

CityScape Schools, Inc.

Financial Statements

August 31, 2019

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, 2019, at a meeting of the board of directors of such charter holder on the 13th day of December 2019.

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.*

Report on the Financial Statements

We have audited the accompanying financial statements of CityScape Schools, Inc. (the "School") (a nonprofit organization), which comprise the statement of financial position as of August 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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, 2019, 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

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, 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 11, 2019 on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School's internal control over financial reporting and compliance.

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

Dallas, Texas

December 11, 2019

CITYSCAPE SCHOOLS, INC.
Statement of Financial Position
As of August 31, 2019

Assets

<i>Current assets</i>	
Cash	\$ 1,922,317
Restricted cash	5,062,720
Due from grantor agencies	731,379
Prepaid expenses	47,108
Total current assets	<u>7,763,524</u>
<i>Other assets</i>	
Deferred expenditures	303,725
Depreciable assets, net	20,419,257
Other assets	5,000
Total other assets	<u>20,727,982</u>
<i>Total assets</i>	<u>\$ 28,491,506</u>

Liabilities and Net Assets

<i>Current liabilities</i>	
Accounts payable	\$ 57,897
Accrued payroll liabilities	601,866
Current portion of long term debt	180,000
Current portion of capital lease obligation	117,308
Total current liabilities	<u>957,071</u>
<i>Noncurrent liabilities</i>	
Noncurrent portion of long term debt	25,275,000
Noncurrent portion of capital lease obligation	170,271
Total noncurrent liabilities	<u>25,445,271</u>
<i>Total liabilities</i>	<u>26,402,342</u>
<i>Net assets</i>	
Without donor restrictions	1,024,479
With donor restrictions	1,064,685
Total net assets	<u>2,089,164</u>
<i>Total liabilities and net assets</i>	<u>\$ 28,491,506</u>

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

CITYSCAPE SCHOOLS, INC.
Statement of Activities
For the year ended August 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Local support			
Other revenues from local support	\$ 248,040	\$ -	\$ 248,040
Food service activity	43,764	-	43,764
Total local support	<u>291,804</u>	<u>-</u>	<u>291,804</u>
State program revenues			
Available school fund program	-	318,356	318,356
Foundation school program	-	7,341,540	7,341,540
Other state grant revenue	-	8,878	8,878
Total state program revenues	<u>-</u>	<u>7,668,774</u>	<u>7,668,774</u>
Federal program revenues			
Title I, Part A	-	235,162	235,162
Title II, Part A	-	28,456	28,456
Title III, Part A	-	37,101	37,101
IDEA, Part B, Formula	-	95,944	95,944
IDEA, Part B, Preschool	-	4,779	4,779
National school breakfast and lunch program	-	602,964	602,964
Title IV, Part A - Student support and academic enrichment	-	2,503	2,503
Summer school LEP	-	12,887	12,887
Other federal revenues	-	11,127	11,127
Total federal program revenues	<u>-</u>	<u>1,030,923</u>	<u>1,030,923</u>
Net assets released from restrictions	<u>8,523,700</u>	<u>(8,523,700)</u>	<u>-</u>
Total Revenues	<u>8,815,504</u>	<u>175,997</u>	<u>8,991,501</u>
Expenses			
Program services:			
11 Instruction	3,947,028	-	3,947,028
13 Curriculum and instructional staff development	108,247	-	108,247
23 School leadership	1,056,221	-	1,056,221
Support services:			
31 Guidance, counseling and evaluation services	63,337	-	63,337
33 Health services	3,021	-	3,021
35 Food services	612,223	-	612,223
36 Extracurricular activities	36,360	-	36,360
41 General administration	532,169	-	532,169
51 Plant maintenance and operations	916,940	-	916,940
52 Security and monitoring services	81,613	-	81,613
53 Data processing services	217,227	-	217,227
61 Community services	10,000	-	10,000
71 Debt service	877,873	-	877,873
81 Fund raising	61,441	-	61,441
Total Expenses	<u>8,523,700</u>	<u>-</u>	<u>8,523,700</u>
Operating transfers in	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	291,804	175,997	467,801
Net assets, beginning of year	<u>732,675</u>	<u>888,688</u>	<u>1,621,363</u>
Net assets, end of year	<u>\$ 1,024,479</u>	<u>\$ 1,064,685</u>	<u>\$ 2,089,164</u>

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

CITYSCAPE SCHOOLS, INC.
Statements of Functional Expenses
For the year ended August 31, 2019

	<u>Program Activities</u>	<u>General and Administrative</u>	<u>Total</u>
Expenses			
<i>Payroll expenses</i>			
Salary and wages	\$ 4,084,536	\$ 250,353	\$ 4,334,889
Benefits	541,918	67,370	609,288
Payroll taxes	56,794	3,648	60,442
Total payroll expenses	<u>4,683,248</u>	<u>321,371</u>	<u>5,004,619</u>
<i>Non-payroll expenses</i>			
Professional fees	412,218	110,491	522,709
Utilities	161,854	-	161,854
Rental fees	80,289	14,567	94,856
Repairs and maintenance	69,289	-	69,289
Supplies	905,944	17,706	923,650
Travel	85,059	45,838	130,897
Insurance	51,926	-	51,926
Depreciation	616,933	-	616,933
Interest	877,873	-	877,873
Miscellaneous	46,897	22,197	69,094
	<u>3,308,282</u>	<u>210,799</u>	<u>3,519,081</u>
Total expenses	<u>\$ 7,991,530</u>	<u>\$ 532,170</u>	<u>\$ 8,523,700</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, 2019

<i>Cash flows from operating activities</i>	
Cash received from grantor agencies	\$ 8,469,862
Cash received from contributions	12,162
Cash received from interest	21,845
Cash received from child nutrition fees	43,764
Cash received from miscellaneous sources	214,033
Cash paid for salaries	(4,842,995)
Cash paid for professional services	(795,224)
Cash paid for supplies	(970,758)
Cash paid for interest	(841,014)
Cash paid for other expenses	(256,915)
	<u>1,054,760</u>
<i>Net cash provided by operating activities</i>	
<i>Net cash flows used in from investing activities</i>	
Purchase of equipment	<u>(7,253,038)</u>
<i>Net cash used in investing activities</i>	<u>(7,253,038)</u>
<i>Net cash provided by (used in) financing activities</i>	
Proceeds from bond issuance	10,735,000
Capitalized costs on bond	583,608
Repayments of long-term debt	(145,000)
Repayments of short-term loans	(200,000)
Repayments of capital leases	(118,239)
	<u>10,855,369</u>
<i>Net cash provided by financing activities</i>	
<i>Net increase in cash and cash equivalents</i>	4,657,091
<i>Cash and cash equivalents at beginning of year</i>	<u>2,327,946</u>
<i>Cash and cash equivalents at end of year</i>	\$ <u><u>6,985,037</u></u>

Reconciliation of change in net assets to net cash provided by operating activities

<i>Cash flows from operating activities</i>	
Change in net assets	\$ 467,801
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Depreciation expense	616,934
Amortization of bond costs	36,859
Increase in due from grantor agency	(229,835)
Increase in prepaid expenditures	(47,108)
Increase in other assets	(5,000)
Increase in accounts payable	53,483
Increase in accrued payroll liabilities	161,626
	<u>1,054,760</u>
<i>Net cash provided by operating activities</i>	\$ <u><u>1,054,760</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 2019 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. The School presents its financial statements in accordance with ASC 958, "Not-for-Profit Entities". Under ASC 958, the School is required to report information regarding its financial position and activities according to two categories of net assets: net assets without donor restrictions and net assets with donor restrictions. 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:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions. Assets restricted solely through the actions of the Board of Directors (if any) are reported as net assets without donor restrictions, board-designated.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The only donor restricted net asset are unspent funds from the Foundation Program grant.

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 2018-2019.

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, 2015.

New Accounting Pronouncement

On August 18, 2016 FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The School has adjusted the presentation of these statements accordingly.

Date of Management's Review

Subsequent events were evaluated through December 11, 2019, 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, 2019 was \$94,856.

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

Year ending August 31,	2020	\$	36,174
	2021		28,159
	2022		6,495
		\$	<u>70,828</u>

The School leases a building an organization under a cancelable operating lease agreement with expiration date June 1, 2021. The tenant has the right to terminate the agreement at any time with a 90-day written notice. The following is a schedule by years of future minimum rentals under the leases at August 31, 2019:

Year ending August 31,	2020	\$	60,000
	2021		50,000
		\$	<u>110,000</u>

3. Retirement Benefits

Plan Description - The charter school contributes to the Teacher Retirement System of Texas ("TRS"), a cost-sharing, multiple- employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

Funding Policy - Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2)A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 1 years, the period would be increased by such action.

CITYSCAPE SCHOOLS, INC.

Notes to Financial Statements

3. Retirement Benefits , continued

State law provides for a member contribution rate of 6.4% for fiscal year 2019, and a state contribution rate of 6.58% for fiscal year 2019. The charter school's employees' contributions to the System for the years ending August 31, 2019 were \$316,965, equal to the required contributions for the year. Other contributions made from federal and private grants and from the charter school for salaries above the statutory minimum for the years ending August 31, 2019 were \$15,895 equal to the required contributions for the year.

4. Health Care Coverage

During the year ended August 31, 2019, employees of the charter school were covered by a health insurance plan ("the Plan"). The charter school contributed between \$378 and \$852 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All premiums were paid to licensed insurers.

5. Property and Equipment

The following is a summary of property and equipment as of August 31, 2019:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reclass/ Retirement</u>	<u>Ending Balance</u>
Land	\$ 315,000	\$ 648,000	\$ -	\$ 963,000
Building & improvements	12,932,082	26,651	-	12,958,733
Furniture & equipment	1,369,562	166,720	-	1,536,282
Construction in progress	<u>205,803</u>	<u>6,411,667</u>	<u>-</u>	<u>6,617,470</u>
Total property and equipment	14,822,447	7,253,038	-	22,075,485
Less: accumulated depreciation	<u>1,039,294</u>	<u>616,934</u>	<u>-</u>	<u>1,656,228</u>
Property and equipment, net	\$ <u>13,783,153</u>	\$ <u>6,636,104</u>	\$ <u>-</u>	\$ <u>20,419,257</u>

Depreciation expense for the year ended August 31, 2019 was \$616,934.

6. Due from Grantor Agencies

As of August 31, 2019, the School had earned the following revenues which were not received until after the end of the fiscal year:

Foundation entitlements	\$ 656,192
Other State grants	28,045
Federal grants	<u>47,142</u>
Total	\$ <u>731,379</u>

CITYSCAPE SCHOOLS, INC.

Notes to Financial Statements

7. 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.

8. 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. On August 20, 2019, the School issued two bond series with a total par value of \$10,735,000 through BOK Financial. The proceeds of these bonds were used to acquire land as well as future construction of the Buckner Preparatory campus located in Dallas, Texas. 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, 2019 was as follows:

	Interest Rate	Maturity Date	Beginning Balance	Additions	Repayments	Ending Balance
Series 2016A	5.000%-5.500%	2021-2051	14,410,000	-	-	14,410,000
Series 2016B	5.750%	2018-2021	455,000	-	145,000	310,000
Series 2019A	4.000%-5.000%	2024-2051	-	10,310,000	-	10,310,000
Series 2019B	4.000%	2021-2025	-	425,000	-	425,000
			<u>\$ 14,865,000</u>	<u>\$ 10,735,000</u>	<u>\$ 145,000</u>	<u>\$ 25,455,000</u>

At August 31, 2019, future debt service requirements pursuant to these bond issues were as follows:

	Principal	Interest	Total
2020	\$ 180,000	\$ 1,006,631	\$ 1,186,631
2021	210,000	1,316,600	1,526,600
2022	225,000	1,305,325	1,530,325
2023	355,000	1,294,275	1,649,275
2024-2028	2,255,000	6,194,375	8,449,375
2029-2033	2,880,000	5,583,675	8,463,675
2034-2038	3,720,000	4,741,425	8,461,425
2039-2043	4,815,000	3,649,450	8,464,450
2044-2048	6,230,000	2,234,950	8,464,950
2049-2051	4,585,000	493,575	5,078,575
Total	<u>\$ 25,455,000</u>	<u>\$ 27,820,281</u>	<u>\$ 53,275,281</u>

CITYSCAPE SCHOOLS, INC.

Notes to Financial Statements

9. Capital Leases

The School has entered into capital leases for various equipment. As of August 31, 2019, future minimum lease payments under the capital lease are as follows:

Year ending August 31,	Principal	Interest	Total
2020 \$	117,308 \$	16,129 \$	133,437
2021	112,278	7,942	120,220
2022	57,993	2,026	60,019
Total \$	287,579 \$	26,097 \$	313,676

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	\$ 447,941
Less: accumulated depreciation	(120,381)
Net assets under capital leases	\$ 327,560

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	\$ 7,143,891
Revenue accrued at year-end	656,192
Revenue accrued in prior year	(458,543)
Revenue recognized during current year	\$ 7,341,540

CITYSCAPE SCHOOLS, INC.

Notes to Financial Statements

11. Liquidity

The following reflects the School's financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

<i>Financial assets, at year-end</i>	<i>\$ 7,716,416</i>
<i>Less, assets unavailable for general expenditures within one year, due to:</i>	
<i>Debt service reserves</i>	<i><u>5,062,720</u></i>
<i>Financial assets available to meet cash needs for general expenditures within one year</i>	<i>\$ <u>2,653,696</u></i>

At year-end, the only donor restrictions on net assets relates to unspent Foundation program funds, which is available for general use for the School's activities.

12. 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, 2019

<i>Expenses</i>		
6100	<i>Payroll costs</i>	\$ 5,004,621
6200	<i>Professional and contracted services</i>	848,707
6300	<i>Supplies and materials</i>	923,650
6400	<i>Other operating costs</i>	868,849
6500	<i>Debt service</i>	<u>877,873</u>
<i>Total Expenses</i>		\$ <u><u>8,523,700</u></u>

CITYSCAPE SCHOOLS, INC.
Schedule of Capital Assets
For the year ended August 31, 2019

		<u>Local</u>	<u>State</u>	<u>Federal</u>	<u>Total</u>
1100	Cash	\$ 5,062,720	\$ 1,922,317	\$ -	\$ 6,985,037
1510	Land	-	963,000	-	963,000
1520	Buildings and improvements	-	12,958,733	-	12,958,733
1539	Furniture and equipment	59,665	1,233,938	242,679	1,536,282
1580	Construction in progress	-	6,617,470	-	6,617,470
Total Property and Equipment		<u>\$ 5,122,385</u>	<u>\$ 23,695,458</u>	<u>\$ 242,679</u>	<u>\$ 29,060,522</u>

CITYSCAPE SCHOOLS, INC.
Budgetary Comparison Schedule
For the year ended August 31, 2019

		<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	\$ 205,707	\$ 254,907	\$ 248,040	\$ (6,867)
5751	Food service activity	-	32,907	43,764	10,857
	<i>Total local support</i>	<u>205,707</u>	<u>287,814</u>	<u>291,804</u>	<u>3,990</u>
<i>State program revenues</i>					
5811	Available school fund program	-	259,314	318,356	59,042
5812	Foundation school program act revenues	7,306,156	7,152,724	7,341,540	188,816
5829	Other state grant revenue	-	13,930	8,878	(5,052)
	<i>Total state program revenues</i>	<u>7,306,156</u>	<u>7,425,968</u>	<u>7,668,774</u>	<u>242,806</u>
<i>Federal program revenues</i>					
5920	National breakfast and lunch program	-	550,517	602,964	52,447
5929	Federal revenues distributed by the Texas Education Agency	661,975	449,307	427,959	(21,348)
	<i>Total federal program revenues</i>	<u>661,975</u>	<u>999,824</u>	<u>1,030,923</u>	<u>31,099</u>
	<i>Total revenues</i>	<u>8,173,838</u>	<u>8,713,606</u>	<u>8,991,501</u>	<u>277,895</u>
Expenses					
11	Instruction	3,365,367	3,646,876	3,947,028	(300,152)
13	Curriculum development and instructional staff development	184,156	122,825	108,247	14,578
23	School leadership	1,087,615	1,087,615	1,056,221	31,394
31	Guidance, counseling and evaluation services	78,544	63,197	63,337	(140)
33	Health services	-	3,000	3,021	(21)
35	Food service	681,966	600,551	612,223	(11,672)
36	Extracurricular activities	28,456	36,080	36,360	(280)
41	General administration	810,410	535,410	532,169	3,241
51	Plant maintenance and operations	862,311	1,031,338	916,940	114,398
52	Security and monitoring services	64,250	77,912	81,613	(3,701)
53	Data processing services	131,621	222,793	217,227	5,566
61	Community services	10,000	10,000	10,000	-
71	Debt service	852,297	877,653	877,873	(220)
81	Fund raising	5,000	61,567	61,441	126
	<i>Total expenses</i>	<u>8,161,993</u>	<u>8,376,817</u>	<u>8,523,700</u>	<u>(146,883)</u>
	<i>Operating transfers in</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<i>Operating transfers out</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<i>Change in net assets</i>	<u>11,845</u>	<u>336,789</u>	<u>467,801</u>	<u>131,012</u>
	<i>Net assets, beginning of year</i>	<u>1,621,363</u>	<u>1,621,363</u>	<u>1,621,363</u>	<u>-</u>
	<i>Net assets, end of year</i>	<u>\$ 1,633,208</u>	<u>\$ 1,958,152</u>	<u>\$ 2,089,164</u>	<u>\$ 131,012</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, 2019, 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 11, 2019.

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 11, 2019

**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") (a nonprofit organization) 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, 2019. The School's major federal programs are identified in the summary of auditor's 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.

Auditor's 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, 2019

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 a 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.

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.

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

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.

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

Dallas, Texas

December 11, 2019

CITYSCAPE SCHOOLS, INC.
Schedule of Findings and Questioned Costs
Year Ended August 31, 2019

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:

<i>Child Nutrition Cluster</i>	<i>10.553 and 10.555</i>
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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: **Yes**

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, 2019

There were no prior year audit findings.

CITYSCAPE SCHOOLS, INC.
Schedule of Expenditures of Federal Awards
August 31, 2019

<i>Federal Grantor/Pass-through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Agency or Pass-through Number</i>	<i>Federal Expenditures</i>
U.S. DEPARTMENT OF EDUCATION			
Passed through Texas Education Agency			
ESEA, Title I, Part A - Improving Basic Programs	84.010	18610101057841	\$ 235,162
IDEA - Part B, Formula	84.027	186600010578416000	95,944
IDEA - Part B, Preschool	84.173	186610010578416000	4,779
ESEA, Title II, Part A - Teacher and Principal Training	84.367	18694501057841	28,456
ESEA, Title III, Part A - English Language Acquisition	84.365	18671001057841	37,101
Summer School LEP	84.369	69551702	2,503
ESEA, Title IV, Part A - Student Support and Academic Enrichment	84.424	18680101057841	12,887
Total Passed Through Texas Education Agency			<u>416,832</u>
Total U.S. Department of Education			<u>416,832</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through Texas Education Agency			
National School Breakfast Program	10.553	71401601	208,368
National School Lunch Program	10.555	71301601	373,691
National School Lunch Program - non-cash assistance	10.555		20,905
Total Passed Through Texas Education Agency			<u>602,964</u>
Total U.S. Department of Agriculture			<u>602,964</u>
Total Federal Awards			<u><u>\$ 1,019,796</u></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, 2019

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. Election To Use 10% De Minimis Indirect Cost Rate

The school has elected not to use the 10 de minimis indirect cost rate allowed under uniform guidance.

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

Total expenditures of federal awards per the Schedule of Expenditures of Federal Awards	\$ 1,019,796
SHARS revenue	<u>11,127</u>
Total federal program revenues per the Statement of Activities	<u>\$ 1,030,923</u>