

The Excel
Center®



ADULT CHARTER HIGH SCHOOL

**THE GOODWILL EXCEL CENTER,
PUBLIC CHARTER SCHOOL**

Financial Statements and Supplemental Information

For the Year Ended June 30, 2016



**and
Report Thereon**



THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

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For the Year Ended June 30, 2016

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Goodwill Excel Center, Public Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of The Goodwill Excel Center, Public Charter School (GEC), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Goodwill Excel Center, Public Charter School as of June 30, 2016, 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.

Continued

Other Matters

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of disbursements on contracts over \$25,000 on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2017, on our consideration of GEC'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 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 GEC's internal control over financial reporting and compliance.

Raffa, P.C.

Raffa, P.C.

Washington, D.C.
January 25, 2017

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

June 30, 2016

ASSETS

Current Assets

Cash	\$ 6,748
Receivables	43,028
Prepaid expenses	<u>86,742</u>

Total Current Assets 136,518

Deposits	126,517
Property and equipment	<u>2,611,666</u>

TOTAL ASSETS \$ 2,874,701

LIABILITIES AND NET ASSETS

Liabilities

Current Liabilities

Accounts payable and accrued expenses	\$ 1,734,416
Deferred rent and lease incentive, current portion	69,161
Note payable, current portion	<u>67,334</u>

Total Current Liabilities 1,870,911

Deferred rent and lease incentive, net of current portion	1,094,757
Note payable, net of current portion	<u>331,427</u>

TOTAL LIABILITIES 3,297,095

Net Assets (Deficit)

Unrestricted (Deficit)	<u>(422,394)</u>
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TOTAL NET ASSETS (DEFICIT) (422,394)

TOTAL LIABILITIES AND NET ASSETS \$ 2,874,701

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

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

REVENUE AND SUPPORT	
Federal grants	\$ 387,800
Private grants and contributions	340,000
In-kind contributions	<u>42,373</u>
TOTAL REVENUE AND SUPPORT	<u>770,173</u>
EXPENSES	
Program Service:	
Adult Education	1,090,643
Supporting Service:	
Management and general	<u>101,924</u>
TOTAL EXPENSES	<u>1,192,567</u>
CHANGE IN NET ASSETS	(422,394)
NET ASSETS, BEGINNING OF YEAR	<u>-</u>
NET ASSETS (DEFICIT), END OF YEAR	<u><u>\$ (422,394)</u></u>

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

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

**STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016**

	<u>Program Service</u>	<u>Supporting Service</u>	
	<u>Adult Education</u>	<u>Management and General</u>	<u>Total</u>
Personnel, Salaries and Benefits:			
Contracted labor	\$ 209,569	\$ 14,045	\$ 223,614
Other contracted labor-related expense	4,890	-	4,890
Professional development	4,500	-	4,500
	<u>218,959</u>	<u>14,045</u>	<u>233,004</u>
Direct Student Costs:			
Student recruiting	72,655	-	72,655
Travel	20,399	-	20,399
Computer support	7,793	-	7,793
Student assessments	1,952	-	1,952
Supplies, materials and snacks	31	-	31
	<u>102,830</u>	<u>-</u>	<u>102,830</u>
Occupancy Expense:			
Rent	385,852	-	385,852
	<u>385,852</u>	<u>-</u>	<u>385,852</u>
Office Expenses:			
Printing and copying	-	4,816	4,816
Telecommunications	-	3,536	3,536
Office supplies	-	3,000	3,000
Postage	-	259	259
	<u>-</u>	<u>11,611</u>	<u>11,611</u>
General Expenses:			
Professional and consulting fees	380,220	5,678	385,898
Legal fees	-	39,715	39,715
Accounting, auditing and payroll	-	19,000	19,000
Insurance	-	10,457	10,457
Other	2,782	273	3,055
Dues, fees, licenses and fines	-	1,145	1,145
	<u>383,002</u>	<u>76,268</u>	<u>459,270</u>
TOTAL EXPENSES	<u><u>\$ 1,090,643</u></u>	<u><u>\$ 101,924</u></u>	<u><u>\$ 1,192,567</u></u>

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

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016
Increase (Decrease) in Cash

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (422,394)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Changes in assets and liabilities:	
Receivables	(43,028)
Prepaid expenses	(86,742)
Deposits	(126,517)
Accounts payable and accrued expenses	1,734,416
Deferred rent	385,852
	<u>1,441,587</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,441,587</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment, including construction costs	<u>(1,833,600)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,833,600)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from note payable	<u>398,761</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>398,761</u>
NET INCREASE IN CASH	6,748
CASH, BEGINNING OF YEAR	<u>-</u>
CASH, END OF YEAR	<u><u>\$ 6,748</u></u>
NONCASH TRANSACTIONS	
Noncash investing activities:	
Leasehold improvements acquired in operating lease	\$ 778,066
Deferred lease incentive included in operating lease	778,066
	<u>\$ -</u>

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

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

**NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

1. Organization and Summary of Significant Accounting Policies

Organization

The Goodwill Excel Center, Public Charter School (GEC) was formed on February 23, 2015 and launched operations in August 2016. The goal of the school is to provide Washington, DC, adult residents the opportunity and support to earn a high school diploma and post-secondary education while developing career paths that present greater employment and career growth opportunities. Since its inception, GEC's revenue and other support has consisted primarily of contributions and grants from Goodwill of Greater Washington (GGW) and federal sources.

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial statements are prepared using the accrual basis of accounting and include receivables and payables.

Receivables

GEC uses the allowance method to record potentially uncollectible accounts receivable.

Property and Equipment

Property and equipment are carried at cost. Depreciation and amortization are recorded using the straight-line method in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives.

Furniture and fixtures	7 years
Software	3 years
Office equipment	5 years
Computer hardware	3 to 5 years

Leasehold improvements are amortized over the remaining life of the lease. Assets in process are stated at cost and are not depreciated until the assets are complete and put in service. Maintenance and repairs are expensed as incurred. Significant renewals and betterments are capitalized. At the time assets are retired or otherwise disposed of, the property and related accumulated depreciation and amortization accounts are relieved of the applicable amounts and any gain or loss is credited or charged to revenue and support.

Classification of Net Assets

The net assets of GEC are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for general support of GEC's operations.

Revenue Recognition

Grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Federal grants and contracts treated as exchange transactions are recognized as costs are incurred on the basis of direct costs plus allowable indirect expenses. Revenue recognized on grants and contracts for which payments have not been received is reflected as receivables in the accompanying statement of financial position.

In-Kind Contributions

In-kind contributions represent the value of pro bono legal assistance. Donations are recorded based on their fair value at the date of donation and are included in legal fees in the accompanying statement of functional expenses.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based upon estimates deemed to justify the benefits received by those programs and supporting services.

2. Receivables

Receivables consisted of the following as of June 30, 2016:

Federal grants	\$	43,000
Other		<u>28</u>
Total Receivables	\$	<u>43,028</u>

As of June 30, 2016, all amounts were considered fully collectible and due within one year.

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

3. Property and Equipment and Accumulated Depreciation and Amortization

GEC held the following property and equipment as of June 30, 2016:

Assets in progress:	
Leasehold improvements	\$ 2,115,282
Furniture and fixtures	274,595
Software	140,174
Office equipment	65,788
Computer hardware	<u>15,827</u>
Total Property and Equipment	2,611,666
Less: Accumulated Depreciation and Amortization ^(a)	<u>-</u>
Property and Equipment, Net	<u>\$ 2,611,666</u>

(a) Fiscal year 2016 represented GEC's initial year of operations, with the full launch scheduled in August 2016. Accordingly, before the leased space could be occupied, a significant amount of improvements and furnishings was required to make the space usable, which was in process as of June 30, 2016. Similarly, for the software to be ready for operation, a significant amount of testing and training needed to be performed to place it in service. Accordingly, no depreciation or amortization expense was reported for the year ended June 30, 2016.

4. Note Payable

On April 11, 2016, GEC entered into a loan agreement with GGW to borrow up to \$1,200,000, with advances on an as-needed basis through December 31, 2016. The purpose of the loan was to fund leasehold improvements of GEC's facility, including furnishings, overhead and other soft costs related to the project. Interest accrues monthly at 4.75% on the outstanding balance, with interest-only payments occurring through December 31, 2016. Beginning January 1, 2017, principal and interest payments are to be paid in 84 equal installments through December 1, 2023, based on the final loan balance as of December 31, 2016, at which time a payment schedule identifying the monthly payments was to be adopted. The note is secured by a security interest agreement which grants GGW a security interest in all of GEC's existing and future acquired assets, interests and rights, and requires GEC to comply with, among other provisions, certain nonfinancial covenants and restrictions on future borrowings. As of June 30, 2016, GEC was in compliance with the loan covenants and the outstanding balance on the note was \$398,761.

On December 1, 2016, a final loan amount of \$1,104,725 was agreed upon between GGW and GEC.

For the year ended June 30, 2016, interest expense totaled \$3,563 which was capitalized and included in property and equipment in the accompanying statement financial position.

Continued

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

4. Note Payable (continued)

As of June 30, 2016, based on the final loan balance of \$1,104,725, principal payments on the note payable over the next five years and thereafter are due as follows:

<u>For the Year Ending June 30,</u>	<u>Principal Payments</u>
2017	\$ 67,334
2018	139,552
2019	146,327
2020	153,431
2021	160,879
Thereafter	<u>437,202</u>
Total Payments Due	<u>\$ 1,104,725</u>

5. Risks and Commitments

Related Party

GEC is affiliated with GGW through common management. GGW is a tax-exempt organization under Internal Revenue Code (IRC) Section 501(c)(3). GGW was established as a provider of quality service programs to those in need of support and/or training necessary to assume a self-sufficient role in their community. Under its management and administrative support services, staffing and sublicense agreement with GGW executed as of May 1, 2015, GEC was billed \$569,458, of which \$271,150 was outstanding for services and/or reimbursable expenses for the year June 30, 2016, in accordance with the terms of the agreement. This expense and outstanding balance is reported in professional and consulting fees, and accounts payable and accrued expenses, in the accompanying statement of functional expenses and statement of financial position, respectively.

GGW also awarded GEC an unrestricted grant of \$340,000 for use in its operations. All funds were received prior to June 30, 2016.

As described in the Note 4, GGW agreed to loan GEC funds up to \$1,200,000, the purpose of which was to fund leasehold improvements of GEC's facility, including furnishings, overhead and other soft costs related to the project. As of June 30, 2016, that outstanding balance was \$398,761.

Operating Lease

In December 2015, GEC entered into a noncancelable operating lease for office space in Washington, DC, which expires in 2027. The terms of the lease requires a deposit of \$126,517, and include monthly base rent of \$63,258 and a 15-month rental abatement. The lease also contains a fixed escalation clause for an increase in the annual minimum rent at a rate of 2.5%, except for in the sixth lease year of the lease, for which the increase will be based on \$2 per square foot of rentable area. The lease also provides a tenant improvement allowance of up to \$1,272,700, which is to be used within the first 12 months following the

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

5. Risks and Commitments (continued)

Operating Lease (continued)

rent commencement date of June 12, 2016. As of June 30, 2016, \$494,634 of this amount remained available for future use. Under GAAP, all fixed rent increases and lease incentives are recognized on a straight-line basis over the term of the lease and are reported as deferred rent and lease incentive liability in the accompanying statement of financial position. In addition, GEC is obligated to pay its share of increases in real estate taxes and operating expenses of the office space building.

Rent expense totaled \$385,852 for the year ended June 30, 2016.

As of June 30, 2016, the future minimum lease payments required under this lease are as follows:

<u>For the Year Ending June 30,</u>	
2017	\$ 191,357
2018	779,700
2019	799,192
2020	819,172
2021	839,651
Thereafter	<u>5,252,606</u>
Total Payments Due	<u>\$ 8,681,678</u>

Curriculum Licensing Agreement

On November 11, 2014, GGW entered into a Licensing and Services Agreement with Goodwill Education Initiatives, Inc. (GEI) for the use of GEI's Intellectual Property, Know How, and other consulting services in connection with the operation of GEC. GGW sublicensed this agreement to GEC, and GEC will abide by all terms and conditions of this license agreement. Under the sublicense agreement with GGW, GEC is required to pay a start-up fee of \$50,000 to assist in the school opening, followed by annual fees of \$65,000 and \$50,000 during years one and year two, respectively, of GEC operations.

Child Development Center

On June 17, 2016, GEC entered into an agreement with the Young Men's Christian Association of Metropolitan Washington (YMCA) to operate an on-site child development center at GEC's adult public charter school located in Washington, DC. The agreement is for two years beginning on July 1, 2016, and expires on June 30, 2018, with the option to extend the contract up to three one-year extensions. Under the terms of the agreement, GEC is required to pay YMCA \$631,036 during the first year and \$649,967 during the second year of the term for its services.

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

6. Income Taxes

Under Section 501(c)(3) of the IRC, GEC is exempt from the payment of taxes on income other than net unrelated business income. For the year ended June 30, 2016, no provision for income taxes was made as GEC had no net unrelated business income.

GEC adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. GEC performed an evaluation of uncertain tax positions for the year ended June 30, 2016, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. It is GEC's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

7. Subsequent Events

GEC's management has evaluated subsequent events through January 25, 2017, the date the financial statements were available to be issued. Except for the note payable final loan amount disclosed in Note 4, there were no events that required recognition or disclosure in these consolidated financial statements.

SUPPLEMENTAL INFORMATION

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL
SCHEDULE OF DISBURSEMENTS ON CONTRACTS OVER \$25,000
For the Year Ended June 30, 2016

<u>Vendor</u>	<u>Type of Service</u>	<u>Amount</u>
HBW	Leasehold improvements	\$ 778,066
Little	Architects	163,681
AVI SPL	Smartboards for classroom	50,517
Ezra	Project management	48,155
Kimball	Furniture	46,029
Power School	School data system	38,490



Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Goodwill Excel Center, Public Charter School

Reports to the Financial Statements

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 The Goodwill Excel Center, Public Charter School (GEC), which comprise the statement of financial position as of June 30, 2016, 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 January 25, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered GEC'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 GEC's internal control. Accordingly, we do not express an opinion on the effectiveness of GEC'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.

Continued

Compliance and Other Matters

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

Purpose of This Report

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

Raffa, P.C.

Raffa, P.C.

Washington, D.C.
January 25, 2017