

Financial Statements Together with Report of
Independent Certified Public Accountants

CHILDREN'S AID COLLEGE PREP CHARTER SCHOOL

June 30, 2018 and 2017

CHILDREN'S AID COLLEGE PREP CHARTER SCHOOL

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of
Children's Aid College Prep Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of the Children's Aid College Prep Charter School (the "Charter 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 of material misstatements.

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 Charter School'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 Charter School'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 Charter 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.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 31, 2018, on our consideration of the Children's Aid College Prep Charter 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 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 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 Children's Aid College Prep Charter School's internal control over financial reporting and compliance.

A handwritten signature in dark ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

New York, New York
October 31, 2018

CHILDREN'S AID COLLEGE PREP CHARTER SCHOOL
Statements of Financial Position
As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Notes 2 and 10)	\$ 4,602,160	\$ 3,038,709
Government grants receivable (Notes 2 and 3)	262,527	144,974
Pledges receivable (Notes 2 and 4)	-	100,000
Prepaid expenses and other assets	<u>2,794</u>	<u>2,947</u>
Total current assets	4,867,481	3,286,630
Property and equipment, net (Notes 2 and 5)	<u>246,946</u>	<u>80,214</u>
Total assets	<u><u>\$ 5,114,427</u></u>	<u><u>\$ 3,366,844</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 132,560	\$ 96,077
Accrued payroll and benefits	1,174,182	875,635
Deferred revenue	5,056	5,056
Due to related parties (Notes 8 and 11)	<u>1,377,388</u>	<u>617,966</u>
Total current liabilities	<u>2,689,186</u>	<u>1,594,734</u>
Commitments and contingencies (Note 9)		
NET ASSETS		
Unrestricted	1,975,189	1,572,110
Temporarily restricted (Note 6)	<u>450,052</u>	<u>200,000</u>
Total net assets	<u>2,425,241</u>	<u>1,772,110</u>
Total liabilities and net assets	<u><u>\$ 5,114,427</u></u>	<u><u>\$ 3,366,844</u></u>

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

CHILDREN'S AID COLLEGE PREP CHARTER SCHOOL
Statement of Activities
For the year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUE AND SUPPORT			
Public school district (Notes 2 and 10)			
Resident student enrollment	\$ 7,180,114	\$ -	\$ 7,180,114
Students with disabilities	1,350,956	-	1,350,956
Grants and contracts (Notes 2 and 10)			
State and local	175,855	-	175,855
Federal - Title 1 and IDEA	399,577	-	399,577
Support			
Contributed space	1,636,133	-	1,636,133
Net assets released from restrictions	50,000	(50,000)	-
Other	29,472	-	29,472
Total operating revenue and support	<u>10,822,107</u>	<u>(50,000)</u>	<u>10,772,107</u>
OPERATING EXPENSES			
Program services			
Regular education	9,176,002	-	9,176,002
Special education	851,793	-	851,793
Total program services	<u>10,027,795</u>	<u>-</u>	<u>10,027,795</u>
Supporting services			
Management and general	613,679	-	613,679
Fundraising	11,227	-	11,227
Total supporting services	<u>624,906</u>	<u>-</u>	<u>624,906</u>
Total operating expenses	<u>10,652,701</u>	<u>-</u>	<u>10,652,701</u>
Surplus from school operations	<u>169,406</u>	<u>(50,000)</u>	<u>119,406</u>
OTHER REVENUE			
Contributions (Notes 2 and 11)	105,655	-	105,655
Contributions passed-through Children's Aid Society (Notes 2 and 11)	128,018	300,052	428,070
Total other revenue	<u>233,673</u>	<u>300,052</u>	<u>533,725</u>
Changes in net assets	403,079	250,052	653,131
Net assets - beginning of the year	<u>1,572,110</u>	<u>200,000</u>	<u>1,772,110</u>
Net assets - end of the year	<u>\$ 1,975,189</u>	<u>\$ 450,052</u>	<u>\$ 2,425,241</u>

The accompanying notes are an integral part of this financial statement.

CHILDREN'S AID COLLEGE PREP CHARTER SCHOOL
Statement of Activities
For the year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING REVENUE AND SUPPORT			
Public school district (Notes 2 and 10)			
Resident student enrollment	\$ 5,970,943	\$ -	\$ 5,970,943
Students with disabilities	523,933	-	523,933
Grants and contracts (Notes 2 and 10)			
State and local	65,613	-	65,613
Federal - Title 1 and IDEA	221,869	-	221,869
Support			
Contributed space	800,000	-	800,000
Net assets released from restrictions	50,000	(50,000)	-
Other	22,060	-	22,060
Total operating revenue and support	<u>7,654,418</u>	<u>(50,000)</u>	<u>7,604,418</u>
OPERATING EXPENSES			
Program services			
Regular education	6,497,742	-	6,497,742
Special education	564,578	-	564,578
Total program services	<u>7,062,320</u>	<u>-</u>	<u>7,062,320</u>
Supporting services			
Management and general	491,859	-	491,859
Fundraising	11,276	-	11,276
Total supporting services	<u>503,135</u>	<u>-</u>	<u>503,135</u>
Total operating expenses	<u>7,565,455</u>	<u>-</u>	<u>7,565,455</u>
Surplus from school operations	<u>88,963</u>	<u>(50,000)</u>	<u>38,963</u>
OTHER REVENUE			
Contributions (Notes 2 and 11)	51,487	-	51,487
Contributions passed-through Children's Aid Society (Notes 2 and 11)	152,750	-	152,750
Total other revenue	<u>204,237</u>	<u>-</u>	<u>204,237</u>
Changes in net assets	293,200	(50,000)	243,200
Net assets - beginning of the year	<u>1,278,910</u>	<u>250,000</u>	<u>1,528,910</u>
Net assets - end of the year	<u>\$ 1,572,110</u>	<u>\$ 200,000</u>	<u>\$ 1,772,110</u>

The accompanying notes are an integral part of this financial statement.

CHILDREN'S AID COLLEGE PREP CHARTER SCHOOL
Statement of Functional Expenses
For the year ended June 30, 2018

	Program Services			Supporting Services			
	Regular Education	Special Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2018
Salaries	\$ 4,150,484	\$ 389,321	\$ 4,539,805	\$ -	\$ 8,503	\$ 8,503	\$ 4,548,308
Fringe benefits and payroll taxes	970,832	121,128	1,091,960	-	2,341	2,341	1,094,301
Retirement	40,466	4,657	45,123	-	85	85	45,208
Management company fees - contracted services (Note 11)	820,667	14,618	835,285	592,626	-	592,626	1,427,911
Legal service	-	-	-	358	-	358	358
Accounting/audit services	-	-	-	14,850	-	14,850	14,850
Other purchased/professional/consulting services	236,100	20,536	256,636	-	-	-	256,636
Building and land rent/lease	1,799,657	278,143	2,077,800	-	-	-	2,077,800
Repairs and maintenance	260,231	-	260,231	-	-	-	260,231
Insurance	83,941	-	83,941	-	-	-	83,941
Utilities	82,760	-	82,760	-	-	-	82,760
Supplies/materials	243,132	62	243,194	63	-	63	243,257
Equipment/furnishings	28,467	-	28,467	-	-	-	28,467
Staff development	160,178	8,500	168,678	-	-	-	168,678
Marketing/recruitment	14,298	-	14,298	522	-	522	14,820
Technology	113,270	33	113,303	216	-	216	113,519
Food service	55,178	-	55,178	1,606	-	1,606	56,784
Student services	53,761	-	53,761	-	-	-	53,761
Office expense	13,383	-	13,383	386	-	386	13,769
Depreciation and amortization	48,079	14,795	62,874	-	-	-	62,874
Other	1,118	-	1,118	3,052	298	3,350	4,468
Total expenses	<u>\$ 9,176,002</u>	<u>\$ 851,793</u>	<u>\$ 10,027,795</u>	<u>\$ 613,679</u>	<u>\$ 11,227</u>	<u>\$ 624,906</u>	<u>\$ 10,652,701</u>

The accompanying notes are an integral part of this financial statement.

CHILDREN'S AID COLLEGE PREP CHARTER SCHOOL
Statement of Functional Expenses
For the year ended June 30, 2017

	Program Services			Supporting Services			
	Regular Education	Special Education	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2017
Salaries	\$ 3,254,578	\$ 297,650	\$ 3,552,228	\$ -	\$ 8,563	\$ 8,563	\$ 3,560,791
Fringe benefits and payroll taxes	860,988	96,924	957,912	-	2,193	2,193	960,105
Retirement	29,344	4,763	34,107	-	77	77	34,184
Management company fees - contracted services (Note 11)	593,674	18,484	612,158	454,707	-	454,707	1,066,865
Legal service	-	-	-	13,515	-	13,515	13,515
Accounting/audit services	-	-	-	18,003	-	18,003	18,003
Other purchased/professional/consulting services	130,758	407	131,165	-	-	-	131,165
Building and land rent/lease	864,004	136,000	1,000,004	-	-	-	1,000,004
Repairs and maintenance	109,098	-	109,098	-	-	-	109,098
Insurance	61,695	-	61,695	-	-	-	61,695
Utilities	31,546	-	31,546	349	-	349	31,895
Supplies/materials	253,946	-	253,946	1,181	-	1,181	255,127
Equipment/furnishings	18,963	-	18,963	-	-	-	18,963
Staff development	88,906	-	88,906	510	-	510	89,416
Marketing/recruitment	9,349	-	9,349	-	-	-	9,349
Technology	32,708	-	32,708	272	-	272	32,980
Food service	59,932	-	59,932	1,713	-	1,713	61,645
Student services	34,784	-	34,784	600	-	600	35,384
Office expense	8,569	-	8,569	445	-	445	9,014
Depreciation and amortization	48,648	-	48,648	-	-	-	48,648
Other	6,252	10,350	16,602	564	443	1,007	17,609
Total expenses	\$ 6,497,742	\$ 564,578	\$ 7,062,320	\$ 491,859	\$ 11,276	\$ 503,135	\$ 7,565,455

The accompanying notes are an integral part of this financial statement.

CHILDREN'S AID COLLEGE PREP CHARTER SCHOOL
Statements of Cash Flows
For the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 653,131	\$ 243,200
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	62,874	48,648
Changes in operating assets and liabilities		
(Increase) decrease in assets		
Government grants receivable	(117,553)	36,925
Pledges receivable	100,000	100,000
Prepaid expenses and other assets	153	275
Increase in liabilities		
Accounts payable and accrued expenses	36,483	8,835
Accrued payroll and benefits	298,547	312,707
Due to related parties	759,422	409,152
Deferred revenue	<u>-</u>	<u>2,623</u>
Net cash provided by operating activities	<u>1,793,057</u>	<u>1,162,365</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(229,606)</u>	<u>(27,976)</u>
Net cash used in investing activities	<u>(229,606)</u>	<u>(27,976)</u>
Net increase in cash and cash equivalents	<u>1,563,451</u>	<u>1,134,389</u>
Cash and cash equivalents, beginning of the year	<u>3,038,709</u>	<u>1,904,320</u>
Cash and cash equivalents, end of the year	<u>\$ 4,602,160</u>	<u>\$ 3,038,709</u>

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

CHILDREN'S AID COLLEGE PREP CHARTER SCHOOL

Notes to Financial Statements

June 30, 2018 and 2017

1. DESCRIPTION OF THE ORGANIZATION

Children's Aid College Prep Charter School (the "Charter School") is an educational corporation formed to operate a charter school located in the City of New York, County of the Bronx. On September 13, 2011, the Board of Regents of the University of the State of New York, for and on behalf of the State Education Department, granted a provisional charter ("Charter Agreement"), incorporating the Charter School. This agreement was renewed on May 24, 2017 and is valid until July 31, 2022.

The Charter School's mission is to ensure that children achieve academic success by providing them with the best instructional practices, advancing their physical, emotional, and social needs, fostering a sense of pride and hope, and serving as a safe and engaging community hub. The Charter School serves over 300 scholars, including students enrolled in kindergarten through sixth-grade and prioritizes students who are English language learners, at-risk of academic failure and/or currently involved in the child welfare system. The Charter School is exempt from federal income tax under Section 501(a) of the Internal Revenue Code and is classified as an organization described in Section 501(c)(3).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis and conform to accounting principles generally accepted in the United States of America ("US GAAP"), as applicable to not-for-profit organizations. In the statement of financial position, assets are presented in order of liquidity or conversion to cash and liabilities are presented according to their maturity resulting in the use of cash.

Financial Statement Presentation

The classification of the Charter School's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets (permanently restricted, temporarily restricted and unrestricted) be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

The classes of net assets are defined as follows:

Unrestricted - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations and/or the net assets which the Board of Trustees has to use in carrying on the operations the Charter School.

Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations.

Permanently Restricted - Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. There were no permanently restricted net assets as of June 30, 2018 and 2017.

CHILDREN'S AID COLLEGE PREP CHARTER SCHOOL

Notes to Financial Statements

June 30, 2018 and 2017

Cash and Cash Equivalents

Cash equivalents include all highly liquid instruments purchased with original maturities of 90 days or less.

Contributions/Pledges Receivable

Contributions and bequests received are recorded at fair value as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor-imposed restrictions, and are recognized in the period received.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Conditional promises to give are not included as support until such time as the conditions on which they depend are substantially met.

Government Support

Revenue from state and local governments resulting from the Charter School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the Charter Agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable.

Allowance for Uncollectible Receivables

An allowance is recorded based on prior years' collection experience and management's analysis and evaluation of specific promises received. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. The Charter School determined that no allowance for doubtful accounts was necessary as of June 30, 2018 and 2017. This estimate is based on management's assessment of the aged basis of its government funding sources, current economic conditions and creditworthiness of its donors and grantors.

Property and Equipment

The Charter School capitalizes expenditures for buildings and building improvements, furniture and equipment having a cost of \$5,000 or more and with useful lives greater than one year. Depreciation is recognized using the straight-line method over the estimated useful lives of the respective assets. Amortization of leasehold improvements is charged at the lesser of the life of the improvements or the term of the lease to which the betterments pertain.

The range of estimated useful lives follows:

Furniture and equipment	5 -10 years
Leasehold improvements	Lesser of life of lease or economic life

CHILDREN'S AID COLLEGE PREP CHARTER SCHOOL
Notes to Financial Statements
June 30, 2018 and 2017

Impairment of Long-Lived Assets to be Disposed of

ASC 360-10, "Accounting for the Impairment or Disposal of Long-Lived Assets," provides a single accounting model for long-lived assets to be disposed of. Accounting Standards Codification ("ASC") 360-10 also changes the criteria for classifying an asset as held for sale, and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations.

In accordance with ASC 360-10, long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the statement of financial position. There were no impairment charges for the years ended June 30, 2018 and 2017.

Revenue Recognition

The Charter School reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase to unrestricted net assets. Unconditional promises to give with payments due in future years are presumed to be time restricted by the donor until received and are reported as part of temporarily restricted net assets.

The Charter School recognizes gifts of land, buildings and equipment at fair value on the date of gift. Gifts of land, buildings and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long such long-lived assets must be maintained, the Charter School reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

During the years ended June 30, 2018 and 2017, the Charter School received contributed supplies of \$17,719 and \$20,687, respectively.

The Charter School also receives grants from foundations in exchange for the performance of various services. The Charter School recognizes grants as temporarily restricted revenue when they are committed and releases such amounts into unrestricted net assets as related grant expenses are incurred to a maximum of the grant award.

CHILDREN'S AID COLLEGE PREP CHARTER SCHOOL

Notes to Financial Statements

June 30, 2018 and 2017

The Charter School recognizes revenue from donor list rentals, conference fees and rental income, when earned.

Measure of Operations

The Charter School includes in its definition of operations all revenues and expenses that are an integral part of its programs and supporting activities, except for contributions.

Donated Services

The fair value of voluntary donated services are reported in the financial statements if those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would typically be purchased if not otherwise provided by donation.

Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited based time and effort.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues, expenses and disclosures in the financial statements. Actual results could differ from those estimates.

Income Taxes

The Charter School follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The Charter School is exempt from federal income tax under Internal Revenue Code ("Code") section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Charter School has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The Charter School has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements for the year ended June 30, 2018.

New Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain

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Notes to Financial Statements
June 30, 2018 and 2017

contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers: Deferral of the Effective Date," which deferred the effective date of ASU 2014-09 by one year. The guidance is effective for the interim and annual periods on or after December 15, 2018 (early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period). The guidance permits the use of either a retrospective or cumulative effect transition method. The Charter School is currently evaluating this new guidance and has not determined the impact this standard may have on its financial statements nor decided upon the method of adoption.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires entities that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statements of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for the Charter School for fiscal year 2021. Early adoption is permitted. The Charter School is in the process of evaluating the impact this standard will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial Statement of Not-for-Profit Entities." The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions the Charter School is in the process of evaluating the impact this standard will have on its financial statements.

Reclassifications

Certain reclassifications were made to the 2017 financial statements to conform to the 2018 presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as previously reflected in the 2017 financial statements.

3. GOVERNMENT GRANTS RECEIVABLE

Grants and contract receivables consist of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Due from the City of New York	\$ 8,619	\$ 9,015
Due from Federal sources	<u>253,908</u>	<u>135,959</u>
	<u>\$ 262,527</u>	<u>\$ 144,974</u>

CHILDREN'S AID COLLEGE PREP CHARTER SCHOOL
Notes to Financial Statements
June 30, 2018 and 2017

4. PLEDGES RECEIVABLE

There are no pledges receivable at June 30, 2018. Pledges receivable as of June 30, 2017 in the amount of \$100,000 was collected during fiscal year 2018.

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consists of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 511,843	\$ 282,237
Leasehold improvements	<u>57,569</u>	<u>57,569</u>
	569,412	339,806
Less: accumulated depreciation and amortization	<u>(322,466)</u>	<u>(259,592)</u>
	<u>\$ 246,946</u>	<u>\$ 80,214</u>

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 amounted to \$62,874 and \$48,648, respectively.

6. TEMPORARILY RESTRICTED NET ASSETS

The Charter School's temporarily restricted net assets as of June 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Life Coaching	\$ 150,000	\$ 200,000
Middle School Expansion	<u>300,052</u>	<u>-</u>
	<u>\$ 450,052</u>	<u>\$ 200,000</u>

Temporarily restricted net assets released as of June 30, 2018 and 2017, respectively were \$50,000 for the Life Coaching program.

7. RETIREMENT PLAN

Effective August 1, 2014, the Charter School sponsors a defined contribution retirement plan covering eligible employees. Pursuant to the plan, all employees can contribute up to the maximum allowed by law, and for eligible employees, the Charter School may make matching contributions equal to a discretionary percentage, to be determined by the Charter School. Eligible employees are all employees who have attained the age of at least 21 years of age, continuously employed for at least one full year and working a schedule of at least 1,000 hours per year. Employees become fully vested in the Charter School's

CHILDREN'S AID COLLEGE PREP CHARTER SCHOOL

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contributions to the plan on their behalf upon three years of service. Total retirement plan expense for the years ended June 30, 2018 and 2017, amounted to \$45,207 and \$34,184, respectively.

8. SCHOOL FACILITY

In fiscal 2018, the Charter School operated in three Bronx locations: Our Savior Lutheran School; 1232 Southern Boulevard; and a site provided by the City of New York Department of Education ("DOE") at 191 Prospect Avenue. In September and October 2017, certain grades operated at Our Savior Lutheran School in a lease held by the Children's Aid Society ("Children's Aid"). The Charter School paid a portion of the lease costs through October 31, 2017.

Beginning October 15, 2017, the Charter School leased approximately 35,000 square feet from 1232 Southern Boulevard LLC, which is a consolidating entity of Children's Aid. The building was put into service on October 9, 2017 and rental payments from the Charter School to Children's Aid commenced on October 15, 2017. The facilities and services provided by 1232 Southern Boulevard LLC to the Charter School are outlined in a Facility Use Agreement. The Charter School recognized the difference between the rental payment and market-rate rent, totaling \$1,276,133, and recognized it as a component of contributed services revenue and allocated the related contributed services expense amongst the functional expense categories benefitted in its 2018 statements of activities and functional expenses.

As part of the New York City Chancellor's Charter School Initiative, the DOE committed space to the Charter School at no charge. The facilities and services provided by the DOE to the Charter School are outlined in a Shared Facility Use Agreement. During fiscal 2018 and 2017, the Charter School quantified and recognized the fair value of the contributed space it receives for its instructional purposes, totaling \$360,000 and \$800,000, respectively, and recognized it as a component of contributed services revenue and allocated the related expense amongst the functional expense categories benefitted in its statements of activities and functional expenses.

9. COMMITMENTS AND CONTINGENCIES

The Charter School is obligated under several operating leases for rentals of office space and equipment that expire at various dates through 2022. The minimum annual rental payments under noncancellable operating leases are as follows:

June 30,	
2019	\$ 12,970
2020	4,053
2021	3,373
2022	562
	<u>\$ 20,958</u>

Rental expense under the operating leases described above for the years ended June 30, 2018 and 2017 totaled approximately \$442,000 and \$200,000, respectively.

CHILDREN'S AID COLLEGE PREP CHARTER SCHOOL

Notes to Financial Statements

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Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowances of certain costs previously submitted for reimbursement by the Charter School. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying financial statements.

10. CONCENTRATIONS

The Charter School receives a majority of its revenues from the New York State Education Department through the State University of New York Office of Charter Schools. The DOE provides general operating support to the Charter School based upon the location and the number of students enrolled. For the years ended June 30, 2018 and 2017, such operating support provided to the Charter School by the DOE totaled \$8,531,070 and \$6,494,876, respectively. The Charter School is dependent upon this level of funding in order to continue its operations.

Cash accounts that potentially subject the Charter School to a concentration of credit risk include cash accounts with banks that exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits. Cash accounts are insured up to \$250,000 per depositor. As of June 30, 2018 and 2017, there was approximately \$4,352,000 and \$2,789,000, respectively, of cash and cash equivalents held by a bank that exceeded FDIC limits.

11. RELATED-PARTY TRANSACTIONS

The Charter School and Children's Aid, a not-for-profit organization, are related through certain Board commonality. Children's Aid provides administrative support services and other enrichment programs and services to the students of the Charter School ("wrap-around services") under an agreement between the two entities. The Charter School pays an administrative fee equal to 10.6% of total operating expenses, excluding rent and depreciation, to Children's Aid for the administrative services, which amounted to \$592,626 and \$454,707 for the years ended June 30, 2018 and 2017, respectively. In addition, the Charter School was charged a fee for wrap-around and other services totaling to \$835,285 and \$612,158 for the years ended June 30, 2018 and 2017, respectively.

Children's Aid routinely receives contributions from private donors that are earmarked for the Charter School. These contributions are recorded as contribution revenue passed through by Children's Aid to the Charter School. The Charter School received \$428,070 and \$152,750 of contributions passed through from Children's Aid for the years ended June 30, 2018 and 2017, respectively. The Charter School is indebted to Children's Aid \$863,988 and \$617,966 as of June 30, 2018 and 2017, respectively.

The Charter School and 1232 Southern Blvd, LLC ("1232 LLC"), a limited liability company, are related through affiliation of Children's Aid, the sole member of 1232 LLC. The Charter School is indebted to 1232 LLC \$513,400 and \$0 as of June 30, 2018 and 2017, respectively.

12. SUBSEQUENT EVENTS

Management has performed subsequent events procedures through October 31, 2018, which is the date the financial statements were available to be issued and there were no subsequent events requiring adjustment to the financial statements or disclosures.

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees of
Children's Aid College Prep Charter School

We have audited, 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, the financial statements of the Children's Aid College Prep Charter School (the "Charter School"), which comprise the statement of financial position as of June 30, 2018 and 2017 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2018.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the Charter School's internal control over financial reporting ("internal control") to design 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 internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter 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 Charter School'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 the Charter School's 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 Charter 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*.

Intended purpose

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 Charter 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 Charter School's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

New York, New York
October 31, 2018