

The Excel  
Center®



ADULT CHARTER HIGH SCHOOL

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

## **Financial Statements**

*For the Year Ended June 30, 2017*

*(With Summarized Financial Information for the Year Ended June 30, 2016)*



**and  
Report Thereon**



**Report Required in Accordance with  
Government Auditing Standards**

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

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For the Year Ended June 30, 2017

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*Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT**

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

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, 2017, 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, 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.

**Continued**

## **Other Matters**

### *Report on Summarized Comparative Information*

We have previously audited GEC's 2016 financial statements, and in our report dated January 25, 2017, we expressed an unmodified audit opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of GEC's 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.  
November 13, 2017

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

June 30, 2017

(With Summarized Financial information as of June 30, 2016)

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current Assets		
Cash	\$ 1,971,397	\$ 6,748
Receivables	2,177	43,028
Prepaid expenses	<u>116,342</u>	<u>86,742</u>
Total Current Assets	2,089,916	136,518
Deposits	196,025	126,517
Property and equipment	<u>2,655,729</u>	<u>2,611,666</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 4,941,670</b></u>	<u><b>\$ 2,874,701</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Current Liabilities		
Accounts payable and accrued expenses	\$ 243,906	\$ 1,734,416
Deferred rent and lease incentive, current portion	127,085	69,161
Note payable, current portion	<u>139,552</u>	<u>67,334</u>
Total Current Liabilities	510,543	1,870,911
Deferred rent and lease incentive, net of current portion	2,016,692	1,094,757
Note payable, net of current portion	<u>897,839</u>	<u>331,427</u>
<b>TOTAL LIABILITIES</b>	<u><b>3,425,074</b></u>	<u><b>3,297,095</b></u>
Net Assets		
Unrestricted (Deficit)	<u>1,516,596</u>	<u>(422,394)</u>
<b>TOTAL NET ASSETS (DEFICIT)</b>	<u><b>1,516,596</b></u>	<u><b>(422,394)</b></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 4,941,670</b></u>	<u><b>\$ 2,874,701</b></u>

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, 2017**

**(With Summarized Financial Information for the Year Ended June 30, 2016)**

	2017	2016
<b>REVENUE AND SUPPORT</b>		
Per pupil allocation	\$ 5,863,695	\$ -
Federal grants	362,200	387,800
Private grants and contributions	361,500	340,000
In-kind contributions	-	42,373
	<b>6,587,395</b>	<b>770,173</b>
 <b>EXPENSES</b>		
Program Service:		
Adult Education	4,284,393	1,090,643
Supporting Service:		
Management and general	364,012	101,924
	<b>4,648,405</b>	<b>1,192,567</b>
 <b>CHANGE IN NET ASSETS</b>	<b>1,938,990</b>	<b>(422,394)</b>
 <b>NET ASSETS, BEGINNING OF YEAR</b>	<b>(422,394)</b>	<b>-</b>
 <b>NET ASSETS (DEFICIT), END OF YEAR</b>	<b>\$ 1,516,596</b>	<b>\$ (422,394)</b>

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, 2017**

**(With Summarized Financial Information for the Year Ended June 30, 2016)**

	<u>Program Service</u>	<u>Supporting Service</u>	<u>2017 Total</u>	<u>2016 Total</u>
	<u>Adult Education</u>	<u>Management and General</u>		
Personnel, Salaries and Benefits:				
Contracted labor	\$ 1,887,409	\$ 91,416	\$ 1,978,825	\$ 223,614
Professional development	9,181	-	9,181	4,500
Other contracted labor-related expense	<u>3,727</u>	<u>-</u>	<u>3,727</u>	<u>4,890</u>
Total Personnel, Salaries and Benefits	<u>1,900,317</u>	<u>91,416</u>	<u>1,991,733</u>	<u>233,004</u>
Direct Student Costs:				
Daycare Center	548,343	-	548,343	-
Travel	180,985	-	180,985	20,399
Student recruiting	70,365	-	70,365	72,655
Computer support	35,014	-	35,014	7,793
Supplies, materials and snacks	16,881	-	16,881	31
Student assessments	10,216	-	10,216	1,952
Other students costs	7,027	-	7,027	-
Student books and learning material	<u>5,277</u>	<u>-</u>	<u>5,277</u>	<u>-</u>
Total Direct Student Costs	<u>874,108</u>	<u>-</u>	<u>874,108</u>	<u>102,830</u>
Occupancy:				
Rent	660,239	-	660,239	385,852
Depreciation and amortization	321,272	-	321,272	-
Interest	45,755	-	45,755	-
Utilities and garbage removal	35,825	-	35,825	-
Other occupancy expenses	18,000	-	18,000	-
Janitorial supplies	11,070	-	11,070	-
Maintenance and repairs	<u>4,331</u>	<u>-</u>	<u>4,331</u>	<u>-</u>
Total Occupancy	<u>1,096,492</u>	<u>-</u>	<u>1,096,492</u>	<u>385,852</u>
Office Expenses:				
Office supplies	-	50,777	50,777	3,000
Telecommunications	-	50,225	50,225	3,536
Printing and copying	-	36,971	36,971	4,816
Other	-	4,450	4,450	-
Postage	<u>-</u>	<u>2,240</u>	<u>2,240</u>	<u>259</u>
Total Office Expenses	<u>-</u>	<u>144,663</u>	<u>144,663</u>	<u>11,611</u>
General Expenses:				
Professional and consulting fees	412,263	3,867	416,130	385,898
Dues, fees, licenses and fines	-	52,087	52,087	1,145
Insurance	-	22,720	22,720	10,457
Other	1,213	8,268	9,481	3,055
Accounting, auditing and payroll	-	40,991	40,991	19,000
Legal fees	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,715</u>
Total General Expenses	<u>413,476</u>	<u>127,933</u>	<u>541,409</u>	<u>459,270</u>
<b>TOTAL EXPENSES</b>	<u><b>\$ 4,284,393</b></u>	<u><b>\$ 364,012</b></u>	<u><b>\$ 4,648,405</b></u>	<u><b>\$ 1,192,567</b></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, 2017**  
**(With Summarized Financial Information for the Year Ended June 30, 2016)**  
**Increase (Decrease) in Cash**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,938,990	\$ (422,394)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	321,272	-
Changes in assets and liabilities:		
Receivables	40,851	(43,028)
Prepaid expenses	(29,600)	(86,742)
Deposits	(69,508)	(126,517)
Accounts payable and accrued expenses	(1,490,510)	1,734,416
Deferred rent and lease incentive	979,859	385,852
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,691,354</b>	<b>1,441,587</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(365,335)	(1,833,600)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(365,335)</b>	<b>(1,833,600)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from note payable	705,964	398,761
Principal payments on notes payable	(67,334)	
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>638,630</b>	<b>398,761</b>
<b>NET INCREASE IN CASH</b>	<b>1,964,649</b>	<b>6,748</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>6,748</b>	<b>-</b>
<b>CASH, END OF YEAR</b>	<b>\$ 1,971,397</b>	<b>\$ 6,748</b>
<b>NONCASH TRANSACTIONS</b>		
Noncash investing activities:		
Leasehold improvements acquired in operating lease	\$ (494,634)	\$ (778,066)
Deferred lease incentive included in operating lease	494,634	778,066
	<b>\$ -</b>	<b>\$ -</b>

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, 2017**

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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. GEC's revenue and other support consist primarily of per pupil allocations from the government of the District of Columbia (DC), grants and contributions, 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. 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, 2017

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

**Revenue Recognition (continued)**

Revenues from federal grants are recognized when the related expense is incurred.

**Per Pupil Funding**

Per pupil funding represents the per pupil student allocation and facility allowance from DC, as well as federal entitlement funding, to cover the cost of academic expenses. Revenue is recognized ratably over the academic year. Unearned funding is recognized as deferred revenue in the accompanying statement of financial position until earned.

**Functional Allocation of Expenses**

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

**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, 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 may differ from those estimates.

2. Property and Equipment and Accumulated Depreciation and Amortization

GEC held the following property and equipment as of June 30, 2017:

Leasehold improvements	\$ 2,208,434
Furniture and fixtures	285,043
Computer hardware	194,774
Office equipment	154,969
Software	<u>133,781</u>
Total Property and Equipment	2,977,001
Less: Accumulated Depreciation and Amortization	<u>(321,272)</u>
Property and Equipment, Net	<u>\$ 2,655,729</u>

Depreciation and amortization expense totaled \$321,272 for the year ended June 30, 2017.

3. Note Payable

On April 11, 2016, GEC entered into a loan agreement with Goodwill of Greater Washington (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,

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

3. Note Payable

including furnishings, overhead and other soft costs related to the project. Interest accrued monthly at 4.75% on the outstanding balance, with interest-only payments occurring through December 31, 2016. On December 1, 2016, a final loan amount of \$1,104,725 was agreed upon between GGW and GEC.

Beginning January 1, 2017, principal and interest payments were 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 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, 2017, GEC was in compliance with the loan covenants and the outstanding balance on the note was \$1,037,391.

For the year ended June 30, 2017, interest expense totaled \$45,755 which is included in the accompanying statement of functional expenses.

As of June 30, 2017, principal payments on the note payable over the next five years and thereafter were due as follows:

For the Year Ending June 30,	
2018	\$ 139,552
2019	146,327
2020	153,431
2021	160,879
2022	168,690
Thereafter	<u>268,512</u>
Total Payments Due	<u>\$ 1,037,391</u>

In September 2017, the outstanding loan balance of \$1,015,326, comprising principal and interest, was paid in full.

4. Charter School Funding – Per Pupil Allocation

The per pupil allocation funding for the year ended June 30, 2017, is composed of the following:

General education	\$ 3,838,911
Facilities allowance	1,015,300
Special education	271,871
At-risk students	703,957
Special education – compliance	<u>33,656</u>
Total Per Pupil Allocation	<u>\$ 5,863,695</u>

Continued

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

**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2017**

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4. Charter School Funding – Per Pupil Allocation (continued)

In September 2017, the offices of the Deputy Mayor of Education and the State Superintendent of Education, notified all charter school leaders of a tentative approved contract with the Washington Teacher’s Union. Upon approval of the contract by the City Council and Mayor of DC, it is expected that DC will provide additional funding to all DC Public and Charter Schools through an increase in the per pupil allocation (Uniform per Student Funding Formula (UPSFF)) which will be applied retroactively for fiscal 2017 and to future years. All public charter schools are expected to receive a one-time payment to reflect the increase in the fiscal year 2017 UPSFF base rate, which will be calculated based on the final enrollment audit count, supplemental payments and extended school year funding. Any such retroactively per pupil funding will be recognized as revenue in GEC’s fiscal year 2018 financial statements.

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, and amended on July 1, 2016, GEC paid GGW \$350,004 in management fees. Additionally, GEC was billed \$1,991,323 for reimbursable costs relating to labor and other direct costs, of which \$40,857 was outstanding as of June 30, 2017, in accordance with the terms of the agreement. This expense and outstanding balance are 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.

As described in Note 3, GGW lent GEC funds totaling \$1,104,725, 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, 2017, the outstanding balance was \$1,037,391.

**Operating Lease**

In December 2015, GEC entered into a noncancelable operating lease for office space in Washington, DC, which expires in April 2027. The terms of the lease required 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 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 provided a tenant improvement allowance of up to \$1,272,700, which was to be used within the first 12 months following the rent commencement date of June 12, 2016. As of June 30, 2017, the entire amount was drawn. Under GAAP, all fixed rent increases and lease incentives are recognized on a

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

5. Risks and Commitments (continued)

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 building.

Rent expense totaled \$660,239 for the year ended June 30, 2017.

As of June 30, 2017, the future minimum lease payments required under this lease were as follows:

<u>For the Year Ending</u> <u>June 30,</u>	
2018	\$ 778,079
2019	797,531
2020	817,469
2021	837,906
2022	858,853
Thereafter	<u>4,465,323</u>
Total Lease Payments Due	<u>\$ 8,555,161</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, educational expertise and other consulting services in connection with the operation of GEC. GGW sublicensed this agreement to GEC, and GEC must abide by all terms and conditions of this license agreement. Under the sublicense agreement with GGW, GEC was required to pay a start-up fee of \$50,000 to assist in the school opening, followed by annual fees. On September 1, 2017, GGW entered into a Membership Agreement with GEI replacing the existing Licensing and Services Agreement. All the services to be provided under the agreement remained the same. GGW will pay GEI a monthly fee of \$3,000. The agreement expires on July 31, 2021, with options to renew for two additional three-year terms.

**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 school building 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 for up to three one-year extensions. Under the terms of the original agreement, GEC was required to pay YMCA \$631,036 during the first year and \$649,967 during the second year of the term for its services. Effective January 1, 2017, the agreement was amended to reflect reduced service usage and reduced related annual fees to \$548,343 for the current year and \$479,620 for the next year.

THE GOODWILL EXCEL CENTER, PUBLIC CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2017

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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, 2017, 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 Accounting Standards Codification 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 evaluated its uncertainty in income taxes for the year ended June 30, 2017, 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 uncertainty in income taxes, if any, in income tax expense.

7. Subsequent Events

GEC's management has evaluated subsequent events through November 13, 2017, the date the financial statements were available to be issued. Except for the loan repayment described in Note 3, the additional retroactive per pupil funding from the DC government described in Note 4 and the amendment of the curriculum licensing agreement described in Note 5, there were no other subsequent events that require recognition or disclosure in these consolidated financial statements.



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

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, 2017, 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 November 13, 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.

**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.  
November 13, 2017