

George Gervin Prep Academy

Financial Statements

June 30, 2018

(with Independent Auditor's Report Thereon)

**George Gervin Prep Academy
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June 30, 2018**

Financial Statements

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
George Gervin Youth Center, Inc.
George Gervin Prep Academy

Report on the Financial Statements

We have audited the accompanying financial statements of George Gervin Prep Academy, a Charter School program of George Gervin Youth Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of George Gervin Prep Academy as of June 30, 2018, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018, on our consideration of George Gervin Prep Academy's internal control over the 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 George Gervin Prep Academy's internal control over financial reporting and compliance.

William E. Co., P.C.

San Antonio, Texas
November 15, 2018

GEORGE GERVIN PREP ACADEMY
Statement of Financial Position
As of June 30, 2018

Assets

| | | |
|--|-----------|----------------|
| Cash and cash equivalents | \$ | 68,907 |
| Account Receivable: | | |
| State | | 278,859 |
| Federal | | 10,925 |
| Other | | 62 |
| Deposits | | 27,670 |
| Prepaid expense | | 5,109 |
| Fixed Assets | | |
| (less: accumulated depreciation of \$85,838) | | 82,990 |
| Total assets | \$ | 474,522 |

Liabilities and Net Assets

Liabilities:

| | | |
|---------------------------|----|---------|
| Accounts payable - trade | \$ | 15,465 |
| Accrued payable - other | | 7,257 |
| Accrued payroll | | 23,178 |
| Capital lease obligations | | 64,219 |
| Total liabilities | | 110,119 |

Net Assets:

| | | |
|---|-----------|----------------|
| Unrestricted | | 364,403 |
| Total net assets | | 364,403 |
| Total liabilities and net assets | \$ | 474,522 |

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

GEORGE GERVIN PREP ACADEMY
Statement of Activities
For the Year Ended June 30, 2018

| | Unrestricted |
|-----------------------------------|---------------------|
| Support and Revenue: | |
| Local revenue: | |
| Other Revenues from Local Sources | \$ 1,506 |
| State support: | |
| State Equalization | 1,342,130 |
| Classroom Site Fund | 288,885 |
| Federal support | 413,917 |
| Miscellaneous | 253,002 |
| Contributions/Donations | 200 |
| Total Revenues | 2,299,640 |
| Expenses | |
| Salaries | 990,573 |
| Employee Benefits | 280,323 |
| Purchased Services | 897,364 |
| Supplies | 46,572 |
| Total Expenses | 2,214,832 |
| Change in Net Assets | 84,808 |
| Net Assets at beginning of year | 279,595 |
| Net Asset at end of year | \$ 364,403 |

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

GEORGE GERVIN PREP ACADEMY
Statement of Cash Flows
For the Year Ended June 30, 2018

| | |
|--|--------------------------------|
| Cash flows from operating activities: | |
| Change in net assets | \$ 84,808 |
| Adjustments to reconcile the change in net assets to net cash used by operating activities: | |
| Depreciation expense | 32,524 |
| (Increase) decrease in: | |
| State receivables | (226,674) |
| Federal receivables | (10,925) |
| Other receivables | 12,015 |
| Intercompany receivable | 8,353 |
| Deposits | (8,500) |
| Prepaid expenses | 36 |
| Increase (decrease) in: | |
| Accounts payable | 13,505 |
| Accrued liabilities | <u>(40,043)</u> |
| Net cash (used) by operating activities | (134,901) |
| Cash flows from investing activities: | |
| Purchase of assets | <u>(8,280)</u> |
| Net cash (used) by investing activities | (8,280) |
| Cash flows from financing activities: | |
| Principal payments on capital lease | <u>(19,291)</u> |
| Net cash (used) by investing activities | (19,291) |
| Net decrease in cash and cash equivalents | (162,472) |
| Cash and cash equivalents, beginning of year | <u>231,379</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 68,907</u></u> |
| Supplemental Information: | |
| Interest paid | <u><u>\$ 8,794</u></u> |

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

**George Gervin Prep Academy
Notes to Financial Statements
For the Year Ended June 30, 2018**

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization's Activities

George Gervin Youth Center, Inc. (the Center) is a nonprofit organization established on June 4, 1991, to provide an innovatively designed comprehensive program to target the needs of at-risk youth.

George Gervin Prep Academy

The Center opened the George Gervin Prep Academy (GGPA), an Arizona charter school, in August 2012. This charter school is a program within the Center's operations. Therefore, these financial statements only contain the financial position, results of operations, and cash flows of the George Gervin Prep Academy Charter School.

GGPA serves grades pre-k thru middle school. The campus is located in Phoenix, Arizona. It focuses on college-readiness, rigorous courses, single-gender courses, responsible thinking and community service learning projects for middle school students.

GGPA receives funding from the State of Arizona based on an average daily membership (ADM) formula.

B. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

C. Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205-55, Financial Statements of Not-For-Profit Organizations. Under ASC 958-205-55, GGPA is required to report information regarding its financial position and its activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

D. Restricted and Unrestricted Revenue and Support

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when stipulated time restriction ends or purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**George Gervin Prep Academy
Notes to Financial Statements
For the Year Ended June 30, 2018**

(1) **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
(continued)**

E. Federal Income Taxes

GGPA is a program within the Center, as such it is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law, and contributions to it are tax deductible within the limitations prescribed by the Code. The Center has been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Internal Revenue Code. In addition, this program's activity is included in the Center's information return. Years open to examination by the Internal Revenue Service are 2015, 2016, and 2017.

F. Cash Equivalents

For financial statement purposes, GGPA considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

G. Accounts Receivable

The allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

H. Property and Equipment

All fixed assets valued at \$5,000 are recorded at cost or estimated historical cost if actual historical cost is not available. Assets acquired through capital lease agreements are recorded in accordance with accounting principles generally accepted in the United States of America, which require capitalization at their fair value as of the date of lease inception. Donated fixed assets valued at \$5,000 are recorded at their estimated fair market value on the date donated. Expenses for repairs that materially extend the useful life of an asset are capitalized at cost.

Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, which range from 5 to 20 years.

I. Contributions

Contributions are recorded at fair value when GGPA is in possession of or receives an unconditional promise to give. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support based on the existence or nature of any donor restrictions. As donor or time restrictions are satisfied, net assets are reclassified to unrestricted net assets.

**George Gervin Prep Academy
Notes to Financial Statements
For the Year Ended June 30, 2018**

**(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
(continued)**

I. Contributions, (continued)

Unconditional promises to give, or pledges, are recorded in the financial statements when there is sufficient evidence in the form of verifiable documentation that a promise is made and received. Pledges receivable are discounted to an estimated present value.

J. Grants

Support received from grants with the United States Government, local or state government, and private foundations are recorded as support in the appropriate net asset classification when the related direct costs are incurred.

K. Donated Materials and Services

Governments, agencies, volunteers, business firms, and others may contribute materials and services toward the fulfillment of projects initiated by GGPA. Donated materials and equipment are recorded as contributions at their estimated fair values at the date of receipt. If donated services were recorded, determination would be based on the fair value of the services provided by a professional, specialist, or craftsman.

L. Functional Expenses

GGPA allocates its expense on a functional basis. Expenses that can be identified specifically as program versus administrative services are allocated directly to their natural expenditure classifications.

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(2) CASH AND CASH EQUIVALENTS

As of June 30, 2018, GGPA had \$-0- in demand deposit accounts that were in excess of the \$250,000 maximum amount insured by the F.D.I.C.

(3) ACCOUNTS RECEIVABLES

Accounts receivable from the state of Arizona \$278,859 and \$10,925 from federal programs, are revenues earned from allowable reimbursable expenses incurred and are deemed fully collectible. The allowance for bad debt at June 30, 2018 was \$-0-.

**George Gervin Prep Academy
Notes to Financial Statements
For the Year Ended June 30, 2018**

(4) FIXED ASSETS

The fixed assets for the years ended June 30, 2018 are as follows:

| | |
|--------------------------|------------|
| Equipment | \$ 168,828 |
| Less: | |
| Accumulated depreciation | (85,838) |
| Total | \$ 82,990 |

Depreciation expense recorded on the books for the June 30, 2018 was \$32,524.

(5) OPERATING LEASES

Operating leases – GGPA leases printers under operating leases expiring March 2021. Lease expense charged to operations for the year ended June 30, 2018, was \$31,972.

Future minimum lease payments under non-cancelable operating leases that have initial or remaining terms in excess of one year as of June 30, 2018 are as follows:

| <u>Year ending June 30,</u> | <u>Amount</u> |
|-----------------------------|---------------|
| 2019 | 20,431 |
| 2020 | 20,431 |
| 2121 | 15,323 |
| TOTAL | \$ 56,185 |

(6) CAPITAL LEASES

The Center leases office equipment under a capital lease expiring in March 2021.

The following is an analysis of the leased property under the capital lease:

| | |
|--------------------------------|---|
| <u>Classes of property</u> | <u>Asset Balance at June 30, 2018</u> |
| Office Equipment | \$ 109,044 |
| Less: Accumulated amortization | (54,522) |
| | \$ 54,522 |

**George Gervin Prep Academy
Notes to Financial Statements
For the Year Ended June 30, 2018**

(6) CAPITAL LEASES, (continued)

The Following is a schedule by years of future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2018:

| | | |
|---|------|-------------------------|
| | 2019 | \$ 26,838 |
| | 2020 | 26,838 |
| | 2021 | <u>20,129</u> |
| Total minimum lease payments | | 73,805 |
| Less: amount representing interest | | <u>(9,586)</u> |
| Present value of net minimum lease payments | | <u><u>\$ 64,219</u></u> |

The current fiscal year payments were allocated between interest expense and principal payment of the obligation:

| | | |
|--|-------------------|-------------------------|
| | Interest expense | \$ 7,548 |
| | Principal payment | <u>19,290</u> |
| | | <u><u>\$ 26,838</u></u> |

(7) LINE OF CREDIT

The Center has available a \$500,000 line of credit, with an interest rate of 4.25%, which is available for the Center programs, which includes GGPA. As of the date of this report, Center had utilized \$-0- of the available balance.

(8) CONCENTRATIONS OF RISK

Credit Risk

The GGPA received 71% its support from the State of Arizona, 18% from Federal grants and 11% from other sources as of June 30, 2018.

(9) FUNCTIONAL CLASSIFICATION OF EXPENSES

GGPA expends funds under the following classification:

| | |
|------------------------|----------------------------|
| Academic Programs | \$ 1,858,523 |
| Management and General | <u>356,309</u> |
| | <u><u>\$ 2,214,832</u></u> |

Program expense includes instruction, staff training, and student support services and management and general includes administrative support services.

(10) RETIREMENT PLAN

Plan Description

George Gervin Prep Academy contributes to the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing, multiple-employer defined benefit

**George Gervin Prep Academy
Notes to Financial Statements
For the Year Ended June 30, 2018**

(10) RETIREMENT PLAN, (continued)

pension plan; a cost-sharing, multiple-employer defined health insurance premium plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan that covers employees of the charter holder. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

Benefits are established by state statute and the plan generally provides retirement, long-term disability, and health insurance premium benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are paid as a fixed dollar amount per month towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

The ASRS issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the ASRS, 3300 North Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910 or by calling (602) 240-2000 or (800) 621-3778. The report is also available on the ASRS' website at www.azasrs.gov.

Funding Policy

The Arizona State Legislature establishes and may amend active plan members' and the charter holder's contribution rates. For the current fiscal year, active ASRS members and GGPA were required by statute to contribute at the actuarially determined rate of 11.50 percent (11.34 percent for retirement and health insurance benefit and 0.16 percent for long-term disability) of the members' annual covered payroll and the charter holder was required by statute to contribute at the actuarially determined rate of 11.50 percent (11.34 percent for retirement and health insurance benefit and 0.16 percent for long-term disability) of the members' annual covered payroll.

The charter holder's contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows.

| Year | Retirement Fund | Health Benefit Supplement Fund | Long-Term Disability Fund | Total Contributions |
|------|-----------------|--------------------------------|---------------------------|---------------------|
| 2018 | \$ 101,198 | 4,085 | 1,485 | \$ 106,768 |
| 2017 | \$ 102,342 | 5,383 | 1,324 | \$ 109,049 |
| 2016 | \$ 93,486 | 4,920 | 1,036 | \$ 99,442 |

(11) CONTINGENCIES

GGPA receives various grants to cover costs of specified programs. Final determination of eligibility of costs will be made by the grantor. Should any costs be found ineligible, the Center will be responsible for reimbursing the Grantor for these amounts.

**George Gervin Prep Academy
Notes to Financial Statements
For the Year Ended June 30, 2018**

(12) LITIGATION

As of June 30, 2018, GGPA and the Center were parties to a lawsuit that subsequently was settled prior to the issuance of this report. GGPA and the Center have insurance coverage that will pay all of the costs of the settlement.

(13) SUBSEQUENT EVENTS

Events that occur after the balance sheet date but before financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the balance sheet date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the balance sheet date require disclosure in the accompanying notes.

Management evaluated the activity through November 15, 2018, which is the date the financial statements were available to be issued, and concluded that there were no events that have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

OTHER REPORT

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

To the Board of Directors of
George Gervin Youth Center, Inc.
George Gervin Prep Academy

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 George Gervin Prep Academy, a Charter School program of George Gervin Youth Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered George Gervin Prep Academy'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 George Gervin Prep Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of George Gervin Prep Academy'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 George Gervin Prep Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Ullman & Co., P.C.

San Antonio, Texas
November 15, 2018

George Gervin Prep Academy
Schedule of Findings and Responses
For the year ended June 30, 2018

Section I – Summary of Auditors' Results

Financial Statements:

| | |
|---|------------|
| Type of report issued | Unmodified |
| Material weaknesses identified | None |
| Significant Deficiency identified that are not considered to be material weaknesses | None |
| Noncompliance material to financial statements | None |