

CityScape Schools, Inc.

Financial Statements

August 31, 2017

For the year then ended

TABLE OF CONTENTS

	Page(s)
CERTIFICATE OF THE BOARD.....	1
INDEPENDENT AUDITORS' REPORT	2-3
FINANCIAL STATEMENTS	
Statement of Financial Position	4
Statement of Activities	5
Statement of Cash Flows.....	6
Notes to Financial Statements	7-13
SUPPLEMENTAL INFORMATION	
Schedule of Expenses.....	14
Schedule of Capital Assets.....	15
Budgetary Comparison Schedule.....	16
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards	17-18

CERTIFICATE OF BOARD

CityScape Schools, Inc.
County-District Number: 057-841

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

_____ approved _____ disapproved

for the year ended August 31, 2017, at a meeting of the board of directors of such charter holder on the 19th day of December 2017.

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.*

We have audited the accompanying financial statements of CityScape Schools, Inc. (the "School"), which comprise the statement of financial position as of August 31, 2017, 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. as of August 31, 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.

Other Matters

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of CityScape Schools, Inc. 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2017, on our consideration of School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 CityScape Schools, Inc.'s internal control over financial reporting and compliance.

Judd Thomas Smith, Partner, P.C.

Dallas, Texas
December 18, 2017

CITYSCAPE SCHOOLS, INC.
Statement of Financial Position
As of August 31, 2017

Assets

<i>Current assets</i>	
Cash	\$ 704,802
Restricted cash	5,118,539
Due from grantor agencies	193,857
Prepaid expenditures	114,152
Total current assets	<u>6,131,350</u>
<i>Other assets</i>	
Deferred expenditures	939,721
Depreciable assets, net	9,557,704
Total other assets	<u>10,497,425</u>
 Total assets	 <u><u>\$ 16,628,775</u></u>

Liabilities and Net Assets

<i>Current liabilities</i>	
Accounts payable	\$ 122,004
Accrued payroll liabilities	301,464
Short term loan	35,000
Current portion of long term debt	-
Current portion of capital lease obligation	38,997
Total current liabilities	<u>497,465</u>
<i>Noncurrent liabilities</i>	
Noncurrent portion of long term debt	14,865,000
Noncurrent portion of capital lease obligation	-
Total noncurrent liabilities	<u>14,865,000</u>
 Total liabilities	 <u>15,362,465</u>
<i>Net assets</i>	
Unrestricted	451,846
Temporarily restricted	814,464
Permanently restricted	-
Total net assets	<u>1,266,310</u>
 Total liabilities and net assets	 <u><u>\$ 16,628,775</u></u>

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

CITYSCAPE SCHOOLS, INC.
Statement of Activities
For the year ended August 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Local support				
Other revenues from local support	\$ 65,088	\$ -	\$ -	\$ 65,088
Food service activity	6,207	-	-	6,207
Total local support	71,295	-	-	71,295
State program revenues				
Available school fund program	-	156,947	-	156,947
Foundation school program	-	4,475,582	-	4,475,582
Other state grant revenue	-	66,149	-	66,149
Total state program revenues	-	4,698,678	-	4,698,678
Federal program revenues				
Title I, Part A	-	180,903	-	180,903
Title II, Part A	-	26,899	-	26,899
Title III, Part A	-	25,537	-	25,537
IDEA, Part B, Formula	-	71,833	-	71,833
IDEA, Part B, Preschool	-	1,013	-	1,013
National school breakfast and lunch program	-	288,129	-	288,129
Summer school LEP	-	3,495	-	3,495
Total federal program revenues	-	597,809	-	597,809
Net assets released from restrictions	5,025,579	(5,025,579)	-	-
Total Revenues	5,096,874	270,908	-	5,367,782
Expenses				
Program services:				
11 Instruction	2,310,873	-	-	2,310,873
13 Curriculum and instructional staff development	3,546	-	-	3,546
23 School leadership	901,290	-	-	901,290
Support services:				
35 Food services	329,347	-	-	329,347
36 Extracurricular activities	1,386	-	-	1,386
41 General administration	415,117	-	-	415,117
51 Plant maintenance and operations	496,602	-	-	496,602
52 Security and monitoring services	51,765	-	-	51,765
53 Data processing services	269,423	-	-	269,423
71 Debt service	246,230	-	-	246,230
Total Expenses	5,025,579	-	-	5,025,579
Change in net assets	71,295	270,908	-	342,203
Net assets, beginning of year	380,551	543,556	-	924,107
Net assets, end of year	\$ 451,846	\$ 814,464	\$ -	\$ 1,266,310

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

CITYSCAPE SCHOOLS, INC.
Statement of Cash Flows
For the year ended August 31, 2017

<i>Cash flows from operating activities</i>	
Change in net assets	\$ 342,203
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation expense	200,127
Increase in due from grantor agency	96,460
Increase in prepaid expenditures	(110,581)
Decrease in deferred expenditures	(777,580)
Increase in accounts payable	(172,731)
Increase in accrued payroll liabilities	82,168
	<u>(339,934)</u>
<i>Net cash used by operating activities</i>	
<i>Net cash flows used by from investing activities</i>	
Purchase of equipment	<u>(5,410,858)</u>
<i>Net cash used by investing activities</i>	<u>(5,410,858)</u>
<i>Net cash provided (used) by financing activities</i>	
Proceeds from long-term debt	15,000,000
Proceeds from short-term loans	35,000
Repayments of long-term debt	(3,672,913)
Repayments of capital leases	<u>(534,392)</u>
<i>Net cash provided by financing activities</i>	<u>10,827,695</u>
<i>Net increase in cash and cash equivalents</i>	5,076,903
<i>Cash and cash equivalents at beginning of year</i>	<u>746,438</u>
<i>Cash and cash equivalents at end of year</i>	\$ <u><u>5,823,341</u></u>
 <i>Supplemental disclosures of cash flow information:</i>	
<i>Cash paid during the year for:</i>	
Interest	\$ <u><u>246,230</u></u>
Income taxes	\$ <u><u>-</u></u>
 <i>Non-cash transactions</i>	
Capital lease acquisitions	\$ <u><u>51,000</u></u>

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

CITYSCAPE SCHOOLS, INC.

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 2017 came from state entitlements. The School does not conduct any other charter or non-charter activities.

CityScape Schools, Inc. 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.

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 2016-2017.

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, 2013.

Date of Management's Review

Subsequent events were evaluated through December 18, 2017, which is the date the financial statements were available to be issued.

CITYSCAPE SCHOOLS, INC.

Notes to Financial Statements

2. Commitments and Contingencies

The School leases equipment under a non-cancellable lease agreements with expiration dates between July 2018 and January 2022. Total rent expense on this equipment for the year ended August 31, 2017 was \$65,462.

Minimum lease payments under the remaining operating lease are as follows:

Year ending August 31,	2018	\$	47,493
	2019		36,174
	2020		36,174
	2021		28,159
	2022		6,495
		\$	<u>154,495</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 2016-2017
Teacher Retirement System of Texas	n/a	Unknown	n/a	n/a	\$ -	\$ <u>65,568</u>
Total contributions made						\$ <u><u>65,568</u></u>

CITYSCAPE SCHOOLS, INC.

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 - \$152,925,647,396*
 - ii. *Accumulated benefit obligations - \$171,797,150,000*
 - iii. *The System is 78% 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, 2016, 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 \$32,973 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 2016-2017:	\$ 255,114
B	Subtract any non-medical expenditures:	<u>-</u>
C	2016-2017 maintenance of effort	<u>\$ 255,114</u>

CITYSCAPE SCHOOLS, INC.

Notes to Financial Statements

5. Property and Equipment

The following is a summary of property and equipment as of August 31, 2017:

	<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	73,359	-	3,404,421
Furniture & equipment	894,630	228,349	(45,418)	1,077,561
Construction in progress	<u>193,313</u>	<u>5,160,150</u>	<u>-</u>	<u>5,353,463</u>
Total property and equipment	4,734,005	5,461,858	(45,418)	10,150,445
Less: accumulated depreciation	<u>438,032</u>	<u>200,127</u>	<u>(45,418)</u>	<u>592,741</u>
Property and equipment, net	\$ <u>4,295,973</u>	\$ <u>5,261,731</u>	\$ <u>-</u>	\$ <u>9,557,704</u>

Depreciation expense for the year ended August 31, 2017 was \$200,127.

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. Long-term Debt

On November 30, 2016, the School issued two bond series with a total par value of \$15,000,000 through BOK Financial. The proceeds of these bonds were used to renovate certain buildings used for instructional purposes as well as pay of several outstanding acquisition and construction loans as well as outstanding capital leases. The bonds are secured by a deed of trust against the properties.

The School's long-term debt activity during the year ended August 31, 2017 was as follows:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Repayments</u>	<u>Ending Balance</u>
Regions Bank	5.571%	2020	\$ 3,449,615	\$ -	\$ 3,449,615	\$ -
Regions Bank	5.450%	2019	88,298	-	88,298	-
Series 2016A	5.000%-5.500%	2021-2051	-	14,410,000	-	14,410,000
Series 2016B	5.750%	2018-2021	<u>-</u>	<u>590,000</u>	<u>135,000</u>	<u>455,000</u>
			\$ <u>3,537,913</u>	\$ <u>15,000,000</u>	\$ <u>3,672,913</u>	\$ <u>14,865,000</u>

CITYSCAPE SCHOOLS, INC.

Notes to Financial Statements

7. Long-term Debt, continued

At August 31, 2017, future debt service requirements pursuant to these bond issues were as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ -	\$ 812,788	\$ 812,788
2019	145,000	812,788	957,788
2020	180,000	804,450	984,450
2021	190,000	794,100	984,100
2022	205,000	783,625	988,625
2023-2027	1,180,000	3,754,375	4,934,375
2028-2032	1,530,000	3,405,875	4,935,875
2033-2037	1,985,000	2,938,100	4,923,100
2038-2042	2,595,000	2,328,425	4,923,425
2043-2047	3,400,000	1,531,200	4,931,200
2048-2051	<u>3,455,000</u>	<u>487,850</u>	<u>3,942,850</u>
Total	\$ <u>14,865,000</u>	\$ <u>18,453,576</u>	\$ <u>33,318,576</u>

8. Capital Leases

In 2017 the School entered into a capital leases for computer software. In addition, during 2017 the School paid off all outstanding leases from the prior year with a portion of the proceeds from the 2016 Bond Offering

Future minimum lease payments under the capital lease are as follows:

Year ending August 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018 \$	<u>38,997</u>	<u>2,635</u>	<u>41,632</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:

Machinery and equipment	\$ 51,000
Less: accumulated depreciation	<u>(25,500)</u>
Net assets under capital leases	\$ <u>25,500</u>

CITYSCAPE SCHOOLS, INC.

Notes to Financial Statements

9. Due from Grantor Agencies

As of August 31, 2017, the School had earned the following revenues which were not received until after the end of the fiscal year:

Foundation entitlements	\$ 175,939
Other State grants	11,686
Federal grants	<u>6,232</u>
Total	<u>\$ 193,857</u>

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	\$ 4,559,707
Revenue accrued at year-end	175,939
Revenue accrued in prior year	<u>(260,064)</u>
Revenue recognized during current year	<u>\$ 4,475,582</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.

CITYSCAPE SCHOOLS, INC.
Schedule of Expenses
For the year ended August 31, 2017

<i>Expenses</i>		
6100	<i>Payroll costs</i>	\$ 3,310,489
6200	<i>Professional and contracted services</i>	768,737
6300	<i>Supplies and materials</i>	265,676
6400	<i>Other operating costs</i>	434,447
6500	<i>Debt</i>	<u>246,230</u>
<i>Total Expenses</i>		\$ <u><u>5,025,579</u></u>

CITYSCAPE SCHOOLS, INC.
Schedule of Capital Assets
For the year ended August 31, 2017

	<i>Local</i>	<i>State</i>	<i>Federal</i>	<i>Total</i>
1510 Land	\$ -	\$ 315,000	\$ -	\$ 315,000
1520 Buildings and improvements	-	3,404,421	-	3,404,421
1539 Furniture and equipment	59,665	959,703	58,193	1,077,561
1580 Construction in progress	-	5,353,463	-	5,353,463
Total Property and Equipment	<u>\$ 59,665</u>	<u>\$ 10,032,587</u>	<u>\$ 58,193</u>	<u>\$ 10,150,445</u>

CITYSCAPE SCHOOLS, INC.
Budgetary Comparison Schedule
For the year ended August 31, 2017

		<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
		<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>from Final</u>
					<u>Budget</u>
Revenues					
<i>Local support</i>					
5749	Other revenues from local support	\$ 158,713	\$ 63,353	\$ 65,088	\$ 1,735
5751	Food service activity	4,748	6,207	6,207	-
	<i>Total local support</i>	<u>163,461</u>	<u>69,560</u>	<u>71,295</u>	<u>1,735</u>
<i>State program revenues</i>					
5811	Available school fund program	51,855	161,880	156,947	(4,933)
5812	Foundation school program act revenues	4,606,234	4,419,207	4,475,582	56,375
5829	Other state grant revenue	62,661	66,151	66,149	(2)
	<i>Total state program revenues</i>	<u>4,720,750</u>	<u>4,647,238</u>	<u>4,698,678</u>	<u>51,440</u>
<i>Federal program revenues</i>					
5920	National breakfast and lunch program	250,547	306,973	288,129	(18,844)
5929	Federal revenues distributed by the Texas Education Agency	286,953	288,303	309,680	21,377
	<i>Total federal program revenues</i>	<u>537,500</u>	<u>595,276</u>	<u>597,809</u>	<u>2,533</u>
	<i>Total revenues</i>	<u>5,421,711</u>	<u>5,312,074</u>	<u>5,367,782</u>	<u>55,708</u>
Expenses					
11	Instruction	2,509,856	2,389,729	2,310,873	78,856
13	Curriculum development and instructional staff development	4,251	3,581	3,546	35
23	School leadership	698,773	880,160	901,290	(21,130)
35	Food service	414,034	332,640	329,347	3,293
36	Extracurricular activities	327	1,393	1,386	7
41	General administration	442,990	593,294	415,117	178,177
51	Plant maintenance and operations	425,562	514,900	496,602	18,298
52	Security and monitoring services	13,393	55,707	51,765	3,942
53	Data processing services	171,423	285,082	269,423	15,659
71	Debt service	390,012	255,588	246,230	9,358
	<i>Total expenses</i>	<u>5,070,621</u>	<u>5,312,074</u>	<u>5,025,579</u>	<u>286,495</u>
	<i>Change in net assets</i>	351,090	-	342,203	342,203
	<i>Net assets, beginning of year</i>	<u>924,107</u>	<u>924,107</u>	<u>924,107</u>	<u>-</u>
	<i>Net assets, end of year</i>	<u>\$ 1,275,197</u>	<u>\$ 924,107</u>	<u>\$ 1,266,310</u>	<u>\$ 342,203</u>

***Independent Auditors' Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards***

*Board of Directors
CityScape Schools, Inc.*

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 CityScape Schools, Inc. (the "School") (a nonprofit organization), which comprise the statement of financial position as of August 31, 2017, 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 December 18, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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.

Job, Thomas, Smith, Company, P.C.

Dallas, Texas
December 18, 2017