of Georgia (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

All teachers of the Atlanta Public School District (the "District"), as defined in §47-3-60 of the *Official Code of Georgia Annotated* (O.C.G.A.) and certain other support personnel as defined by §47-3-63, are provided a pension through the Teachers Retirement System of Georgia (TRS). TRS, a cost-sharing multiple employer defined benefit pension plan, is administered by the TRS Board of Trustees ("TRS Board"). Title 47 of the O.C.G.A assigns the authority to establish and amend the benefit provisions to the State Legislature. TRS issues a publicly available financial report that can be obtained at www.trsga.com/publications.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
SELECTED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

5. RETIREMENT PLAN (Continued)

Benefits Provided

TRS provides service retirement, disability retirement, and death benefits. Normal retirement benefits are determined as 2% of the average of the employee's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. An employee is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. Ten years of service is required for disability and death benefits eligibility. Disability benefits are based on the employee's creditable service and compensation up to the time of disability. Death benefits equal the amount that would be payable to the employee's beneficiary had the employee retired on the date of death. Death benefits are based on the employee's creditable service and compensation up to the date of death.

Contributions

Per Title 47 of the O.C.G.A., contribution requirements of active employees and participating employers, as actuarially determined, are established and may be amended by the TRS Board. Pursuant to O.C.G.A. §47-3-63, the employer contributions for certain full-time public school support personnel are funded on behalf of the employer by the State of Georgia. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees were required to contribute 6.00% of their annual pay during fiscal year 2018. The School's contractually required contribution rate for the year ended June 30, 2019 was 20.90% of annual School payroll. The School's contributions to TRS were \$1,284,814 for the year ended June 30, 2019.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the School reported a liability for its proportionate share of the net pension liability that reflected a reduction for support provided to the School by the State of Georgia for certain public school support personnel. The amount recognized by the School as its proportionate share of the net pension liability, the related State of Georgia support, and the total portion of the net pension liability that was associated with the School were as follows:

School's proportionate share of the net pension liability	\$ 8,566,243
State of Georgia's proportionate share of the net pension liability associated with the School	-
	-
Total	\$ 8,566,243

The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2017. An expected total pension liability as of June 30, 2018 was determined using standard roll-forward techniques. The School's proportion of the net pension liability was based on contributions to TRS during the fiscal year ended June 30, 2018. At June 30, 2018, the School's proportion was 0.046149% which was an increase (decrease) of (0.000573%) from its proportion measured as of June 30, 2017.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
SELECTED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

5. RETIREMENT PLAN (Continued)

For the year ended June 30, 2019, the School recognized pension expense of \$190,220 and revenue of \$0 for support provided by the State of Georgia for certain support personnel. At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 567,097	\$ 17,655
Changes of assumptions	129,262	-
Net difference between projected and actual earnings on plan investments	-	234,218
Changes in proportion and differences between School contributions and proportionate share of contributions	252,828	94,470
School contributions subsequent to the measurement date	1,284,817	-
Total	\$ 2,234,004	\$ 346,343

School contributions subsequent to the measurement date of \$1,284,817 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:		
2020		\$ 575,828
2021		282,792
2022		(237,883)
2023		(24,003)
2024		6,110
Thereafter		-
		\$ 602,844

Actuarial Assumptions

The total pension liability as of June 30, 2018 was determined by an actuarial valuation as of June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement

Inflation	2.75%	
Salary increases	3.25% to 9.00%	
Investment rate of return	7.50%, net of pension plan investment expense, including inflation	
Postretirement benefit increases	1.5% semi-annually	

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females set back two years for males and set back four years for females.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2014.

ATLANTA NEIGHBORHOOD CHARTER SCHOOL, INC.
SELECTED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019

5. RETIREMENT PLAN (Continued)

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Fixed income	30.00 %	(0.05)
Domestic large equities	39.80	9.00
Domestic mid equities	3.70	12.00
Domestic small equities	1.50	13.50
International developed market equities	19.40	8.00
International emerging market equities	5.60	12.00
Total	<u>100.00 %</u>	

*Rates shown are net of inflation

Discount Rate

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and State of Georgia contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
School's proportionate share of the net pension liability	\$ 14,299,512	\$ 8,566,243	\$ 3,841,737

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5. RETIREMENT PLAN (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS financial report which is publically available at www.trsga.com/publications.

Schedule of Proportionate Share of Net Pension Liability

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
School's proportion of the net pension liability	.0046149%	0.046722%	0.046846%	0.044621%	0.042766%
School's proportionate share of the net pension liability	\$8,566,243	\$8,683,428	\$9,664,852	\$6,793,104	\$5,402,920
State of Georgia' proportionate share of the net pension liability associated with the school	-	-	-	-	-
Total	\$8,566,243	\$8,683,428	\$9,664,852	\$6,793,104	\$5,402,920
School's covered employee payroll					
School's proportionate share of the net pension liability as a percentage of its covered employee payroll	147%	158%	180%	145%	124%
Plan fiduciary net position as a percentage of the total pension liability	80.27%	79.33%	76.06%	81.44%	84.03%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

Changes of Assumptions

In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2010. In 2010, rates of withdrawal, retirement, disability, and mortality were adjusted to more closely reflect actual experience. In 2010, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

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5. RETIREMENT PLAN (Continued)

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the schedule of contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported.

The following actuarial methods and assumptions were used to determine the contractually required contributions for the year ended June 30, 2019 reported in that schedule:

Valuation date	June 30, 2013
Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method	Five-year smoothed market
Inflation rate	3.00%
Salary increases	3.25% to 9.00%, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Postretirement benefit increases	1.5% semi-annually

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