
**GRAND CONCOURSE ACADEMY
CHARTER SCHOOL**

Financial Statements

For the years ended June 30, 2020 and 2019

GRAND CONCOURSE ACADEMY CHARTER SCHOOL

Financial Statements

June 30, 2020 and 2019

Contents	Page
Independent Auditors' Report.....	1-2
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Functional Expenses	5-6
Statements of Cash Flows.....	7
Notes to the Financial Statements.....	8-15
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 <i>Government Auditing Standards</i>	16-17

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 statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Grand Concourse Academy Charter School as of June 30, 2020 and 2019, 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 29, 2020, 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 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. 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.

NChing LLP

New York, New York
October 29, 2020

GRAND CONCOURSE ACADEMY CHARTER SCHOOL**Statements of Financial Position**

As of June 30,

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 10,551,154	\$ 8,423,622
Grants receivable	383,259	176,263
Other receivable	2,246	2,246
Prepaid expenses	82,607	17,703
	<hr/>	<hr/>
Total current assets	11,019,266	8,619,834
	<hr/>	<hr/>
Property and equipment, net - Note 4	2,055,762	727,747
	<hr/>	<hr/>
Other assets		
Reserve for contingency	75,071	75,048
Escrow for building fund	-	2,013,613
Security deposits	16,500	224,026
	<hr/>	<hr/>
Total assets	<u>\$ 13,166,599</u>	<u>\$ 11,660,268</u>
	<hr/>	<hr/>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Accounts payable	\$ 91,275	\$ 14,795
Accrued salaries and other payroll related expenses - Note 5	839,533	775,794
Deferred revenue	19,677	49,241
	<hr/>	<hr/>
Total current liabilities	950,485	839,830
	<hr/>	<hr/>
Long-term liability		
SBA Loan - paycheck protection program	1,100,620	-
	<hr/>	<hr/>
Total liabilities	2,051,105	839,830
	<hr/>	<hr/>
Net assets without donor restrictions		
Reserve - contingency	75,071	75,048
Board designated reserves	-	2,013,613
Undesignated	11,040,423	8,731,777
	<hr/>	<hr/>
Total net assets without donor restrictions	11,115,494	10,820,438
	<hr/>	<hr/>
Total liabilities and net assets without donor restrictions	<u>\$ 13,166,599</u>	<u>\$ 11,660,268</u>
	<hr/>	<hr/>

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

GRAND CONCOURSE ACADEMY CHARTER SCHOOL**Statements of Activities**

For the years ended June 30,

	<u>2020</u>	<u>2019</u>
<u>Operating revenue and other support</u>		
State and local per pupil operating revenue		
General education	\$ 9,478,223	\$ 8,557,394
Special education	924,390	668,451
Facility lease assistance	<u>677,796</u>	<u>801,374</u>
Total state and local per pupil operating revenue	<u>11,080,409</u>	<u>10,027,219</u>
Grants, contracts and other support		
Federal grants	418,098	477,148
State and local grants	164,737	312,476
Interest and other income	<u>5,117</u>	<u>61,832</u>
Total grants, contracts and other support	<u>587,952</u>	<u>851,456</u>
Total operating revenue and other support	<u>11,668,361</u>	<u>10,878,675</u>
<u>Expenses</u>		
Program expenses		
Regular education	7,516,806	5,720,215
Special education	<u>1,995,474</u>	<u>1,680,739</u>
Total program expenses	<u>9,512,280</u>	<u>7,400,954</u>
Supporting services		
Management and general	<u>1,861,025</u>	<u>1,560,146</u>
Total program and supporting services expenses	<u>11,373,305</u>	<u>8,961,100</u>
Change in net assets	295,056	1,917,575
Net assets without donor restrictions - beginning of year	<u>10,820,438</u>	<u>8,902,863</u>
Net assets without donor restrictions - end of year	<u>\$ 11,115,494</u>	<u>\$ 10,820,438</u>

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

GRAND CONCOURSE ACADEMY CHARTER SCHOOL

Statement of Functional Expenses

For the year ended June 30, 2020

	Program expenses			Supporting services	Total program expenses and supporting services
	Regular education	Special education	Total programs	Management & general	
Salaries					
Instructional staff personnel	\$ 3,196,299	\$ 987,912	\$ 4,184,211	\$ -	\$ 4,184,211
Administrative staff personnel	670,297	64,652	734,949	567,758	1,302,707
Noninstructional staff personnel	-	-	-	251,893	251,893
Total salaries	<u>3,866,596</u>	<u>1,052,564</u>	<u>4,919,160</u>	<u>819,651</u>	<u>5,738,811</u>
Operating expenses					
Payroll taxes and fringe benefits	781,557	212,755	994,312	165,676	1,159,988
Retirement	129,417	35,230	164,647	27,434	192,081
Professional and consulting services	12	1	13	196,992	197,005
Occupancy	1,632,699	444,453	2,077,152	346,104	2,423,256
Repairs and maintenance	38,184	10,394	48,578	8,094	56,672
Insurance	65,456	17,819	83,275	13,877	97,152
Utilities	55,274	15,047	70,321	11,717	82,038
Supplies and materials	208,572	20,117	228,689	-	228,689
Equipment and furnishings	1,974	537	2,511	418	2,929
Staff development	11,336	3,005	14,341	2,306	16,647
Marketing and recruitment	111	33	144	30	174
Technology	57,129	15,552	72,681	12,110	84,791
Leased equipment	4,608	1,255	5,863	977	6,840
Telephone and internet	22,759	6,195	28,954	4,824	33,778
Food service	4,560	440	5,000	-	5,000
Student services	64,537	6,225	70,762	-	70,762
Administrative	44,972	12,242	57,214	10,629	67,843
Travel	3,846	1,047	4,893	815	5,708
Storage and moving	-	-	-	4,366	4,366
Depreciation	523,207	140,563	663,770	117,136	780,906
Loss on abandonment of leasehold improvement	-	-	-	117,869	117,869
Total operating expenses	<u>3,650,210</u>	<u>942,910</u>	<u>4,593,120</u>	<u>1,041,374</u>	<u>5,634,494</u>
Total expenses	<u>\$ 7,516,806</u>	<u>\$ 1,995,474</u>	<u>\$ 9,512,280</u>	<u>\$ 1,861,025</u>	<u>\$ 11,373,305</u>

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

GRAND CONCOURSE ACADEMY CHARTER SCHOOL

Statement of Functional Expenses

For the year ended June 30, 2019

	Program expenses			Supporting services	Total program expenses and supporting services
	Regular education	Special education	Total programs	Management & general	
Salaries					
Instructional staff personnel	\$ 2,431,732	\$ 721,921	\$ 3,153,653	\$ 645,929	\$ 3,799,582
Administrative staff personnel	765,560	227,276	992,836	203,352	1,196,188
Noninstructional staff personnel	150,959	44,816	195,775	40,099	235,874
Total salaries	<u>3,348,251</u>	<u>994,013</u>	<u>4,342,264</u>	<u>889,380</u>	<u>5,231,644</u>
Operating expenses					
Payroll taxes and fringe benefits	753,194	223,605	976,799	200,067	1,176,866
Retirement	105,167	31,222	136,389	27,935	164,324
Professional and consulting services	121,294	36,009	157,303	32,219	189,522
Occupancy	860,035	255,323	1,115,358	228,446	1,343,804
Repairs and maintenance	37,159	11,032	48,191	9,870	58,061
Insurance	37,709	11,195	48,904	10,016	58,920
Utilities	83,170	24,691	107,861	22,092	129,953
Supplies and materials	101,969	12,603	114,572	-	114,572
Staff development	24,441	7,256	31,697	6,492	38,189
Marketing and recruitment	19,161	5,688	24,849	5,091	29,940
Technology	43,378	12,878	56,256	11,522	67,778
Leased equipment	9,796	2,908	12,704	2,603	15,307
Telephone and internet	9,896	2,938	12,834	2,628	15,462
Student services	62,538	18,566	81,104	16,612	97,716
Administrative	22,632	6,936	29,568	6,935	36,503
Travel	17,974	5,336	23,310	4,774	28,084
Storage and moving	239	71	310	66,938	67,248
Depreciation	62,212	18,469	80,681	16,526	97,207
Total operating expenses	<u>2,371,964</u>	<u>686,726</u>	<u>3,058,690</u>	<u>670,766</u>	<u>3,729,456</u>
Total expenses	<u>\$ 5,720,215</u>	<u>\$ 1,680,739</u>	<u>\$ 7,400,954</u>	<u>\$ 1,560,146</u>	<u>\$ 8,961,100</u>

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

GRAND CONCOURSE ACADEMY CHARTER SCHOOL**Statements of Cash Flows**

For the years ended June 30,

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 295,056	\$ 1,917,575
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Depreciation	780,906	97,207
Loss on abandonment of leasehold improvement	117,869	-
Changes in operating assets and liabilities		
Grants receivable	(206,996)	106,723
Other receivable	-	16,291
Prepaid expenses	(64,904)	29,892
Accounts payable	76,480	(160,779)
Accrued salaries and other payroll related expenses	63,739	155,177
Deferred revenue	(29,564)	(92,756)
Net cash provided by operating activities	<u>1,032,586</u>	<u>2,069,330</u>
Cash flows from investing activities		
Reserve for contingency	(23)	(30)
Escrow for building fund	2,013,613	(8,697)
Security deposits	207,526	-
Acquisition of property, plant and equipment	<u>(2,226,790)</u>	<u>(349,069)</u>
Net cash used in investing activities	<u>(5,674)</u>	<u>(357,796)</u>
Cash flows from financing activities		
Proceeds from SBA loan - paycheck protection program	<u>1,100,620</u>	<u>-</u>
Net cash provided by financing activities	<u>1,100,620</u>	<u>-</u>
Net increase in cash and cash equivalents	2,127,532	1,711,534
Cash and cash equivalents - beginning of year	<u>8,423,622</u>	<u>6,712,088</u>
Cash and cash equivalents - end of year	<u>\$ 10,551,154</u>	<u>\$ 8,423,622</u>

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

GRAND CONCOURSE ACADEMY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2020 and 2019

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 fifth grade; sixth, seventh, and eighth grade were added each year from 2016-2018. The School was chartered in July 2004 and successfully re-chartered on April 29, 2019 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

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.

Financial statements presentation. The financial statements of the School follows the accounting standard for not-for-profit organization, which require the School to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions. Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the School.

Net assets with donor restrictions. Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

GRAND CONCOURSE ACADEMY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2020 and 2019

Note 2 Summary of significant accounting policies - (continued)

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

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 collectability. Grants receivable amount to \$383,259 and \$176,263 as of June 30, 2020 and 2019, respectively. There is no allowance recorded at June 30, 2020 and 2019, as all amounts are deemed collectible.

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.

Grants and contracts. 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 might be returned to the granting agency or the granting agency can approve that those amounts be applied to a future grant period.

Reserve for contingency. Reserve for contingency relates to required reserve and escrow accounts that are required to be maintained by the School in accordance with charter requirements.

Reclassifications. Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financials. These reclassifications have no effect on the changes in net asset.

GRAND CONCOURSE ACADEMY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2020 and 2019

Note 2 Summary of significant accounting policies - (continued)

Functional allocation of expenses. The cost of providing the various programs and other activities has been summarized on an individual basis in the accompanying statements of activities. 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.

The expenses that are allocated include the following:

Salaries	Time and effort
Payroll taxes and fringe benefits	Time and effort
Professional and consulting services	Time and effort
Occupancy	Square footage
Repairs and maintenance	Time and effort
Insurance	Square footage

Property and equipment. Property and equipment are recorded at cost. Donated assets are capitalized at the estimated fair value at date of receipt. Repairs and maintenance are charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$5,000 with an 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 and equipment are as follows:

<u>Asset</u>	<u>Useful Life</u>
Leasehold improvements	3 Years
Furniture and fixtures	5 – 7 Years
Computer equipment	5 – 7 Years
Office equipment	5 – 7 Years

Construction-in-progress consists of cost incurred for the School's current facility, which was capitalized as improvement in September 2019 when the assets were put into service.

GRAND CONCOURSE ACADEMY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2020 and 2019

Note 2 Summary of significant accounting policies - (continued)

Income taxes. In 2005, Grand Concourse Academy Charter School filed and received approval of its application for tax exempt status from the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code and has been classified as a publicly supported organization as described in Internal Revenue Code Sec. 509(a)(1) and 170(b)(1)(a)(II).

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, 2020, there are no uncertain positions taken or expected to be taken that would require recognition or disclosure in the financial statements.

The School is no longer subject to income tax examination by tax authorities for years before June 30, 2017.

Recently adopted accounting pronouncements. On August 18, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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, efficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash*, which requires restricted cash to be included within cash and cash equivalents when explaining the total change in cash for the period within the statement of cash flows. The standard requires retrospective application and represents a change in accounting principal. The adoption of ASU 2016-18 did not have an impact on the School’s financial statements.

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional or unconditional. The School implemented the provisions of ASU 2018-08 applicable to contributions received in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

GRAND CONCOURSE ACADEMY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2020 and 2019

Note 3 Liquidity and availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of June 30, are:

Financial assets:	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 10,551,154	\$ 8,423,622
Grants and other receivables	<u>385,505</u>	<u>178,509</u>
Amount available for general expenditures within one year	<u>\$ 10,936,659</u>	<u>\$ 8,602,131</u>

Note 4 Property and equipment

Property and equipment consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 2,550,210	\$ 161,034
Furniture and fixtures	83,842	67,164
Computer equipment	172,515	258,957
Office equipment	12,038	221,314
Construction in progress	-	<u>532,135</u>
	<u>2,818,605</u>	<u>1,240,604</u>
Less: accumulated depreciation	<u>(762,843)</u>	<u>(512,857)</u>
Total	<u>\$ 2,055,762</u>	<u>\$ 727,747</u>

Note 5 Accrued payroll and other payroll-related expenses

Accrued payroll and benefits consist of amounts earned by the staff during the school year but paid over the summer months. As of June 30, 2020 and 2019, total accrued salaries and other payroll-related expenses amounted to \$839,533 and \$775,794, respectively.

Note 6 SBA loan - paycheck protection program

On May 07, 2020, the School obtained a loan of \$1,100,620 (the "PPP loan") from Spring Bank pursuant to the Paycheck Protection Program ("PPP") administered by the Small Business Administration (the "SBA") pursuant to the CARES Act. The PPP Loan and accrued interest are forgivable after twenty-four weeks as long as the School uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The PPP loan matures on May 07, 2022 and bears an interest rate of 1% per annum, with interest accruing on the unpaid principal balance. No payments of principal or interest are due during the six-month period beginning on the date of the PPP loan (the "Deferral Period"). The PPP loan balance as of June 30, 2020 was \$1,100,620.

GRAND CONCOURSE ACADEMY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2020 and 2019

Note 7 Retirement plan

The School offers a 401(k) plan (the "Plan") for substantially all of its qualifying employees. Employees are eligible for the Plan immediately upon employment and participation in the plan is voluntary. Employees can make pretax contributions up to a maximum of 100% of their annual compensation up to IRS limits for each calendar year. The School matches the employee contribution up to 6% of the employee's annual compensation. For the years ended June 30, 2020 and 2019, the School's matching contribution was \$192,081 and \$164,324. 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.

Note 8 Concentration 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 received approximately 95% and 92% of its operating revenue, which is subject to specific requirements from per pupil funding from the New York City Department of Education during the years ended June 30, 2020 and 2019, respectively. Additionally, the School's grants receivable consists of approximately 100% from the New York State Department of Education and the Federal Title grants.

Note 9 Contingency

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 the 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 will record 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.

GRAND CONCOURSE ACADEMY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2020 and 2019

Note 10 Commitment

The School is a lessee under an operating lease, primarily for classroom space and administrative offices. For the years ended June 30, 2020 and 2019, rent of \$2,423,256 and \$1,343,804 was included in occupancy expense. The accompanying statements of activities reflect the rent expense over the term of the lease.

Effective December 9, 2016, the School entered into a lease agreement with an unrelated third party (the "Landlord") whereby the landlord will develop and build the School's new education facility (the "Building") on the property located at 625 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. The lease term of the operating lease commenced when the construction was substantially complete on August 1, 2019 and contingently expires on June 30, 2048 if the option to purchase the building is not exercised within the exercise period as noted below.

Future minimum lease payments, as follows:

Year Ending June 30,	Amount
2021	2,656,783
2022	2,656,783
Total	<u>\$ 5,313,566</u>

Lease payment beyond 2022 is contingent on the School's ability to excise the option to purchase the building.

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>
30 th through 36 th full calendar months of the lease term	\$32,095,431
37 th through 48 th full calendar months of the lease term	\$32,296,836
49 th through 54 th full calendar months of the lease term	\$32,405,374

GRAND CONCOURSE ACADEMY CHARTER SCHOOL

Notes to the Financial Statements

June 30, 2020 and 2019

Note 10 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. On September 17, 2019, the escrow account balance of \$2,000,000 was transferred to the landlord as tenant's contribution to the school's build out. This two million tenant contribution was treated as leasehold improvement and was depreciate over 3 years.

Note 11 Potential impact of the pandemic

In December 2019, an outbreak of a novel strain of coronavirus (“COVID-19”) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. As a result of the pandemic, the School began the 2020-2021 school year utilizing three instructional models, remote learning, in-building instruction and blended with three days in building/two days remote learning. The ultimate effect of COVID-19 on the School and its future operations cannot presently be determined.

Note 12 Subsequent events

Management has evaluated subsequent events through October 29, 2020, the date that 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.

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 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 Grand Concourse Academy Charter School, which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2020.

Internal control over financial reporting

In planning and performing our audits of the financial statements, we considered Grand Concourse Academy Charter 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 Grand Concourse Academy Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Grand Concourse Academy 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and other matters

As part of obtaining reasonable assurance about whether Grand Concourse Academy Charter School's financial statements are free of 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 audits, 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.

NChing LLP

New York, New York
October 29, 2020