

CityScape Schools, Inc dba East Grand Preparatory

Financial Statements

August 31, 2016

For the year then ended

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CERTIFICATE OF BOARD

*CityScape Schools, Inc. dba East Grand Preparatory
County-District Number: 057-841*

We, the undersigned, certify that the attached annual financial reports of the above named charter holder were reviewed and:

 X *approved* *disapproved*

for the year ended August 31, 2016, at a meeting of the board of directors of such charter holder on the 7th day of October 2016.

Wes Briggs (original signature on file)

Carol Thorne (original signature on file)

Signature of Board President

Signature of Board Secretary

Original signatures on file with the Texas Education Agency

If the board of trustees/directors disapproved of the auditors' report, the reason(s) for disapproving it (is/are):

INDEPENDENT AUDITORS' REPORT

*To the Board of Directors
CityScape Schools, Inc. dba East Grand Preparatory*

We have audited the accompanying financial statements of CityScape Schools, Inc. dba East Grand Preparatory (the "School"), which comprise the statement of financial position as of August 31, 2016, 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

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 CityScape Schools, Inc. dba East Grand Preparatory as of August 31, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of CityScape Schools, Inc. dba East Grand Preparatory. In accordance with the requirements established by the Financial Accountability System Resource Guide – Special Supplement – Charter Schools issued by the Texas Education Agency, the required supplemental information on pages 14 - 16 has been presented in addition to the basic financial statements. This information has been subjected to the auditing procedures applied to the basic 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.

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2016, on our consideration of Academy'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 and should be considered in assessing the results of our audit.

Judd . James, Smith & Company

Dallas, Texas
October 5, 2016

CITYSCAPE SCHOOLS, INC. dba EAST GRAND PREPARATORY

Statement of Financial Position

As of August 31, 2016

Assets

<i>Current assets</i>	
Cash	\$ 746,438
Due from grantor agencies	290,317
Prepaid expenditures	<u>3,571</u>
Total current assets	<u>1,040,326</u>
<i>Other assets</i>	
Deferred expenditures	162,141
Depreciable assets, net	<u>4,295,973</u>
Total other assets	<u>4,458,114</u>
 Total assets	 \$ <u>5,498,440</u>

Liabilities and Net Assets

<i>Current liabilities</i>	
Accounts payable	\$ 294,735
Accrued payroll liabilities	219,296
Current portion of long term debt	156,997
Current portion of capital lease obligation	<u>190,324</u>
Total current liabilities	<u>861,352</u>
<i>Noncurrent liabilities</i>	
Noncurrent portion of long term debt	3,380,916
Noncurrent portion of capital lease obligation	<u>332,065</u>
Total noncurrent liabilities	<u>3,712,981</u>
 Total liabilities	 <u>4,574,333</u>
<i>Net assets</i>	
Unrestricted	380,551
Temporarily restricted	543,556
Permanently restricted	<u>-</u>
Total net assets	<u>924,107</u>
 Total liabilities and net assets	 \$ <u>5,498,440</u>

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

CITYSCAPE SCHOOLS, INC. dba EAST GRAND PREPARATORY

Statement of Activities

For the year ended August 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Local support				
Other revenues from local support	\$ 159,320	\$ -	\$ -	\$ 159,320
Food service activity	5,340	-	-	5,340
Total local support	164,660	-	-	164,660
State program revenues				
Available school fund program	-	60,394	-	60,394
Foundation school program	-	3,884,024	-	3,884,024
Other state grant revenue	-	70,600	-	70,600
Total state program revenues	-	4,015,018	-	4,015,018
Federal program revenues				
Title I, Part A	-	118,791	-	118,791
Title II, Part A	-	14,520	-	14,520
Title III, Part A	-	14,021	-	14,021
IDEA, Part B, Formula	-	49,068	-	49,068
IDEA, Part B, Preschool	-	1,573	-	1,573
National school breakfast and lunch program	-	266,391	-	266,391
Summer school LEP	-	4,452	-	4,452
Total federal program revenues	-	468,816	-	468,816
Net assets released from restrictions	4,027,787	(4,027,787)	-	-
Total Revenues	4,192,447	456,047	-	4,648,494
Expenses				
Program services:				
11 Instruction	1,896,842	-	-	1,896,842
13 Curriculum and instructional staff development	4,180	-	-	4,180
23 School leadership	524,516	-	-	524,516
Support services:				
35 Food services	274,008	-	-	274,008
36 Extracurricular activities	300	-	-	300
41 General administration	379,857	-	-	379,857
51 Plant maintenance and operations	536,268	-	-	536,268
52 Security and monitoring services	14,051	-	-	14,051
53 Data processing services	147,927	-	-	147,927
71 Debt service	249,838	-	-	249,838
Total Expenses	4,027,787	-	-	4,027,787
Change in net assets	164,660	456,047	-	620,707
Net assets, beginning of year	215,891	87,509	-	303,400
Net assets, end of year	\$ 380,551	\$ 543,556	\$ -	\$ 924,107

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

CITYSCAPE SCHOOLS, INC. dba EAST GRAND PREPARATORY

Statement of Cash Flows

For the year ended August 31, 2016

<i>Cash flows from operating activities</i>	
Change in net assets	\$ 620,707
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation expense	161,297
Increase in due from grantor agency	(110,602)
Decrease in other receivables	135
Increase in prepaid expenditures	(3,571)
Decrease in deferred expenditures	32,412
Increase in accounts payable	270,962
Increase in accrued payroll liabilities	<u>48,286</u>
Net cash provided by operating activities	<u>1,019,626</u>
<i>Net cash flows used by from investing activities</i>	
Purchase of equipment	<u>(303,114)</u>
Net cash used by investing activities	<u>(303,114)</u>
<i>Net cash provided (used) by financing activities</i>	
Proceeds from long-term debt	153,476
Repayments of long-term debt	(150,138)
Repayments of capital leases	<u>(147,833)</u>
Net cash used by financing activities	<u>(144,495)</u>
Net increase in cash and cash equivalents	572,017
Cash and cash equivalents at beginning of year	<u>174,421</u>
Cash and cash equivalents at end of year	\$ <u><u>746,438</u></u>
 <i>Supplemental disclosures of cash flow information:</i>	
<i>Cash paid during the year for:</i>	
Interest	\$ <u><u>249,838</u></u>
Income taxes	\$ <u><u>-</u></u>
 <i>Non-cash transactions</i>	
Capital lease acquisitions	\$ <u><u>153,476</u></u>

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

CITYSCAPE SCHOOLS, INC. dba EAST GRAND PREPARATORY

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Nature of activities

CityScape Schools, Inc. dba East Grand Preparatory (the "School") is an open enrollment charter school serving economically disadvantaged children in a single charter school. The School is supported primarily through state foundation school program act entitlements, donor contributions, and federal grants. Approximately 87 percent of the School's support for 2016 came from state entitlements. The School does not conduct any other charter or non-charter activities.

CityScape Schools, Inc. dba East Grand Preparatory was formerly known as Reconciliation Academy, Inc.; in 2014, the School changed its name.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the School and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations or net assets subject to donor-imposed restrictions that have been met by the School within the same year received. State and federal revenues are reported as unrestricted net assets because it met all state and federal restrictions in the same reporting period and this accounting treatment has been applied consistently from period to period.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may be or will be met, either by actions of the School and/or the passage of time. When a restriction is met in the year following receipt, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor imposed stipulations that they will be maintained permanently.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give, due in the next year, are recorded at their net realizable value. Unconditional promises to give, due in subsequent years, are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Cash equivalents

Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase.

CITYSCAPE SCHOOLS, INC. dba EAST GRAND PREPARATORY

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

Compensated absences

Compensated absences cannot be reasonably estimated and are therefore recorded at cost when paid.

Depreciable assets

Depreciable assets are stated at cost or at estimated fair value at the date of gift. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The School capitalizes all expenditures over \$5,000 to depreciable assets. Depreciation is provided using the straight-line method over estimated useful life of the assets.

Income taxes

The School is exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3) and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, CityScape Schools, Inc. dba East Grand Preparatory has been determined by the Internal Revenue Service to be a public charity within the meaning of Section 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code. There was no unrelated business income for 2015-2016.

The School is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to September 1, 2012.

Date of Management's Review

Subsequent events were evaluated through October 5, 2016, which is the date the financial statements were available to be issued.

CITYSCAPE SCHOOLS, INC. dba EAST GRAND PREPARATORY

Notes to Financial Statements

2. Commitments and Contingencies

The School leases equipment under a non-cancellable lease agreements with expiration dates between March 2015 and November 2020. Total rent expense on this equipment for the year ended August 31, 2016 was \$23,926. Minimum lease payments under the remaining operating lease are as follows:

Year ending August 31,	2017	\$	28,637
	2018		21,513
	2019		10,194
	2020		10,194
	2021		2,179
		\$	<u>72,717</u>

3. Retirement Benefits

Plan Description - The School contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature.

Participating employers in the System are legal separate entities from the State and from each other. Contributions to the System by one employer may be used for the benefit of a plan member of another participating employer. The unfunded obligations are passed along to the participating employers. There is no withdrawal penalty for a plan member for leaving the System.

Name of Plan	Employer ID/Plan Number	Certified Zone Status	Expiration Date of Collective Bargaining Agreement	Improvement or Rehabilitation Plan	Surcharge Paid	Contributions Made 2015-2016
Teacher Retirement System of Texas	n/a	Unknown	n/a	n/a	\$ -	\$ <u>157,391</u>
Total contributions made						\$ <u><u>157,391</u></u>

CITYSCAPE SCHOOLS, INC. dba EAST GRAND PREPARATORY

Notes to Financial Statements

3. Retirement Benefits (continued)

Notes to the table:

1. *Certified Zone Status (as defined by the Pension Protection Act) represents the level at which the plan is funded. Details of the funding status are as follows:*
 - i. *Total plan assets - \$149,780,061,824*
 - ii. *Accumulated benefit obligations - \$163,887,375,172*
 - iii. *The System is 78.43% funded.*
2. *There is no collective-bargaining agreement.*
3. *Based on the audited GASB 68 allocation schedules from the TRS website as of August 31, 2015, the year-end of the System, contributions made to the System did not represent more than 5% of the total contributions received by the System.*
4. *Contribution rates:*

<i>Member</i>	<i>7.2%</i>
<i>State</i>	<i>6.8%</i>
<i>Employer</i>	<i>6.8%</i>

There have been no changes that would affect the comparison of employer contributions from year to year. The System's annual financial report and other required disclosure information are available by writing the General Accounting Department, Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698.

In addition, employees may contribute 0.65% of their salary and the School must contribute 0.55% of the salary of each active employee to TRS-Care (the TRS health plan for retired employees). The total amount contributed to TRS-Care for the year was \$11,637 which is equal to the employees' contributions and the School's required contributions for the year.

4. Maintenance of Effort

The amount paid by the corporation for charter school employees for health care premiums was as follows:

A	Total annual premiums paid for health care 2015-2016:	\$ 191,206
B	Subtract any non-medical expenditures:	<u>-</u>
C	2015-2016 maintenance of effort	<u>\$ 191,206</u>

CITYSCAPE SCHOOLS, INC. dba EAST GRAND PREPARATORY

Notes to Financial Statements

5. Property and Equipment

The following is a summary of property and equipment as of August 31, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclass/ Retirement</u>	<u>Ending Balance</u>
Land	\$ 315,000	\$ -	\$ -	\$ 315,000
Building & improvements	3,331,062		-	3,331,062
Furniture & equipment	780,928	113,702	-	894,630
Construction in progress	<u>3,901</u>	<u>189,412</u>	<u>-</u>	<u>193,313</u>
Total property and equipment	4,430,891	303,114	-	4,734,005
Less: accumulated depreciation	<u>276,735</u>	<u>161,297</u>	<u>-</u>	<u>438,032</u>
Property and equipment, net	\$ <u><u>4,154,156</u></u>	\$ <u><u>141,817</u></u>	\$ <u><u>-</u></u>	\$ <u><u>4,295,973</u></u>

Depreciation expense for the year ended August 31, 2016 was \$161,297.

6. Contingent Liabilities

The School participates in numerous programs that are subject to audit by the Texas Education Agency and various federal audit agencies. These programs have complex compliance requirements, and should state or federal auditors find areas of substantial noncompliance, those School funds may be subject to refund if so determined by administrative audit review.

7. Notes Payable

In May of 2014 the School secured two construction loans with a third-party lender for \$151,500 and \$3,600,000. The loans are payable in monthly installments of \$2,896 and \$21,794, respectively through May 23, 2020. The notes bear interest at rates of 5.45% and 5.571%, respectively, and are secured by land and building. As of August 31, 2016, the outstanding notes payable balance was \$3,537,913.

CITYSCAPE SCHOOLS, INC. dba EAST GRAND PREPARATORY

Notes to Financial Statements

7. Notes Payable (continued)

Maturities of notes payable for the years ending August 31 are as follows:

2017	\$	156,997
2018		163,861
2019		162,121
2020		<u>3,054,934</u>
Total		3,537,913
Less: current portion		<u>(156,997)</u>
Long term portion	\$	<u><u>3,380,916</u></u>

8. Capital Leases

In 2016 the School entered into several capital leases for HVAC, building improvements, and office equipment. Future minimum lease payments under the capital leases are as follows:

Year ending August 31,		
2017	\$	190,324
2018		169,713
2019		136,584
2020		<u>25,768</u>
Total minimum lease payment		522,389
Less: current portion		<u>(190,324)</u>
Long-term portion	\$	<u><u>332,065</u></u>

The following equipment, included in total property and equipment, is subject to the above capital leases whereby the School recognized an asset and a liability upon contract inception:

Construction in progress	\$	43,073
Machinery and equipment		724,415
Less: accumulated depreciation		<u>(131,245)</u>
Net assets under capital leases	\$	<u><u>636,243</u></u>

9. Due from Grantor Agencies

As of August 31, 2016, the School had earned the following revenues which were not received until after the end of the fiscal year:

Foundation entitlements	\$ 267,462
Other State grants	4,072
Federal grants	<u>18,783</u>
Total	<u><u>\$ 290,317</u></u>

CITYSCAPE SCHOOLS, INC. dba EAST GRAND PREPARATORY

Notes to Financial Statements

10. State Foundation Program Revenue

Charter schools in the State of Texas participate in the State foundation program. Under this program, each charter school is entitled to receive these revenues based upon student enrollment and average daily attendance. Each charter school is required to file enrollment and attendance reports at the close of each six weeks reporting period, and at the close of the year, actual attendance is calculated by the Texas Education Agency (TEA) and the attendance reports are subject to audit by the TEA and final State foundation program earnings may be adjusted as a result of any such audit. A reconciliation of cash paid to revenue recognized is as follows:

Cash paid during fiscal year	\$ 3,775,269
Revenue accrued at year-end	260,064
Revenue accrued in prior year	(151,309)
Revenue recognized during current year	<u>\$ 3,884,024</u>

11. Budget Amendments

Prior to the beginning of each school year, the School prepares, approves and submits its annual budget for the next fiscal year. During the year the School amends this budget as necessary. Any necessary amendments are approved by the board prior to expenditure.

Function 71 (debt service) contained an unfavorable variance of \$45,254 from budget. The variance is a result of the final budget amendment not including a provision for amortization of loan costs. Management has taken steps to ensure that future budgets include a provision for loan cost amortization.

CITYSCAPE SCHOOLS, INC. dba EAST GRAND PREPARATORY

Schedule of Expenses

For the year ended August 31, 2016

<i>Expenses</i>		
6100	<i>Payroll costs</i>	\$ 2,498,282
6200	<i>Professional and contracted services</i>	705,140
6300	<i>Supplies and materials</i>	219,378
6400	<i>Other operating costs</i>	355,149
6500	<i>Debt</i>	<u>249,838</u>
<i>Total Expenses</i>		\$ <u><u>4,027,787</u></u>

CITYSCAPE SCHOOLS, INC. dba EAST GRAND PREPARATORY

Schedule of Capital Assets

For the year ended August 31, 2016

		<u>Local</u>	<u>State</u>	<u>Federal</u>	<u>Total</u>
1510	Land	\$ -	\$ 315,000	\$ -	\$ 315,000
1520	Buildings and improvements	-	3,331,062	-	3,331,062
1539	Furniture and equipment	59,665	780,038	54,927	894,630
1580	Construction in progress	-	193,313	-	193,313
Total Property and Equipment		<u>\$ 59,665</u>	<u>\$ 4,619,413</u>	<u>\$ 54,927</u>	<u>\$ 4,734,005</u>

CITYSCAPE SCHOOLS, INC. dba EAST GRAND PREPARATORY

Budgetary Comparison Schedule

For the year ended August 31, 2016

		<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
		<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>from Final Budget</u>
Revenues					
<i>Local support</i>					
5749	Other revenues from local support	\$ 103,933	\$ 103,933	\$ 159,320	\$ 55,387
5751	Food service activity	5,000	5,000	5,340	340
	<i>Total local support</i>	<u>108,933</u>	<u>108,933</u>	<u>164,660</u>	<u>55,727</u>
<i>State program revenues</i>					
5811	Available school fund program	528,319	528,319	60,394	(467,925)
5812	Foundation school program act revenues	2,993,805	3,217,806	3,884,024	666,218
5829	Other state grant revenue	58,846	107,152	70,600	(36,552)
	<i>Total state program revenues</i>	<u>3,580,970</u>	<u>3,853,277</u>	<u>4,015,018</u>	<u>161,741</u>
<i>Federal program revenues</i>					
5920	National breakfast and lunch program	296,496	296,496	266,391	(30,105)
5929	Federal revenues distributed by the Texas Education Agency	165,182	206,440	202,425	(4,015)
	<i>Total federal program revenues</i>	<u>461,678</u>	<u>502,936</u>	<u>468,816</u>	<u>(34,120)</u>
	<i>Total revenues</i>	<u>4,151,581</u>	<u>4,465,146</u>	<u>4,648,494</u>	<u>183,348</u>
Expenses					
11	Instruction	1,802,835	1,924,510	1,896,842	27,668
13	Curriculum development and instructional staff development	5,000	5,313	4,180	1,133
23	School leadership	460,796	514,796	524,516	(9,720)
35	Food service	261,396	261,396	274,008	(12,612)
36	Extracurricular activities	-	5,000	300	4,700
41	General administration	242,132	367,832	379,857	(12,025)
51	Plant maintenance and operations	675,708	543,611	536,268	7,343
52	Security and monitoring services	3,060	14,015	14,051	(36)
53	Data processing services	118,504	148,604	147,927	677
71	Debt service	-	204,584	249,838	(45,254)
	<i>Total expenses</i>	<u>3,569,431</u>	<u>3,989,661</u>	<u>4,027,787</u>	<u>(38,126)</u>
<i>Change in net assets</i>		582,150	475,485	620,707	145,222
<i>Net assets, beginning of year</i>		<u>303,400</u>	<u>303,400</u>	<u>303,400</u>	<u>-</u>
<i>Net assets, end of year</i>		<u>\$ 885,550</u>	<u>\$ 778,885</u>	<u>\$ 924,107</u>	<u>\$ 145,222</u>

***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***

*Board of Directors
CityScape Schools, Inc. dba East Grand Preparatory*

We have audited the statement of financial position, the related statements of activities, functional expenses, and cash flows of CityScape Schools, Inc. dba East Grand Preparatory (the "School"), as of and for the year ended August 31, 2016, which collectively comprise the School's basic financial statements and have issued our report thereon dated October 5, 2016. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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 combination of deficiencies, in internal control such 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 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.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Dallas, Texas
October 5, 2016