

CityScape Schools, Inc.

Financial Statements

August 31, 2018

For the year then ended

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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:

 X *approved* *disapproved*

for the year ended August 31, 2018, at a meeting of the board of directors of such charter holder on the 7th day of December 2018.

Wes Briggs (signature on file)

Carol Thorne (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.*

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

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, 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 Matters

Other 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 specific purpose financial statements and supplemental information as listed in the table of contents has been presented in addition to the general purpose financial statements. In addition, the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 2018, 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 & Company, P.C.

Dallas, Texas
December 3, 2018

CITYSCAPE SCHOOLS, INC.
Statement of Financial Position
As of August 31, 2018

Assets

Current assets

Cash	\$ 1,298,165
Restricted cash	1,029,781
Due from grantor agencies	501,544
Total current assets	<u>2,829,490</u>

Other assets

Deferred expenditures	924,192
Depreciable assets, net	13,783,153
Total other assets	<u>14,707,345</u>

Total assets	\$ <u>17,536,835</u>
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Liabilities and Net Assets

Current liabilities

Accounts payable	\$ 4,414
Accrued payroll liabilities	440,240
Short term loan	200,000
Current portion of long term debt	145,000
Current portion of capital lease obligation	109,759
Total current liabilities	<u>899,413</u>

Noncurrent liabilities

Noncurrent portion of long term debt	14,720,000
Noncurrent portion of capital lease obligation	296,059
Total noncurrent liabilities	<u>15,016,059</u>

Total liabilities	<u>15,915,472</u>
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Net assets

Unrestricted	732,675
Temporarily restricted	888,688
Permanently restricted	-
Total net assets	<u>1,621,363</u>

Total liabilities and net assets	\$ <u>17,536,835</u>
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The accompanying notes are an integral part of these financial statements.

CITYSCAPE SCHOOLS, INC.
Statement of Activities
For the year ended August 31, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues				
Local support				
Other revenues from local support	\$ 249,421	\$ -	\$ -	\$ 249,421
Food service activity	29,904	-	-	29,904
Total local support	<u>279,325</u>	<u>-</u>	<u>-</u>	<u>279,325</u>
State program revenues				
Available school fund program	-	118,672	-	118,672
Foundation school program	-	6,274,854	-	6,274,854
Other state grant revenue	-	111,119	-	111,119
Total state program revenues	<u>-</u>	<u>6,504,645</u>	<u>-</u>	<u>6,504,645</u>
Federal program revenues				
Title I, Part A	-	193,207	-	193,207
Title II, Part A	-	20,724	-	20,724
Title III, Part A	-	30,069	-	30,069
IDEA, Part B, Formula	-	86,415	-	86,415
IDEA, Part B, Preschool	-	1,747	-	1,747
National school breakfast and lunch program	-	554,053	-	554,053
Summer feeding program	-	6,430	-	6,430
Summer school LEP	-	3,561	-	3,561
Student Support and Academic Enrichment Program	-	10,000	-	10,000
Other federal revenues	-	4,271	-	4,271
Total federal program revenues	<u>-</u>	<u>910,477</u>	<u>-</u>	<u>910,477</u>
Net assets released from restrictions	<u>7,340,898</u>	<u>(7,340,898)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>7,620,223</u>	<u>74,224</u>	<u>-</u>	<u>7,694,447</u>
Expenses				
Program services:				
11 Instruction	3,006,166	-	-	3,006,166
13 Curriculum and instructional staff development	27,617	-	-	27,617
23 School leadership	1,132,338	-	-	1,132,338
Support services:				
34 Student transportation	6,209	-	-	6,209
35 Food services	565,275	-	-	565,275
36 Extracurricular activities	38,028	-	-	38,028
41 General administration	617,114	-	-	617,114
51 Plant maintenance and operations	905,067	-	-	905,067
52 Security and monitoring services	66,440	-	-	66,440
53 Data processing services	85,693	-	-	85,693
61 Community services	10,330	-	-	10,330
71 Debt service	876,516	-	-	876,516
81 Fund raising	4,105	-	-	4,105
Total Expenses	<u>7,340,898</u>	<u>-</u>	<u>-</u>	<u>7,340,898</u>
Operating transfers in	30,336	-	-	30,336
Operating transfers out	<u>(28,832)</u>	<u>-</u>	<u>-</u>	<u>(28,832)</u>
Change in net assets	280,829	74,224	-	355,053
Net assets, beginning of year	451,846	814,464	-	1,266,310
Net assets, end of year	<u>\$ 732,675</u>	<u>\$ 888,688</u>	<u>\$ -</u>	<u>\$ 1,621,363</u>

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

CITYSCAPE SCHOOLS, INC.
Statement of Cash Flows
For the year ended August 31, 2018

<i>Cash flows from operating activities</i>	
<i>Change in net assets</i>	\$ 355,053
<i>Adjustments to reconcile change in net assets to net cash used by operating activities</i>	
<i>Depreciation expense</i>	498,181
<i>Increase in due from grantor agency</i>	(307,687)
<i>Decrease in prepaid expenditures</i>	114,152
<i>Decrease in deferred expenditures</i>	15,529
<i>Decrease in accounts payable</i>	(117,590)
<i>Increase in accrued payroll liabilities</i>	<u>138,776</u>
<i>Net cash provided by operating activities</i>	<u>696,414</u>
<i>Net cash flows used by from investing activities</i>	
<i>Purchase of equipment</i>	<u>(4,275,689)</u>
<i>Net cash used by investing activities</i>	<u>(4,275,689)</u>
<i>Net cash provided (used) by financing activities</i>	
<i>Proceeds from short-term loans</i>	165,000
<i>Repayments of capital leases</i>	<u>(81,120)</u>
<i>Net cash provided by financing activities</i>	<u>83,880</u>
<i>Net decrease in cash and cash equivalents</i>	(3,495,395)
<i>Cash and cash equivalents at beginning of year</i>	<u>5,823,341</u>
<i>Cash and cash equivalents at end of year</i>	\$ <u><u>2,327,946</u></u>
<i>Supplemental disclosures of cash flow information:</i>	
<i>Cash paid during the year for:</i>	
<i>Interest</i>	\$ <u><u>876,516</u></u>
<i>Income taxes</i>	\$ <u><u>-</u></u>
<i>Non-cash transactions</i>	
<i>Capital lease acquisitions</i>	\$ <u><u>447,941</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 85 percent of the School's support for 2018 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 2017-2018.

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, 2014.

Date of Management's Review

Subsequent events were evaluated through December 3, 2018, 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 through January 2022. Total rent expense on this equipment for the year ended August 31, 2018 was \$84,727.

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

Year ending August 31,	2019	\$	36,174
	2020		36,174
	2021		28,159
	2022		6,495
		\$	<u>107,002</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 2017-2018
Teacher Retirement System of Texas	n/a	Unknown	n/a	n/a	\$ -	\$ <u>89,138</u>
Total contributions made						\$ <u>89,138</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 - \$165,905,739,933*
 - ii. *Accumulated benefit obligations - \$179,336,534,819*
 - iii. *The System is 82% 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, 2017, 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>7.7%</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 \$377,336 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:

<i>A</i>	<i>Total annual premiums paid for health care 2017-2018:</i>	<i>\$ 340,507</i>
<i>B</i>	<i>Subtract any non-medical expenditures:</i>	<i>-</i>
<i>C</i>	<i>2017-2018 maintenance of effort</i>	<i><u>\$ 340,507</u></i>

CITYSCAPE SCHOOLS, INC.

Notes to Financial Statements

5. Property and Equipment

The following is a summary of property and equipment as of August 31, 2018:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclass/ Retirement</u>	<u>Ending Balance</u>
Land	\$ 315,000	\$ -	\$ -	\$ 315,000
Building & improvements	3,404,421	4,380,001	5,147,660	12,932,082
Furniture & equipment	1,077,561	343,629	(51,628)	1,369,562
Construction in progress	<u>5,353,463</u>	<u>-</u>	<u>(5,147,660)</u>	<u>205,803</u>
Total property and equipment	10,150,445	4,723,630	(51,628)	14,822,447
Less: accumulated depreciation	<u>592,741</u>	<u>498,181</u>	<u>(51,628)</u>	<u>1,039,294</u>
Property and equipment, net	\$ <u>9,557,704</u>	\$ <u>4,225,449</u>	\$ <u>-</u>	\$ <u>13,783,153</u>

Depreciation expense for the year ended August 31, 2018 was \$498,181.

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, 2018 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>
Series 2016A	5.000%-5.500%	2021-2051	14,410,000	-	-	14,410,000
Series 2016B	5.750%	2018-2021	<u>455,000</u>	<u>-</u>	<u>-</u>	<u>455,000</u>
			\$ <u>14,865,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>14,865,000</u>

CITYSCAPE SCHOOLS, INC.

Notes to Financial Statements

7. Long-term Debt, continued

At August 31, 2018, future debt service requirements pursuant to these bond issues were as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	215,000	773,375	988,375
2024-2028	1,240,000	3,694,075	4,934,075
2029-2033	1,610,000	3,321,725	4,931,725
2034-2038	2,095,000	2,828,925	4,923,925
2039-2043	2,740,000	2,185,700	4,925,700
2044-2048	3,585,000	1,344,200	4,929,200
2049-2051	2,660,000	297,825	2,957,825
Total	\$ <u>14,865,000</u>	\$ <u>17,640,788</u>	\$ <u>32,505,788</u>

8. Capital Leases

The School has entered into capital leases for various equipment. As of August 31, 2018, future minimum lease payments under the capital lease are as follows:

<u>Year ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 109,759	\$ 23,679	\$ 133,438
2020	117,308	16,129	133,437
2021	112,278	7,942	120,220
2022	52,832	2,026	54,858
2023	13,641	23	13,664
Total	\$ <u>405,818</u>	\$ <u>49,799</u>	\$ <u>455,617</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	\$ 211,828
Less: accumulated depreciation	<u>(28,670)</u>
Net assets under capital leases	\$ <u>183,158</u>

CITYSCAPE SCHOOLS, INC.

Notes to Financial Statements

9. Due from Grantor Agencies

As of August 31, 2018, the School had earned the following revenues which were not received until after the end of the fiscal year:

<i>Foundation entitlements</i>	<i>\$ 458,543</i>
<i>Other State grants</i>	<i>16,993</i>
<i>Federal grants</i>	<i><u>26,008</u></i>
<i>Total</i>	<i><u>\$ 501,544</u></i>

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:

<i>Cash paid during fiscal year</i>	<i>\$ 5,993,221</i>
<i>Revenue accrued at year-end</i>	<i>457,572</i>
<i>Revenue accrued in prior year</i>	<i><u>(175,939)</u></i>
<i>Revenue recognized during current year</i>	<i><u>\$ 6,274,854</u></i>

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 36 (extracurricular activities) contained an unfavorable variance of \$20,250 from budget. The variance is a result of expenditures in the student activity funds, which are not included in budgets approved by the board. Management has taken steps to correct this matter in future periods.

CITYSCAPE SCHOOLS, INC.
Schedule of Expenses
For the year ended August 31, 2018

<i>Expenses</i>		
6100	Payroll costs	\$ 4,365,726
6200	Professional and contracted services	766,688
6300	Supplies and materials	491,779
6400	Other operating costs	840,189
6500	Debt	<u>876,516</u>
<i>Total Expenses</i>		<u>\$ 7,340,898</u>

CITYSCAPE SCHOOLS, INC.
Schedule of Capital Assets
For the year ended August 31, 2018

		<u>Local</u>	<u>State</u>	<u>Federal</u>	<u>Total</u>
1510	Land	\$ -	\$ 315,000	\$ -	\$ 315,000
1520	Buildings and improvements	-	12,932,082	-	12,932,082
1539	Furniture and equipment	59,665	1,067,218	242,679	1,369,562
1580	Construction in progress	-	205,803	-	205,803
Total Property and Equipment		<u>\$ 59,665</u>	<u>\$ 14,520,103</u>	<u>\$ 242,679</u>	<u>\$ 14,822,447</u>

CITYSCAPE SCHOOLS, INC.
Budgetary Comparison Schedule
For the year ended August 31, 2018

		<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					
Local support					
5749	Other revenues from local support	\$ 172,800	\$ 209,075	\$ 249,421	\$ 40,346
5751	Food service activity	50,000	50,000	29,904	(20,096)
	Total local support	222,800	259,075	279,325	20,250
State program revenues					
5811	Available school fund program	-	-	118,672	118,672
5812	Foundation school program act revenues	6,019,200	6,326,581	6,274,854	(51,727)
5829	Other state grant revenue	-	-	111,119	111,119
	Total state program revenues	6,019,200	6,326,581	6,504,645	178,064
Federal program revenues					
5920	National breakfast and lunch program	575,631	554,053	554,053	-
5929	Federal revenues distributed by the Texas Education Agency	335,897	356,424	356,424	-
	Total federal program revenues	911,528	910,477	910,477	-
	Total revenues	7,153,528	7,496,133	7,694,447	198,314
Expenses					
11	Instruction	2,941,524	2,894,816	3,006,166	(111,350)
13	Curriculum development and instructional staff development	19,700	27,617	27,617	-
23	School leadership	1,050,845	1,132,338	1,132,338	-
34	Student transportation	5,600	6,209	6,209	-
35	Food service	627,047	564,622	565,275	(653)
36	Extracurricular activities	16,450	17,778	38,028	(20,250)
41	General administration	565,629	617,114	617,114	-
51	Plant maintenance and operations	731,985	823,899	905,067	(81,168)
52	Security and monitoring services	60,800	66,440	66,440	-
53	Data processing services	265,964	85,693	85,693	-
61	Community services	10,000	10,330	10,330	-
71	Debt service	837,297	846,551	876,516	(29,965)
81	Fund raising	5,000	4,105	4,105	-
	Total expenses	7,137,841	7,097,512	7,340,898	(243,386)
	Operating transfers in	-	-	30,336	(30,336)
	Operating transfers out	-	-	(28,832)	28,832
	Change in net assets	15,687	398,621	355,053	(43,568)
	Net assets, beginning of year	1,266,310	1,266,310	1,266,310	-
	Net assets, end of year	\$ 1,281,997	\$ 1,664,931	\$ 1,621,363	\$ (43,568)

***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, 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 December 3, 2018.

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 School'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.

Judd, Thomas, Smith & Company, P.C.

Dallas, Texas

December 3, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

*Board of Directors
CityScape Schools, Inc.*

Report on Compliance for Each Major Federal Program

We have audited CityScape Schools, Inc.'s ("the School") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the School's major federal programs for the year ended August 31, 2018. The School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2018.

Report on Internal Control over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the School as of and for the year ended August 31, 2018, and have issued our report thereon dated December 3, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Joo, Thomas, Smith & Company, P.C.

Dallas, Texas

December 3, 2018

CITYSCAPE SCHOOLS, INC.
Schedule of Findings and Questioned Costs
Year Ended August 31, 2018

PART I – SUMMARY OF AUDITORS' RESULTS

Financial Statement Section

1. The type of report issued on the general-purpose financial statements: **Unmodified**
2. Significant deficiencies in internal controls were disclosed by the audit of the financial statements: **None**.
Material Weaknesses: **None**.
3. Noncompliance that is material to the financial statements: **None**.

Federal Awards Section

1. The type of report issued on compliance for major programs: **Unmodified**
2. Significant deficiencies in internal controls were disclosed by the audit of the major programs: **None**.
Material Weaknesses: **None**.
3. Any audit findings that are required to be reported under 2 CFR section 200.516(a): **None**.
4. Major Programs:

Child Nutrition Cluster	10.553 and 10.555
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5. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
6. Auditee qualified as a low-risk auditee: **No**

PART II – FINDINGS RELATED TO THE FINANCIAL STATEMENTS

None

PART III – FINDINGS AND QUESTIONED COSTS RELATED TO MAJOR FEDERAL AWARD PROGRAMS

None

CITYSCAPE SCHOOLS, INC.
Summary Schedule of Prior Audit Findings and Current Results
Year ended August 31, 2018

There were no prior year audit findings.

CITYSCAPE SCHOOLS, INC.
Schedule of Expenditures of Federal Awards
August 31, 2018

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through Texas Education Agency			
ESEA, Title I, Part A - Improving Basic Programs	84.010	18610101057841	\$ 193,207
IDEA - Part B, Formula	84.027	186600010578416000	86,415
IDEA - Part B, Preschool	84.173	186610010578416000	1,747
ESEA, Title II, Part A - Teacher and Principal Training	84.367	18694501057841	20,724
ESEA, Title III, Part A - English Language Acquisition	84.365	18671001057841	30,069
Summer School LEP	84.369	69551702	3,561
ESEA, Title IV, Part A - Student Support and Academic Enrichment	84.424	18680101057841	10,000
Total Passed Through Texas Education Agency			<u>345,723</u>
Total U.S. Department of Education			<u>345,723</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through Texas Education Agency			
National School Breakfast Program	10.553	71401601	214,155
National School Lunch Program	10.555	71301601	319,645
National School Lunch Program - non-cash assistance	10.555		20,253
Summer Food Service Program for Children	10.559		6,430
Total Passed Through Texas Education Agency			<u>560,483</u>
Total U.S. Department of Agriculture			<u>560,483</u>
Total Federal Awards			<u>\$ 906,206</u>

The accompanying notes are an integral part of this schedule

CITYSCAPE SCHOOLS, INC.
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2018

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the Federal grant activity of CityScape Schools, Inc. ("the School") and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operation of the School, it is not intended to and does not present the financial position, changes in net assets, and cash flows of the School.

2. Summary of Significant Accounting Policies

Expenditures on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Commitments and Contingencies

Federal grants received by the School are subject to review and audit by grantor agencies. The School's management believes that the results of such audits will not have a material effect on the Schedule.

4. Reconciliation of Federal Program Revenues and Schedule of Expenditures of Federal Awards:

<i>Total expenditures of federal awards per the Schedule of Expenditures of Federal Awards</i>	\$ 906,206
<i>SHARS revenue</i>	<u>4,271</u>
<i>Total federal program revenues per the Statement of Activities</i>	\$ <u>910,477</u>