

**GRAND CONCOURSE ACADEMY CHARTER SCHOOL**

**FINANCIAL STATEMENTS**

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

GRAND CONCOURSE ACADEMY CHARTER SCHOOL

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YEAR ENDED JUNE 30, 2017

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Grand Concourse Academy Charter School

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Grand Concourse Academy Charter School, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in unrestricted net assets, functional expenses, 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.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grand Concourse Academy Charter School as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matter***

The financial statements of Grand Concourse Academy Charter School, as of and for the year ended June 30, 2016, were audited by other auditors whose report dated October 18, 2016 expressed an unmodified opinion on those statements. The summarized comparative information presented herein, as of and for the year ended June 30, 2016, was derived from those audited financial statements.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2017 on our consideration of Grand Concourse Academy Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Grand Concourse Academy Charter School's internal control over financial reporting and compliance.

*Berdon LLP*  
Certified Public Accountants

New York, New York  
November 17, 2017

## GRAND CONCOURSE ACADEMY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2017  
(WITH COMPARATIVE TOTALS FOR 2016)

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,083,702	\$ 3,599,414
Grants receivable	509,856	437,082
Other receivable	54,369	86,715
Prepaid expenses	<u>102,317</u>	<u>38,354</u>
TOTAL CURRENT ASSETS	4,750,244	4,161,565
PROPERTY, PLANT AND EQUIPMENT - NET	411,433	293,021
OTHER ASSETS:		
Restricted cash	2,000,000	-
Security deposits	<u>121,000</u>	<u>121,000</u>
TOTAL ASSETS	<u>\$ 7,282,677</u>	<u>\$ 4,575,586</u>
<b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 48,302	\$ 70,618
Accrued salaries and payroll-related expenses	547,470	655,533
Deferred rent	20,905	19,515
Deferred revenue	<u>10,179</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	<u>626,856</u>	<u>745,666</u>
COMMITMENT AND CONTINGENCIES		
NET ASSETS - UNRESTRICTED:		
Undesignated	<u>6,655,821</u>	<u>3,829,920</u>
TOTAL NET ASSETS - UNRESTRICTED	<u>6,655,821</u>	<u>3,829,920</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u>\$ 7,282,677</u>	<u>\$ 4,575,586</u>

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

## GRAND CONCOURSE ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2017  
 (WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	<u>2017</u>	<u>2016</u> (SUMMARIZED)
OPERATING REVENUE AND OTHER SUPPORT:		
State and local per pupil operating revenue:		
General education	\$ 7,662,754	\$ 6,924,595
Special education	675,893	638,902
Facility lease assistance	<u>299,364</u>	<u>124,164</u>
Total state and local per pupil operating revenue	<u>8,638,011</u>	<u>7,687,661</u>
Grants, contracts and other support:		
State and local grants	278,637	145,728
Federal grants	414,156	374,051
Interest and other income	8,516	11,426
Contributions	<u>602</u>	<u>1,276</u>
Total grants, contracts and other support	<u>701,911</u>	<u>532,481</u>
TOTAL OPERATING REVENUE AND OTHER SUPPORT	<u>9,339,922</u>	<u>8,220,142</u>
EXPENSES:		
Program expenses:		
Regular education	4,182,352	4,149,748
Special education	<u>1,239,655</u>	<u>1,225,441</u>
Total program expenses	<u>5,422,007</u>	<u>5,375,189</u>
Supporting services:		
Management and general	1,085,014	1,173,199
Fund-raising	<u>7,000</u>	<u>4,682</u>
Total supporting services	<u>1,092,014</u>	<u>1,177,881</u>
TOTAL EXPENSES	<u>6,514,021</u>	<u>6,553,070</u>
INCREASE IN UNRESTRICTED NET ASSETS	2,825,901	1,667,072
NET ASSETS - UNRESTRICTED - BEGINNING OF YEAR	<u>3,829,920</u>	<u>2,162,848</u>
NET ASSETS - UNRESTRICTED - END OF YEAR	<u>\$ 6,655,821</u>	<u>\$ 3,829,920</u>

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

**GRAND CONCOURSE ACADEMY CHARTER SCHOOL**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>PROGRAMS</u>			<u>SUPPORTING SERVICES</u>				
	<u>REGULAR</u>	<u>SPECIAL</u>	<u>TOTAL</u>	<u>MANAGEMENT</u>	<u>FUND-RAISING</u>	<u>TOTAL</u>	<u>TOTAL -</u>	<u>TOTAL -</u>
	<u>EDUCATION</u>	<u>EDUCATION</u>	<u>PROGRAMS</u>	<u>AND GENERAL</u>		<u>SUPPORTING</u>	<u>2017</u>	<u>2016</u>
						<u>SERVICES</u>		<u>(SUMMARIZED)</u>
PERSONNEL EXPENSES:								
Administrative staff personnel	\$ 367,654	\$ 44,090	\$ 411,744	\$ 384,205	\$ -	\$ 384,205	\$ 795,949	\$ 751,851
Instructional personnel	2,020,355	686,835	2,707,190	-	-	-	2,707,190	2,715,214
Noninstructional personnel	-	-	-	157,234	-	157,234	157,234	167,272
TOTAL PERSONNEL EXPENSES	<u>2,388,009</u>	<u>730,925</u>	<u>3,118,934</u>	<u>541,439</u>	<u>-</u>	<u>541,439</u>	<u>3,660,373</u>	<u>3,634,337</u>
OPERATING EXPENSES:								
Payroll taxes and fringe benefits	586,412	179,490	765,902	132,958	-	132,958	898,860	850,874
Retirement	80,462	24,628	105,090	18,243	-	18,243	123,333	103,714
Professional and consulting services	-	4,650	4,650	181,712	-	181,712	186,362	320,403
Occupancy	485,675	148,657	634,332	110,118	-	110,118	744,450	817,526
Repairs and maintenance	64,850	19,849	84,699	14,704	-	14,704	99,403	104,740
Insurance	45,517	13,932	59,449	10,320	-	10,320	69,769	56,702
Utilities	63,486	19,432	82,918	14,394	-	14,394	97,312	93,242
Supplies and materials	125,784	15,085	140,869	-	-	-	140,869	185,407
Equipment and furnishings	2,555	782	3,337	579	-	579	3,916	8,811
Staff development	30,603	9,367	39,970	6,939	-	6,939	46,909	34,781
Marketing and recruitment	1,724	395	2,119	532	-	532	2,651	3,818
Technology	45,336	13,877	59,213	10,279	-	10,279	69,492	69,679
Leased equipment	5,988	1,833	7,821	1,358	-	1,358	9,179	15,366
Telephone and Internet	18,329	5,610	23,939	4,156	-	4,156	28,095	31,121
Food service	1,866	224	2,090	-	-	-	2,090	3,900
Student services	114,111	13,685	127,796	-	-	-	127,796	56,591
Administrative	18,864	5,774	24,638	5,935	-	5,935	30,573	27,588
Travel	11,957	3,660	15,617	2,711	-	2,711	18,328	22,468
Other	-	-	-	6,430	-	6,430	6,430	15,758
Interest	-	-	-	1,614	-	1,614	1,614	1,292
Depreciation	90,824	27,800	118,624	20,593	-	20,593	139,217	90,270
Fund-raising	-	-	-	-	7,000	7,000	7,000	4,682
TOTAL OPERATING EXPENSES	<u>1,794,343</u>	<u>508,730</u>	<u>2,303,073</u>	<u>543,575</u>	<u>7,000</u>	<u>550,575</u>	<u>2,853,648</u>	<u>2,918,733</u>
TOTAL EXPENSES	<u>\$ 4,182,352</u>	<u>\$ 1,239,655</u>	<u>\$ 5,422,007</u>	<u>\$ 1,085,014</u>	<u>\$ 7,000</u>	<u>\$ 1,092,014</u>	<u>\$ 6,514,021</u>	<u>\$ 6,553,070</u>

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

## GRAND CONCOURSE ACADEMY CHARTER SCHOOL

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2017**  
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>2017</u>	<u>2016</u> (SUMMARIZED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in unrestricted net assets	\$ 2,825,901	\$ 1,667,072
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation	139,216	90,270
Changes in operating assets and liabilities:		
(Increases) decreases in:		
Grants receivable	(72,774)	(325,230)
Other receivables	32,346	(4,279)
Prepaid expenses	(63,963)	156,008
(Decreases) increases in:		
Accounts payable	(22,318)	(7,523)
Accrued salaries and other payroll related expenses	(108,063)	(32,242)
Deferred rent	1,390	19,515
Deferred revenue	<u>10,179</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,741,914</u>	<u>1,563,591</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted cash	(2,000,000)	-
Security deposits	-	68,082
Acquisition of property, plant and equipment	<u>(257,626)</u>	<u>(260,491)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(2,257,626)</u>	<u>(192,409)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	484,288	1,371,182
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,599,414</u>	<u>2,228,232</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,083,702</u>	<u>\$ 3,599,414</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 793</u>	<u>\$ 305</u>

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



# GRAND CONCOURSE ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - ORGANIZATION

Grand Concourse Academy Charter School (the "School") is a public charter school located in the Bronx, New York. The School originally served kindergarten through sixth grade; however, seventh grade was added in 2016. The School was chartered in July 2004 and successfully rechartered on January 28, 2014 for an additional five years. The goal of the School is to offer students a high-quality public education on a nondiscriminatory and secular basis. The mission of the School is to create a challenging learning environment that addresses and meets the needs of students in New York City, especially those at risk of academic failure. In a concerted effort to prepare students for entry into the very best middle and high schools of New York City, the School seeks to foster a sense of strong character, ethics, and personal responsibility, as well as high expectations and academic success.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Presentation and Use of Estimates

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

#### (b) Reclassifications

Certain accounts relating to the prior year have been reclassified to conform to the current year's presentation. The reclassifications have no effect on 2016 total assets, liabilities, net assets, and change in net assets.

#### (c) Net Asset Presentation

The classification of the 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 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 and changes in net assets.

These classes are defined as follows:

- Permanently restricted - Net assets resulting from contributions and other inflows of assets whose use by the 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 School. The School currently does not possess any permanently restricted net assets. The School has no permanently restricted net assets at June 30, 2017.

(continued)

# GRAND CONCOURSE ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Temporarily restricted - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets. The School has no temporarily restricted net assets at June 30, 2017.
- Unrestricted - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

#### (d) Cash and Cash Equivalents

The School considers all short-term, highly liquid investments, such as money market funds, to be cash equivalents.

#### (e) Accounts and Grants Receivable

Accounts and grants receivable are recorded at net realizable value and do not bear interest. The allowance for doubtful accounts is the School's best estimate of the amount of probable credit losses in existing receivables. Management determines the allowance based on historical write-off experience and reviews its allowance for doubtful accounts periodically. Past due balances are reviewed individually for collectibility. Grants receivable are \$509,856 at June 30, 2017. There is no allowance recorded at June 30, 2017, as all amounts are deemed collectible.

#### (f) Donated Goods and Services

The School receives donated services from unpaid volunteers. No amounts have been recognized in the accompanying statement of activities and changes in net assets, since the services do not meet the specialized skill criteria for recognition under U.S. GAAP.

The School received donated transportation and food service services from the local district. The School was unable to determine a value for these services.

#### (g) Restricted Cash

Restricted cash relates to required reserve and escrow accounts that are required to be maintained by the School in accordance with the bond indenture and charter requirements.

#### (h) Revenue Recognition

The School recognizes revenue from the state and local governments based on the School's charter status and the number of students enrolled. Such revenue is recorded when services are performed, in accordance with the charter agreement. The New York State Department of Education mandates the rate per pupil. Such revenue is recognized ratably over the related school year in which it is earned.

(continued)

# GRAND CONCOURSE ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants and contracts revenue is recognized when qualifying expenditures are incurred and/or services are provided to the students during the applicable school year. Funds received in advance, or any unspent funds for which qualifying expenditures have not been incurred, are recorded as refundable advances. Any unspent amounts usually are returned to the granting agency. However, the granting agency can approve that those amounts be applied to a future grant period.

#### (i) Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on an individual basis in the accompanying statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expense includes expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the school.

#### (j) Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Donated assets are capitalized at the estimated fair value at date of receipt. Maintenance and repairs are charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$5,000 with a estimated useful life of greater than one year. Depreciation is computed using the straight-line method over estimated useful lives of the respective assets. The estimated depreciable lives of the different classes of property, plant and equipment are as follows:

<u>Class</u>	<u>Life</u>
Leasehold improvements	1 - 3 Years
Furniture and fixtures	5 - 7 Years
Computer equipment	5 - 7 Years
Office equipment	5 - 7 Years

Construction-in-progress at June 30, 2017 and June 30, 2016 consists of cost incurred for the School's future facility. Construction-in-progress is stated at cost. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and put into use.

#### (k) Income Taxes

In 2005, the School filed and received approval of its application for tax-exempt status from the Internal Revenue Service (IRS) under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified as a publicly supported organization as described in IRC sections 509(A)(1) and 170(B)(1)(A)(II).

(continued)

# GRAND CONCOURSE ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability (or asset) if the School has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that, as of June 30, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The School has not incurred any unrelated business income.

The School is no longer subject to income tax examination by federal, state, or local tax authorities for years before June 30, 2013.

#### (l) Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2016 is presented for comparative purposes only. The notes to the financial statements, and certain activity by net asset classification, are not included in this report. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements, as of and for the years ended June 30, 2016, from which the summarized comparative information was derived.

#### (m) Subsequent Events

Management has evaluated subsequent events occurring after June 30, 2017 through November 17, 2017, which is the date the financial statements were available to be issued. Based on this evaluation, management has determined that no subsequent events have occurred which require disclosure in the financial statements.

#### (n) Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, "Presentation of Financial Statements for Not-for-Profit Entities." Under the new guidance, the existing three-category classification of net assets will be collapsed into two categories: with donor restrictions and without donor restrictions. Endowments that have a current fair value that is less than the original gift amount (underwater) will be classified in net assets with donor restrictions and expanded disclosures will be required. Additional requirements include disclosure of board-designated net assets, expanded reporting to present expenses by function and natural classification, and eliminating the disclosure of investment expenses that are netted against investment returns. ASU 2016-14 is effective for the fiscal years beginning after December 15, 2017 and early adoption is permitted. The School has not yet evaluated the impact this adoption will have on the financial statements.

(continued)



# GRAND CONCOURSE ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." The guidance in this ASU supersedes the leasing guidance in Topic 840, "Leases." Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The School is currently evaluating the impact of its pending adoption of the new standard on its financial statements.

### NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

At June 30, 2017, property and equipment consisted of the following:

Leasehold improvements	\$	155,985
Furniture and fixtures		44,066
Computer equipment		278,983
Office equipment		221,824
Construction-in-progress		<u>49,375</u>
		750,233
Less, accumulated depreciation		<u>(338,800)</u>
	\$	<u><u>411,433</u></u>

### NOTE 4 - ACCRUED SALARIES AND PAYROLL-RELATED EXPENSES

Accrued payroll and benefits consist of amounts earned by the staff during the school year, but paid over the summer months.

### NOTE 5 - RETIREMENT PLAN

The School offers a 401(k) plan for all qualifying employees who are age 21 years or older. Employees are eligible for the plan immediately upon employment. Participation in the plan is voluntary. Employees can make pretax or roth contributions up to a maximum of 90% of their annual compensation, up to \$18,000 for the 2016 and 2017 calendar years. The School matches 100% an employee's contribution up to 6% of the employee's annual compensation. For the year ended June 30, 2017, the School's matching contribution was \$123,333. Such plan assets are held in a separate trust and are not included in the accompanying financial statements. All plan assets are held for the exclusive benefit of the plan's participants and beneficiaries.

# GRAND CONCOURSE ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6 - CONCENTRATIONS OF RISK

The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to significant credit risk on cash and cash equivalents.

The School receives a substantial portion of its support and revenue from the New York State Department of Education. If the charter school laws were modified, resulting in a reduction or elimination of the revenue, the School's finances could be adversely affected.

### NOTE 7 - COMMITMENT

The School is a lessee under an operating lease, primarily for classroom space and administrative offices. For the year ended June 30, 2017, rent of \$725,000 was included in occupancy expense. The accompanying statement of activities and changes in unrestricted net assets reflect the rent expense on a straight-line basis over the term of the lease. At June 30, 2017, deferred rent payable in the amount of \$20,905 represents the excess of the rental expense recognized over the actual rent billed. The lease ended on July 15, 2017 but was extended for one year through July 15, 2018. The required minimum payment for the fiscal period ended June 30, 2018 is \$744,515.

### NOTE 8 - CONTINGENCIES

The School participates in a number of federal and state programs. These programs require that the School comply with certain laws, regulations, contracts, and agreements applicable to the programs in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government grants and contracts by government agencies is presently not determinable, it should not, in the opinion of management, have a material effect on the financial position or results of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

The School is involved in an ongoing litigation related to a construction project agreement with an unrelated third party (the "Plaintiff") which was entered into in 2011. There is also a dispute in regards to the rental sums due to the Plaintiff pursuant to a lease agreement entered into in 2004. The School records a liability when the School believes that it is both probable that a loss has been incurred and the amount can be reasonably estimated. Management is unable to evaluate the likelihood of an unfavorable outcome and estimate of potential loss, based on the facts at this time.

### NOTE 9 - SUPPORTING SERVICES

The School entered into an agreement (the "Agreement") with a third party to provide assistance with accounting and bookkeeping, financial reporting and budgeting, and grant financial management. The agreement was effective as of October 1, 2016 for one year, and shall automatically renew for successive 12 month periods unless either party decides otherwise. For fiscal year ended June 30, 2017, the School incurred fees of \$39,000, which is included in the accompanying statement of functional expenses. At June 30, 2017, there was no amount due to the management company.

# GRAND CONCOURSE ACADEMY CHARTER SCHOOL

## NOTES TO FINANCIAL STATEMENTS

### NOTE 10 - LEASE COMMITMENT

Effective December 9, 2016, the School entered into a lease agreement with an unrelated third party (the "Landlord") to develop and build the School's future education facility (the "Building") on the property located at 1234 Bolton Avenue, Bronx, New York (collectively, the "Leased Premises"). As part of the lease agreement, the School shall not have any obligation to pay base rent or any other obligation to the Landlord under the lease during the construction period and until the lease term commencement date. The School has applied FASB Accounting Standards Codification (ASC), "Lease Accounting (Topic 840-40)", and determined that it does not have substantially all of the construction period risks, and shall not be considered the owner of the asset during the construction period. Accordingly, the lease term of the operating lease shall commence on the later date to occur of the date the Landlord's work is substantially complete or August 1, 2019, and shall expire on the 29th calendar year after the calendar year in which the lease term commences.

As the total development costs factor into determining the fair market rental value to the Leased Premises, the School and Landlord (collectively, the "Parties") have acknowledged that the final schedule of base rents is subject to modification. Using the construction project's initial budget, the Parties have agreed to the initial schedule of future minimum lease payments, as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 2,656,783
2021	\$ 2,656,783
2022	\$ 2,656,783
2023	\$ 2,656,783
2024	\$ 2,656,783
Thereafter	\$ 85,211,751

Under the lease agreement, the School has the option to buy out and purchase the Leased Premises during the period commencing on the 30th full calendar month of the lease term and ending on the 54th full calendar month of the lease term. As the total development costs factor into determining the fair market sale value to the Leased Premises, the Parties have acknowledged that the final schedule of purchase prices is subject to modification. Using the construction project's initial budget, the Parties have agreed to the initial schedule of option purchase prices for the Leased Premises, as follows:

<u>If Option Exercised During</u>	<u>Option Purchase Price</u>
30th through 36th full calendar months of the lease term	\$ 32,095,431
37th through 48th full calendar months of the lease term	\$ 32,296,836
49th through 54th full calendar months of the lease term	\$ 32,405,374

(continued)

**GRAND CONCOURSE ACADEMY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - LEASE COMMITMENT (Continued)**

In conjunction with the lease agreement, the Parties entered into an escrow agreement with ZB National Association ("Zions Bank") which required the School to deposit \$2,000,000 into escrow to fund the Landlord's construction of the Building. Zions Bank agreed to act as the sole custodian of the escrow account, in the name of the Landlord. Upon substantial completion and delivery of the Leased Premises to the School, the Zions Bank shall deliver the entire amount in escrow to the Landlord. At June 30, 2017, the balance in the escrow account was \$2,000,000, and is presented as restricted cash on the accompanying statement of financial position.



**INDEPENDENT AUDITORS' 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 Trustees of  
Grand Concourse Academy 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 Grand Concourse Academy Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in unrestricted net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2017.

**Internal Control over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding No. 2017-001.

## **Grand Concourse Academy Charter School's Response to Findings**

Grand Concourse Academy Charter School's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Grand Concourse Academy Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

  
Certified Public Accountants

New York, New York  
November 17, 2017

**GRAND CONCOURSE ACADEMY CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**I. SUMMARY OF AUDITORS' RESULTS:**

1. The auditors' report expresses an unmodified opinion whether the financial statements of Grand Concourse Academy Charter School were prepared in accordance with GAAP.
2. One instance of noncompliance material to the financial statements of Grand Concourse Academy Charter School was disclosed during the audit.

**II. FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENTS AUDIT:**

Finding No.: 2017-001 - Dissolution Funds

*Criteria:* As per Section 8.5 of the School's charter agreement, the School is required to establish an escrow account of no less than \$75,000 to pay for legal and audit expenses that would be associated with a dissolution should it occur.

*Condition:* The School did not maintain a separate reserve account with \$75,000.

*Cause:* The School was unaware of this requirement.

*Effect:* The School is not compliance with the charter agreement established between the School and its authorizer.

*Recommendation:* We recommend that the School open a new account and set aside \$75,000 of dissolution funds in reserve.

*Questioned Costs:* N/A

*Views of Responsible Officials:* The School will establish a \$75,000 escrow account as described above.