

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
WASHINGTON, DC

COMPARATIVE FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

KENDALL, PREBOLA AND JONES

Certified Public Accountants

PO BOX 259

BEDFORD, PENNSYLVANIA 15522-0259

(814) 623-1880

FAX (814) 623-7548

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Kendall, Prebola and Jones, LLC

Certified Public Accountants

Board of Directors
City Arts and Prep Public Charter School
705 Edgewood Avenue, NE
Washington, DC 20017

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the City Arts and Prep Public Charter School (a nonprofit organization) which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

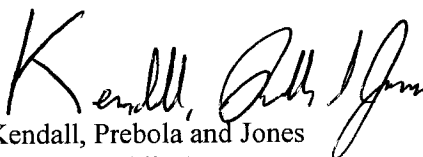
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City Arts and Prep Public Charter School as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the 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 the City Arts and Prep Public Charter 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 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 City Arts and Prep Public Charter School's internal control over financial reporting and compliance.


Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
December 3, 2018

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 1,938,582	\$ 1,991,435
Accounts Receivable	227,267	202,614
Grants Receivable	483,600	82,714
Promises Receivable	-	688
Prepaid Expenses	<u>40,584</u>	<u>214,195</u>
Total Current Assets	<u>\$ 2,690,033</u>	<u>\$ 2,491,646</u>
<u>Fixed Assets:</u>		
Fixed Assets, Net of Accumulated Depreciation	<u>\$ 291,594</u>	<u>\$ 517,440</u>
Total Fixed Assets	<u>\$ 291,594</u>	<u>\$ 517,440</u>
<u>Other Assets:</u>		
Deposits	<u>\$ 460,750</u>	<u>\$ 460,000</u>
Total Other Assets	<u>\$ 460,750</u>	<u>\$ 460,000</u>
TOTAL ASSETS	<u>\$ 3,442,377</u>	<u>\$ 3,469,086</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 559,419	\$ 239,906
Accrued Salaries and Payroll Withholdings	427,442	446,255
Accrued Interest Payable	1,412	2,130
Refundable Advances	1,645	16,196
Current Portion - Notes Payable	418,337	826,440
Current Portion - Capital Lease Payable	<u>2,773</u>	<u>4,662</u>
Total Current Liabilities	<u>\$ 1,411,028</u>	<u>\$ 1,535,589</u>
<u>Long-Term Liabilities:</u>		
Notes Payable	\$ 418,337	\$ 826,440
Less: Current Portion	(418,337)	(826,440)
Capital Lease Payable	9,895	5,466
Less: Current Portion	<u>(2,773)</u>	<u>(4,662)</u>
Total Long-Term Liabilities	<u>\$ 7,122</u>	<u>\$ 804</u>
Total Liabilities	<u>\$ 1,418,150</u>	<u>\$ 1,536,393</u>
<u>Net Assets:</u>		
Unrestricted	\$ 2,024,227	\$ 1,932,693
Temporarily Restricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>\$ 2,024,227</u>	<u>\$ 1,932,693</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,442,377</u>	<u>\$ 3,469,086</u>

(See Accompanying Notes and Auditor's Report)

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	June 30, 2018			June 30, 2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<u>Revenues, Gains and Other Support:</u>						
Per Pupil Funding Allocation	\$ 7,204,917	\$ -	\$ 7,204,917	\$ 6,952,007	\$ -	\$ 6,952,007
Per Pupil Funding - Facilities Allocation	1,593,171	-	1,593,171	1,630,728	-	1,630,728
Federal Entitlements and Grants	756,484	-	756,484	655,779	-	655,779
State Grants - District of Columbia	84,819	-	84,819	45,776	-	45,776
Other Grants and Contributions	4,679	1,350	6,029	5,635	5,000	10,635
Donated Services	300	-	300	-	-	-
Student Fees	26,505	-	26,505	101,085	-	101,085
Interest and Dividends	2,047	-	2,047	1,631	-	1,631
Other Revenue	436	-	436	616	-	616
Gain/(Loss) on Disposal of Fixed Assets	1,724	-	1,724	4,536	-	4,536
Net Assets Released from Restrictions (Satisfaction of Program Restrictions)	1,350	(1,350)	-	5,000	(5,000)	-
 Total Revenues and Other Support	 \$ 9,676,432	 \$ -	 \$ 9,676,432	 \$ 9,402,793	 \$ -	 \$ 9,402,793
 <u>Expenses:</u>						
Educational Services	\$ 7,769,169	\$ -	\$ 7,769,169	\$ 7,543,626	\$ -	\$ 7,543,626
General and Administrative	1,759,062	-	1,759,062	1,379,274	-	1,379,274
Fundraising	56,667	-	56,667	85,093	-	85,093
 Total Expenses	 \$ 9,584,898	 \$ -	 \$ 9,584,898	 \$ 9,007,993	 \$ -	 \$ 9,007,993
 Changes in Net Assets	 \$ 91,534	 \$ -	 \$ 91,534	 \$ 394,800	 \$ -	 \$ 394,800
 Net Assets, Beginning of Year	 1,932,693	 -	 1,932,693	 1,537,893	 -	 1,537,893
 Net Assets, End of Year	 \$ 2,024,227	 \$ -	 \$ 2,024,227	 \$ 1,932,693	 \$ -	 \$ 1,932,693

(See Accompanying Notes and Auditor's Report)

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Cash Flows from Operating Activities:</u>		
Changes in Net Assets	\$ 91,534	\$ 394,800
Adjustments to Reconcile Changes in Net Assets to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	247,578	292,458
(Gain)/Loss on Disposal of Fixed Assets	(1,724)	(4,536)
Deposits - (Increase)/Decrease	(750)	15,000
Accounts Receivable - (Increase)/Decrease	(24,653)	(66,237)
Grants Receivable - (Increase)/Decrease	(400,886)	41,171
Promises Receivable - (Increase)/Decrease	688	(598)
Prepaid Expenses - (Increase)/Decrease	173,611	(188,121)
Accounts Payable - Increase/(Decrease)	319,513	(113,715)
Accrued Salary and Payroll Withholdings - Increase/(Decrease)	(18,813)	74,753
Accrued Interest Payable - Increase/(Decrease)	(718)	(1,035)
Refundable Advances - Increase/(Decrease)	<u>(14,551)</u>	<u>16,196</u>
Net Cash Flows from Operating Activities	<u>\$ 370,829</u>	<u>\$ 460,136</u>
<u>Cash Flows from Investing Activities:</u>		
Acquisition of Fixed Assets	\$ (22,436)	\$ (58,745)
Proceeds on Disposal of Fixed Assets	<u>12,933</u>	<u>-</u>
Net Cash Flows from Investing Activities	<u>\$ (9,503)</u>	<u>\$ (58,745)</u>
<u>Cash Flows from Financing Activities:</u>		
Repayment on Notes	\$ (408,103)	\$ (502,556)
Payments on Capital Lease	<u>(6,076)</u>	<u>(4,391)</u>
Net Cash Flows from Financing Activities	<u>\$ (414,179)</u>	<u>\$ (506,947)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	\$ (52,853)	\$ (105,556)
Cash and Cash Equivalents at Beginning of Year	<u>1,991,435</u>	<u>2,096,991</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,938,582</u>	<u>\$ 1,991,435</u>

Supplemental Disclosures:

- a) Cash paid for interest for the years ended June 30, 2018 and 2017 was \$21,975 and \$33,232, respectively.
- b) No income taxes were paid during the years ended June 30, 2018 and 2017.

Non-Cash Activities:

During the year ended June 30, 2018, the Charter School purchased two Konica photocopiers in the amount of \$10,504 by financing through a capital lease.

(See Accompanying Notes and Auditor's Report)

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION:

City Arts and Prep Public Charter School, formerly known as “The William E. Doar, Jr. Public Charter School for the Performing Arts, Inc.,” a nonprofit organization incorporated in the District of Columbia in 2004, has been granted 501(c)(3) status by the Internal Revenue Service and has been granted a charter as a DC public charter school by the District of Columbia Public Charter School Board, as authorized by the DC School Reform Act.

As a DC public charter school, City Arts and Prep Public Charter School for the Performing Arts has a guaranteed funding stream from the District of Columbia (uniform per student funding) and the U.S. federal government (federal grants for education and other programs) provided it meets certain compliance requirements. A DC public charter school is considered a Local Educational Agency (LEA) under federal education guidelines. As a DC public charter school, the City Arts and Prep Public Charter School enjoys significant freedom from the budget and operational restrictions placed on traditional public schools, allowing it to create a unique educational mission and approach.

The Charter School received accreditation from Middle States Association of Colleges and Schools (MSA). MSA is among the premier accrediting associations in the world and pioneered the accreditation of colleges and schools in the United States more than a century ago. Middle States accreditation remains a prestigious validation of educational excellence and dynamic school improvement in traditional and nontraditional schools worldwide. The accreditation was issued during the 2017-2018 school year.

The Charter School’s primary sources of support are local appropriations for charter schools from the District of Columbia.

Basic Programs

City Arts and Prep Public Charter School is the District’s only college-preparatory public charter that integrates rigorous academic instruction with world-class performing arts programs to propel young people towards success in school and in life.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of the Charter School are summarized below:

(a) Basis of Accounting and Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting, which presents financial position, activities, functional expenses, and cash flows in accordance with accounting principles generally accepted in the United States of America.

(b) Revenue Recognition:

Contributions

The Charter School has adopted Financial Accounting Standards Board ASC No. 958-605-25, *Accounting for Contributions Received and Contributions Made*. As such, contributions are recognized as revenue when they are received or unconditionally pledged.

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(b) Revenue Recognition: (Continued)

Contributions (Continued)

All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions and promises to give with donor-imposed conditions are recognized as unrestricted support when the conditions on which they depend are substantially met. Contributions and promises to give with donor-imposed restrictions are reported as temporarily restricted support. Unconditional promises to give due in the next year are recorded at their net realizable value. An allowance for uncollectible contributions receivable is provided based on management's judgment, including such factors as prior collection history and type of contribution.

The Charter School reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The Charter School reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Federal and Charter School Funding

The Charter School receives a student allocation from the District of Columbia as well as federal funding to cover the cost of academic expenses. The student allocation is on a per pupil basis and includes the academic year funding, special education funding, and a facilities allowance. The Charter School recognizes this funding in the year in which the school term is conducted. Funding received in advance of the school term is recorded as a refundable advance. Federal entitlements are recognized based on the allowable costs incurred.

Before and After Care Fees

The Charter School offers fee-based extended day programming for students. The hours of operation are structured to coincide with the typical workday of parents of the students. Both the before and after care programs offer food services. Tuition is collected based on a monthly fee. The amount of tuition ranges from full tuition to reduced tuition based on the National School Lunch Program guidelines.

(c) Corporate Taxes:

The Charter School is exempt from federal and state income taxes (other than on unrelated business income) under the provisions of Section 501(c)(3) of the Internal Revenue Code and similar state income tax laws. The Charter School has been classified as other than a private foundation under Section 509(a)(1) of the Internal Revenue Code and accordingly contributions to the Charter School qualify as a charitable tax deduction by the contributor under Section 170(b)(i)(A)(ii). Under IRC Section 512(a)(7), certain transportation benefits are subject to unrelated business income tax. As of June 30, 2018, the Charter School recognized \$398 of income tax expense related to filing of the 2018 990-T tax return. In addition, \$111 of income tax expense due to the District of Columbia has been recorded in the financial statements related to income tax on transportation benefits. There was no federal and state income tax recognized for the year ended June 30, 2017.

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(c) Corporate Taxes: (Continued)

The Charter School is also exempt from District of Columbia sales, real estate and personal property taxes.

(d) Grants:

Grant revenues are received primarily from Federal agencies and the District of Columbia. These grants are subject to financial and compliance audits by the grantor agencies. Such audits could result in a request for reimbursement by the agency for expenditures disallowed under the terms and conditions of the appropriate grantor. No provision for possible adjustments for disallowed costs has been made in the accompanying financial statements because, in the opinion of management, such adjustment, if any, would not have a material effect on the financial statements.

Cash receipts in excess of costs incurred for grants are reflected as refundable advances until they are expended for the purpose of the grant, at which time they are recognized as unrestricted support. Costs incurred in excess of cash received are reflected as grants receivable.

(e) Net Assets:

The Charter School has adopted Financial Accounting Standards Board ASC No. 958-205-05, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC No. 958-205-05, the Charter School is required to report information regarding its financial position and activities according to three classes of net assets.

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 Charter School and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets are defined as net assets that are not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control. This classification includes net assets subject to donor-imposed conditions, which have been met in the current year and net assets subject to donor-imposed restrictions that have been released from restrictions.

Temporarily Restricted Net Assets

Temporarily restricted net assets are defined as net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Charter School and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There were no temporarily restricted net assets available at year end.

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(e) Net Assets: (Continued)

Temporarily Restricted Net Assets (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose, the passage of time, or by occurrence of events specified by donors for the following activities:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Parents with Purpose Program	\$ 150	\$ 5,000
Educational Program Services - Use Restricted	<u>1,200</u>	<u>-</u>
Total Released	<u>\$ 1,350</u>	<u>\$ 5,000</u>

Permanently Restricted Net Assets

Permanently restricted net assets are defined as net assets subject to donor-imposed stipulations that requires the net assets be maintained permanently by the Charter School. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. The Charter School did not have any permanently restricted net assets as of June 30, 2018 and 2017.

(f) Donated Services and Materials:

Donated services and materials are recognized as contributions in accordance with FASB ASC 958, *Accounting for Contributions Received and Contributions Made*, if the services received create or enhance nonfinancial assets or require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services and promises to give services that do not meet the above criteria are not recognized. The time contributed by the Charter School's Board of Directors is uncompensated and is not reflected as donated services. In-kind contributions are recorded in the statement of activities at estimated fair value and recognized as revenue and expense (or an asset) in the period they are received.

The estimated value of donated services and material has been recorded in the financial statements as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Transportation Services	<u>\$ 300</u>	<u>\$ -</u>
Total	<u>\$ 300</u>	<u>\$ -</u>

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(g) Functional Expense Allocation Policies and Procedures:

Management has elected to prepare a schedule of functional expenses that is presented as supplemental information to the financial statements. The schedule of functional expenses presents an allocation of each expense category between program services, general and administrative, and fundraising activities. Program service costs pertain to educating students. General and administrative costs pertain to supporting activities. Fundraising expenses relate to fundraising activities such as special events, fundraisers and the soliciting of contributions.

Management has established functional expense allocation policies and procedures based on a reasonable analysis of cost drivers and reasonable allocation estimates based on financial results and industry standards.

Direct costs, where identifiable, are allocated in whole to the appropriate functional category. Direct student expenses (textbooks, materials, instructional supplies, assessment material, contract educational services, and field trips) are allocated entirely to program services.

Personnel expenses for salaries are allocated based on job descriptions and management estimates of time spent on particular activities. Personnel expenses for salaries are divided into employee categories (executive, teachers, other educational staff, etc.) and then a percentage of time spent on program services, general and administrative activities, and fundraising activities is applied. All other personnel expenses (benefits, payroll taxes, staff development) are allocated based on the weighted average allocation of the direct salaries.

Other expenses that are not directly identifiable by program are allocated based on management estimates of use of resources.

(h) Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

(i) Recognition of Salary Expense:

Salary expense is recognized in the year the service is rendered, which coincides with the academic year. Salaries unpaid at June 30 are recognized as expense and accrued salaries.

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

(j) Fair Value of Certain Financial Instruments:

Some of the Charter School's financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such accounts include cash, accounts receivable, prepaid expenses, accounts payable, and accrued expenses.

3. ACCOUNTING FOR UNCERTAIN TAX POSITIONS:

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in the Charter School's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The Charter School performed an evaluation of uncertain tax positions for the year ended June 30, 2018, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of June 30, 2018, the statute of limitations for tax years 2014 through 2016 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Charter School files tax returns. It is the Charter School's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2018, the Charter School had no accruals for interest and/or penalties.

4. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents at year end consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Interest Bearing Checking Accounts	\$ 1,368,671	\$ 1,177,040
Non-Interest Bearing Accounts	116,602	361,681
Money Market Accounts - Interest Bearing	<u>453,309</u>	<u>452,714</u>
Total	<u>\$ 1,938,582</u>	<u>\$ 1,991,435</u>

For purposes of the cash flow statement and financial statement presentation, cash and cash equivalents are short term, highly liquid investments with maturities of three months or less.

The Charter School maintains its cash in two separate financial institutions, with most of the cash being held by one banking institution. These cash accounts are covered under the Federal Deposit Insurance Corporation (FDIC) Program. Federal Deposit Insurance Corporation insurance coverage is \$250,000 per banking institution. Deposits held in non-interest-bearing transaction accounts are aggregated with interest bearing deposits and the combined total insured up to \$250,000.

As of June 30, 2018 and 2017, \$1,118,933 and \$1,742,136, respectively, of the bank balance was deposited in excess of Federal Deposit Insurance Corporation limits. Due to increased cash flows at certain times during the year, the amount of funds at risk may have been greater than at year end. The Charter School was at risk for the funds held in excess of the insured amounts. The Charter School has not experienced any losses related to these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

5. ACCOUNTS, GRANTS AND PROMISES RECEIVABLE:

Accounts and Grants Receivable

Accounts and grants receivable are current and considered to be fully collectible by management. Balances as of June 30, 2018 and 2017 consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Accounts Receivable</u>		
Per Pupil Funding	\$ 43,893	\$ 27,598
Reimbursable Expenses	181,014	172,277
Employee	<u>2,360</u>	<u>2,739</u>
Total	<u>\$ 227,267</u>	<u>\$ 202,614</u>
<u>Grants Receivable</u>		
National School Lunch and Breakfast Program	\$ 71,705	\$ 55,995
Federal Entitlement Grants	319,012	12,223
Physical Education Grant	7,935	7,002
E-Rate (USAC)	2,603	3,319
Healthy Schools Act	3,452	2,872
Fresh Fruits and Vegetables	8,819	1,303
Increasing Academic Quality	5,732	-
Individuals with Disabilities Education Act Sec 611	45,212	-
Individuals with Disabilities Education Act Sec 619	1,202	-
Special Education Enhancement	17,134	-
McKinny-Vento Homeless Assistance	<u>794</u>	<u>-</u>
Total	<u>\$ 483,600</u>	<u>\$ 82,714</u>

The Charter School's accounts and grants receivable consists of unsecured amounts due from funding sources whose ability to pay is subject to changes in general economic conditions. Because the Charter School does not require collateral, it is at credit risk for the amounts owed to it throughout the year and at year end.

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectable amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts or grants receivable. Management believes that an allowance was not required based on its evaluation of collectability of receivables for the years ended June 30, 2018 and 2017.

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

5. ACCOUNTS, GRANTS AND PROMISES RECEIVABLE: (Continued)

Trade receivables related to program service fees are recognized as revenue on the accrual basis of accounting at the time the program activity has occurred. Credit is extended for a period of 60 days with no interest accrual at which time payment is considered delinquent. Trade receivables are written off as uncollectable when payment has not been received after 180 days.

Promises Receivable

Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Promises to give represent amounts committed by donors that have not been received by the Charter School. The Charter School uses the allowance method to determine uncollectible promises to give. Promises receivable at year end consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
General - Unrestricted	\$ -	\$ 688
Total Promises Receivable	<u>\$ -</u>	<u>\$ 688</u>

The above unconditional promises receivable are all due to be received within the next year.

6. FIXED ASSETS:

Furniture and equipment are recorded at cost, or in the case of contributed property at the fair market value at the date of contribution. If an expenditure in excess of \$1,000 results in an asset having an estimated useful life which extends substantially beyond the year of acquisition, the expenditure is capitalized at cost and depreciated over the estimated useful life of the asset. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period. Depreciation has been provided on the straight-line method over the estimated useful lives of the assets. Depreciation and amortization expense for the years ended June 30, 2018 and 2017 was \$247,578 and \$292,458, respectively. Maintenance and repairs are charged to expenses as incurred. Major classifications of fixed assets and their estimated useful lives are as summarized below:

<u>June 30, 2018</u>	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
	Remaining			
Leasehold Improvements	Life of Lease	\$ 3,786,602	\$ 3,579,599	\$ 207,003
Furniture and Fixtures	7 Years	258,717	211,747	46,970
Computer and Office Equipment	4-7 Years	438,440	404,375	34,065
Vehicles	3 Years	2,500	2,500	-
Website	3 Years	<u>8,000</u>	<u>4,444</u>	<u>3,556</u>
Total		<u>\$ 4,494,259</u>	<u>\$ 4,202,665</u>	<u>\$ 291,594</u>

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

6. FIXED ASSETS: (Continued)

<u>June 30, 2017</u>	<u>Depreciable Life</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
	Remaining			
Leasehold Improvements	Life of Lease	\$ 3,786,602	\$ 3,402,168	\$ 384,434
Furniture and Fixtures	7 Years	246,380	182,212	64,168
Computer and Office Equipment	4-7 Years	450,009	387,393	62,616
Vehicles	3 Years	2,500	2,500	-
Website	3 Years	<u>8,000</u>	<u>1,778</u>	<u>6,222</u>
Total		<u>\$ 4,493,491</u>	<u>\$ 3,976,051</u>	<u>\$ 517,440</u>

7. CAPITAL LEASES PAYABLE:

During the year ended June 30, 2016, the City Arts and Prep Public Charter School entered into a capital lease for the rental of a Ricoh MPC3503 photocopier with Meridian Imaging Solutions. The original balance was in the amount of \$13,321, and is payable over thirty-six (36) months with a monthly payment of \$405 and a maturity on August 28, 2018. The capital lease was provided at no interest to the Charter School. The lease is secured by the photocopy equipment that cost \$13,321, and is presented as part of furniture and equipment. For each of the years ended June 30, 2018 and 2017, amortization expense in the amount of \$4,440 on the photocopier is included in depreciation expense. Accumulated amortization was \$12,580 and \$8,140, respectively, at June 30, 2018 and 2017. Total interest expense related to this lease for the years ended June 30, 2018 and 2017 was \$201 and \$472, respectively. The balance of the capital lease at June 30, 2018 and 2017 was \$805 and \$5,466, respectively. The Charter School is committed under this capital lease to make future minimum payments as follows:

<u>Year Ending June 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2019	<u>\$ 812</u>	<u>\$ 805</u>	<u>\$ 7</u>
Total	<u>\$ 812</u>	<u>\$ 805</u>	<u>\$ 7</u>

During the year ended June 30, 2018, the City Arts and Prep Public Charter School entered into a capital lease for the rental of two Konica C464 photocopiers with EverBank Commercial Finance. The original balance was in the amount of \$10,504, and is payable over sixty (60) months with a monthly payment of \$198 and a maturity in September 2023. The capital lease was provided at an effective interest rate of 5%. The lease is secured by the photocopy equipment that cost \$10,504, and is presented as part of furniture and equipment. For the year ended June 30, 2018, amortization expense in the amount of \$1,576 on the photocopier is included in depreciation expense. Accumulated amortization was \$1,576 at June 30, 2018. Total interest expense related to this lease for the year ended June 30, 2018, was \$371. The balance of the capital lease at June 30, 2018, was \$9,090.

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

7. CAPITAL LEASES PAYABLE: (Continued)

The Charter School is committed under this capital lease to make future minimum payments as follows:

<u>Year Ending June 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 2,379	\$ 1,969	\$ 410
2020	2,379	2,070	309
2021	2,378	2,175	203
2022	2,378	2,287	91
2023	<u>595</u>	<u>589</u>	<u>6</u>
Total	<u>\$ 10,109</u>	<u>\$ 9,090</u>	<u>\$ 1,019</u>

8. LOANS PAYABLE:

United Bank

On October 9, 2007, the Charter School obtained a loan from United Bank for \$1,600,000 to pay for leasehold improvements to the school building located at 705 Edgewood Avenue, NE, Washington, DC. The loan bears interest at 2.5% per annum over the prevailing 5-year CMT index. On December 3, 2012, the Charter School entered into a comprehensive Loan Modification and Note Bifurcation agreement (the agreement) with the lender. Subject to the terms of the agreement, the original loan has been bifurcated into two sub-notes in December 2012. At that date, sub-note A balance due was \$730,887, and bears an interest rate of 3.25%. Sub-note B balance due was \$438,532, and bears an interest rate of 4.25%. Principal and interest payments are due monthly over eight years. The sub-notes are secured by assets and revenues of the Charter School. The balances of these sub-notes at June 30, 2018 and 2017, were \$418,337 and \$554,053, respectively. As of June 30, 2018, the interest rate on the two loans was 4.05%. Future minimum payments on this loan based on current interest rates are as follows:

<u>Year Ending June 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ <u>427,243</u>	\$ <u>418,337</u>	\$ <u>8,906</u>
Total	<u>\$ 427,243</u>	<u>\$ 418,337</u>	<u>\$ 8,906</u>

Subsequent to the year ended June 30, 2018, the Charter School began negotiations to extend the term of the United Bank loan payable through December 2018.

The Charter School entered into a Credit Enhancement agreement with the Office of Public Charter School Financing and Support on October 9, 2007. Per the terms of this agreement, the Office of Public Charter School Financing and Support has provided a limited guarantee up to the amount of \$1,000,000 to induce United Bank to loan the Charter School funds to renovate the facility located at 705 Edgewood Street, NW, Washington, DC. The term of the guarantee was for a ten-year (10) period and expired during December 2017.

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

8. LOANS PAYABLE: (Continued)

Office of the State Superintendent of Education (OSSE)

On September 4, 2004, the Charter School entered into a loan agreement with the Office of the State Superintendent of Education for the District of Columbia (OSSE) for the amount of \$2,000,000. The original term was through September 1, 2009, with a balloon payment of \$2,000,000 due on that maturity date. A \$509,000 principal-only payment was made during December 2010. This payment was a result of grant funding received by the Charter School in the same amount of \$509,000 for the purpose of making a one-time principal payment on this loan.

At the beginning of each year, the Charter School was allowed a temporary forbearance of the payment until September 30 of the following year. Interest only payments of 3% per annum were required each quarter. This continued until December 3, 2012, when, the Charter School entered into a comprehensive Loan Modification and Note Bifurcation agreement (the agreement) with the lender. Subject to the terms of the agreement, the original loan had been modified. Specifically, the \$1,491,000 balance due was to be repaid with interest only payments for the first twelve months. Thereafter, principal and interest payments were required on a quarterly basis beginning on March 1, 2014. The new interest rate was 2% per annum. The loan was paid in full during the year ended June 30, 2018. Therefore, there was no balance on this loan at June 30, 2018. The balance of this loan was \$272,387 as of June 30, 2017.

The total interest expense on the above loans for the years ended June 30, 2018 and 2017 was \$20,686 and \$32,198, respectively.

9. DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT:

The Charter School was approved by the District of Columbia Public Charter School Board to operate a charter school in the District of Columbia. The District of Columbia Public Charter School Board (DCPCSB) is responsible for the ongoing oversight of the Charter School's fiscal management and academic acceptability. The contract dated August 25, 2004, provides for a 15-year charter effective the date of first operation. If not renewed, the charter contract will expire on or about August 25, 2019. The charter contract may be renewed for successive 15-year periods if the DCPCSB deems that the City Arts and Prep Public Charter School is in compliance with its charter contract and District statutory provisions. In addition, in accordance with the Charter School Act, the DCPCSB is required to review the charter every five years. The DCPCSB may revoke (or not renew) a charter school contract if a school violates applicable law, materially violates the charter contract or fails to meet the student academic achievement expectations set forth in the charter contract.

As part of the agreement with the DCPCSB, the Charter School may be charged a public charter school fee, which is not to exceed one percent (.9% for the 17/18 school year) of the total revenues (less philanthropic and investment revenues) within the annual budget to cover the costs of undertaking the ongoing administrative responsibilities of the Board. For the years ended June 30, 2018 and 2017, the Charter School incurred \$87,009 and \$93,919, respectively, in administrative fees.

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

9. DISTRICT OF COLUMBIA PUBLIC CHARTER SCHOOL BOARD CONTRACT: (Continued)

The charter contract provides that the City Arts and Prep Public Charter School may educate up to a predetermined number of students. However, this enrollment limit may be raised upon notification to and acceptance by the DCPCSB. The Charter School enrollment ceiling for the year ended June 30, 2018, was not permitted to be greater than 905 students. Audit enrollment for the 2017/2018 year was 499 students and enrollment for the 2016/2017 year was 522 students.

10. PER-PUPIL FUNDING ALLOCATION:

The Charter School receives local funding from the District of Columbia in the form of per-pupil educational allotments and facility allotments. This funding is based on the equivalent number of full-time students and is determined annually. For the year ended June 30, 2018, the per-student rate ranged from \$9,129 to \$13,744 for education allotment and \$3,193 for the facility allowance. For the year ended June 30, 2017, the per-student rate ranged from \$9,682 to \$12,974 for education allotment and \$3,124 for the facility allowance. Additional allotments were made for Special Education Services and English as a Second Language. Per-pupil funding for the years ended June 30, 2018 and 2017 was as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Grade Level - Pre-School - 8 th Grade	\$ 5,642,786	\$ 5,660,097
Special Education	601,866	606,246
English as a Second Language	160,830	70,762
At Risk Funds	653,666	614,902
Teachers Collective Bargaining	145,769	-
Facilities Allowance	<u>1,593,171</u>	<u>1,630,728</u>
Total	<u>\$ 8,798,088</u>	<u>\$ 8,582,735</u>

11. FEDERAL ENTITLEMENTS AND GRANTS:

During the years ended June 30, 2018 and 2017, the Charter School participated in the following federal award programs:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
National School Lunch and Breakfast Program	\$ 299,874	\$ 319,376
Elementary and Secondary Education Act (Title I)	253,936	218,546
Elementary and Secondary Education Act (Title II)	55,076	51,805
Elementary and Secondary Education Act (Title IV-A)	10,000	-
Donated Commodities	19,279	25,298
Fresh Fruits and Vegetables	20,259	20,470
Increasing Academic Quality	50,852	20,284
Individuals with Disabilities Education Act	46,414	-
McKinney-Vento Homeless Assistance	<u>794</u>	<u>-</u>
Total	<u>\$ 756,484</u>	<u>\$ 655,779</u>

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

11. FEDERAL ENTITLEMENTS AND GRANTS: (Continued)

Federal formula grants are allocations of money to states or their subdivisions in accordance with distribution formulas prescribed by law or administrative regulation, for activities of a continuing nature not confined to a specific project. The Charter School receives federal formula grants under the provisions of the No Child Left Behind Act (NCLB) of 2001, P.L 107-110. NCLB funds are not intended to replace state or local educational funding. Rather, NCLB funds provide additional support to states, LEAs, and schools for specific purposes. Grants are provided by the U.S. Department of Education and passed through the District of Columbia Office of State Superintendent of Education.

The National School Lunch Program and School Breakfast Program are part of the child nutrition cluster of programs operated by the U.S. Department of Agriculture. The objectives of the child nutrition cluster programs are to: (1) assist states in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential childcare institutions, and summer recreation programs; and (2) encourage the domestic consumption of nutritious agricultural commodities.

12. COMMITMENTS:

Building Leases

The Charter School entered into a lease agreement with 705 Edgewood Ave Associates, LLC, effective for a ten-year period commencing on September 1, 2004, for the rental of a building located at 705 Edgewood Avenue, NE, Washington, DC. As a result of five different lease amendments, the lease is currently scheduled to expire on August 31, 2019. One of the provisions of the lease requires the Charter School to obtain a loan in the amount of \$2,000,000 from the District of Columbia's Department of Banking and Financial Institutions, Office of Public Charter School Financing and Support (see note 8 for additional information).

Per the terms of the Fifth Amendment to the lease, in the event the per pupil amount allocated by the District of Columbia for Facility Funds increases above \$3,000 on a per pupil basis, the Charter School is required to pay the landlord the incremental increase in Facility Funds for each pupil enrolled. Another provision of the agreement states that if the Charter School's enrollment exceeds 558 students, the Charter School is required to pay the landlord the total Facility Funds attributable to the student enrollment in excess of 558 students. The monthly payments on this lease as of June 30, 2018, are \$102,657 in base rent, \$28,659 from July through December 2017 and \$30,925 for January through June 2018, in monthly operating expenses and \$6,055 of additional rent costs related to improvements made by the landlord on behalf of the Charter School. Therefore, the total monthly payment on this lease is presently \$139,636. This payment is scheduled to increase over the balance of the lease through August 31, 2019. As of June 30, 2018, there is a security deposit of \$400,000 associated with the lease.

The rent expense for the years ended June 30, 2018 and June 30, 2017 was \$1,735,950 and \$1,470,370, respectively. Included in rent expense for the years ended June 30, 2018 and 2017 are credits for real estate tax rebates in the amounts of \$135,540 and \$136,863, respectively.

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

12. COMMITMENTS: (Continued)

Building Leases (Continued)

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 1,692,837
2020	<u>280,900</u>
Total	<u>\$ 1,973,737</u>

The capital lease and loan commitments are described in Notes 7 and 8.

13. CONCENTRATIONS:

Revenues

The Charter School receives public funds from the District of Columbia based on the number of students they enroll according to the Uniform Per Student Funding Formula developed by the Mayor and City Council. This per pupil allocation is supplemented with extra funds for students with special needs. During each of the years ended June 30, 2018 and 2017, ninety-one percent (91%) of total support was received from the District of Columbia in the form of per pupil funding.

In addition to the revenue received through the Uniform Per Student Funding, the Charter School receives state and federal grants awarded under the auspices of the U.S. Department of Education (No Child Left Behind and special education) as well as the U.S. Department of Agriculture (Child Nutrition). The Charter School is entitled to receive these funds by virtue of its recognition as a Local Education Agency by the District of Columbia Public Charter School Board (DCPCSB). The DCPCSB may revoke the charter for material violations of laws and the terms of its charter agreement or if the Charter School fails to meet established goals and student achievement expectations.

The Charter School is limited to enrolling students that are residents of the District of Columbia. As a DC Public Charter School, the Charter School must compete for students against the DC Public School system as well as other DC Public Charter Schools.

14. CONTINGENCIES:

The Charter School was granted its initial charter by the District of Columbia Board of Education and then later reaffirmed by the District of Columbia Public Charter School Board, authorized under the District of Columbia School Reform Act of 1995, Public Law 104-134, as amended. Any interruption of this relationship (i.e., the failure to continue this charter authorization or withholding of funds) could adversely affect ability to finance ongoing operations.

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

14. CONTINGENCIES: (Continued)

The Charter School depends on per pupil allocations, grants, and contributions for a significant portion of its revenues. The ability of the sources of revenues to continue giving amounts comparable with prior years may be dependent upon future economic conditions and continued deductibility for income tax purposes of grants and contributions to the Charter School. While the Charter School's Board of Directors and management believes the Charter School has the resources to continue its programs, its ability to do so, and the extent to which it continues, may be dependent on the above factors.

Laws and regulations governing charter schools are complex and subject to interpretation. The Charter School believes that it is in compliance with all applicable laws and regulations.

The viability of public charter schools and funding for these schools is dependent on the consensus of current and future administration of the District of Columbia Government. Any future change in dynamics could adversely affect the operations of public charter schools.

15. SUBSEQUENT EVENTS:

Financial Statement Preparation

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through December 3, 2018, the date the financial statements were available to be issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements.

Charter Renewal

During the subsequent period after June 30, 2018, the District of Columbia Public Charter School Board (DCPCSB) staff recommended non-renewal of the City Arts and Prep Public Charter School's charter, which would be effective upon the last day of the current school year, during June 2019. This is due to lower than expected academic performance. The Charter School team presented the case for renewal to the Public Charter School Board members at a public hearing in November 2018. The Charter School will receive final notification of the renewal or revocation of the charter in December 2018.

Enrollment

Enrollment for the 2018/2019 school year is projected to be approximately 404 students. These enrollment numbers are down from the current enrollment number of 499 during the 2017/2018 school year.

United Bank Loan

Subsequent to June 30, 2018, the Charter School began negotiations with United Bank to extend the term of its note payable to December 2018. The note payable with United Bank is now due to be paid by December 31, 2018.

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS

16. FUNDRAISING:

During the years ended June 30, 2018 and 2017, expenses incurred for the purpose of fundraising were \$56,667 and \$85,093, respectively.

17. ADVERTISING:

Marketing activities were conducted for the purpose of promoting open enrollment to the Charter School. Advertising and marketing costs are expensed when incurred. Advertising and marketing expenses were \$18,263 and \$15,191 for the years ended June 30, 2018 and 2017, respectively.

18. EMPLOYEE BENEFITS:

The cost of payroll taxes and fringe benefits incurred for the years ended June 30, 2018 and 2017 consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Social Security/Medicare	\$ 286,797	\$ 310,252
Health Insurance	276,800	285,971
Life and Disability Insurance	27,995	26,995
Unemployment	58,636	68,601
Worker's Compensation	23,142	25,152
Benefit Plans Administration Fees	<u>-</u>	<u>2,100</u>
Total	<u>\$ 673,370</u>	<u>\$ 719,071</u>

Flexible Benefits Plan

The Charter School adopted a Section 125 Flexible Benefits Plan (Cafeteria Plan). Under this plan, employees are permitted to use pre-tax benefit dollars through payroll deduction to pay for health insurance premiums.

19. OCCUPANCY COST:

The cost of occupancy for the years ended June 30, 2018 and 2017 consisted of the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Rent	\$ 1,735,950	\$ 1,470,370
Depreciation Expense - Building	177,431	177,014
Interest Expense - Leasehold Improvements	20,686	32,198
Building Maintenance and Repairs	146,708	49,802
Utilities	147,331	115,512
Janitorial Supplies	19,854	16,198
Contracted Building Services	<u>440,354</u>	<u>82,899</u>
Total	<u>\$ 2,688,314</u>	<u>\$ 1,943,993</u>

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>For Year Ending June 30, 2018</u>				<u>For Year Ending June 30, 2017</u>			
	<u>Total</u>	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>
<u>Personnel, Salaries and Benefits:</u>								
Schoolwide Salaries	\$ 1,239,860	\$ 548,018	\$ 691,842	\$ -	\$ 1,067,286	\$ 336,113	\$ 731,173	\$ -
Academic Salaries	2,237,080	2,237,080	-	-	2,698,858	2,698,858	-	-
Special Education Salaries	302,288	302,288	-	-	334,867	334,867	-	-
Before/After Care Salaries	106,715	106,715	-	-	55,104	55,104	-	-
Substitute Salaries	-	-	-	-	19,152	19,152	-	-
Summer School and Saturday Academy Salaries	-	-	-	-	2,890	2,890	-	-
Benefits	327,937	269,552	58,385	-	340,218	280,680	59,538	-
Payroll Taxes	345,433	283,933	61,500	-	378,853	312,554	66,299	-
Contracted Staff	375,993	326,193	-	49,800	254,644	167,068	3,576	84,000
Staff Development Expense	<u>61,456</u>	<u>61,456</u>	<u>-</u>	<u>-</u>	<u>81,339</u>	<u>67,105</u>	<u>14,234</u>	<u>-</u>
Total Personnel, Salaries and Benefits	<u>\$ 4,996,762</u>	<u>\$ 4,135,235</u>	<u>\$ 811,727</u>	<u>\$ 49,800</u>	<u>\$ 5,233,211</u>	<u>\$ 4,274,391</u>	<u>\$ 874,820</u>	<u>\$ 84,000</u>
<u>Direct Student Costs:</u>								
Textbooks	\$ 93,750	\$ 93,750	\$ -	\$ -	\$ 71,237	\$ 71,237	\$ -	\$ -
Student Supplies and Materials	54,809	54,809	-	-	23,380	23,380	-	-
Student Assessment Materials	50,020	50,020	-	-	41,056	41,056	-	-
Contracted Student Services	324,139	324,139	-	-	103,345	103,345	-	-
Food Service	405,759	405,759	-	-	546,621	546,621	-	-
Field Trips/Student Activities	52,372	52,372	-	-	73,877	73,877	-	-
Student Uniforms	8,385	8,385	-	-	29,782	29,782	-	-
Other Student Costs	<u>18,263</u>	<u>18,263</u>	<u>-</u>	<u>-</u>	<u>15,191</u>	<u>15,191</u>	<u>-</u>	<u>-</u>
Total Direct Student Costs	<u>\$ 1,007,497</u>	<u>\$ 1,007,497</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 904,489</u>	<u>\$ 904,489</u>	<u>\$ -</u>	<u>\$ -</u>

(See Accompanying Notes and Auditor's Report)

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
COMPARATIVE SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>For Year Ending June 30, 2018</u>				<u>For Year Ending June 30, 2017</u>			
	<u>Total</u>	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>
<u>Occupancy Costs:</u>								
Rent	\$ 1,735,950	\$ 1,426,887	\$ 309,063	\$ -	\$ 1,470,370	\$ 1,213,057	\$ 257,313	\$ -
Depreciation Expense - Building	177,431	145,493	31,938	-	177,014	146,037	30,977	-
Interest Expense - Leasehold Improvements	20,686	16,963	3,723	-	32,198	26,563	5,635	-
Building Maintenance and Repairs	146,708	120,589	26,119	-	49,802	41,087	8,715	-
Utilities	147,331	121,101	26,230	-	115,512	95,298	20,214	-
Janitorial Supplies	19,854	16,319	3,535	-	16,198	13,363	2,835	-
Contracted Building Services	<u>440,354</u>	<u>51,875</u>	<u>388,479</u>	<u>-</u>	<u>82,899</u>	<u>68,392</u>	<u>14,507</u>	<u>-</u>
Total Occupancy Costs	<u>\$ 2,688,314</u>	<u>\$ 1,899,227</u>	<u>\$ 789,087</u>	<u>\$ -</u>	<u>\$ 1,943,993</u>	<u>\$ 1,603,797</u>	<u>\$ 340,196</u>	<u>\$ -</u>
<u>Office Expenses:</u>								
Office Supplies and Materials	\$ 23,992	\$ 19,720	\$ 4,271	\$ -	\$ 39,427	\$ 32,527	\$ 6,900	\$ -
Office Equipment Rental and Maintenance	17,491	14,377	3,114	-	9,973	8,228	1,745	-
Telephone/Telecommunications	36,289	29,828	6,461	-	41,294	34,068	7,226	-
Professional and Payroll Services	398,632	327,661	70,971	-	365,097	301,205	63,892	-
Computer and Related	59,671	49,048	10,624	-	75,368	62,179	13,189	-
Postage and Shipping	2,673	2,197	476	-	5,005	4,129	876	-
Printing and Publications	<u>6,081</u>	<u>4,998</u>	<u>1,083</u>	<u>-</u>	<u>4,191</u>	<u>3,458</u>	<u>733</u>	<u>-</u>
Total Office Expenses	<u>\$ 544,829</u>	<u>\$ 447,829</u>	<u>\$ 97,000</u>	<u>\$ -</u>	<u>\$ 540,355</u>	<u>\$ 445,794</u>	<u>\$ 94,561</u>	<u>\$ -</u>
<u>General Expenses:</u>								
Insurance	\$ 33,231	\$ 27,315	\$ 5,916	\$ -	\$ 32,898	\$ 27,141	\$ 5,757	\$ -
Authorizer Fee	87,009	71,347	15,662	-	93,919	75,135	18,784	-
Meals and Travel	72,833	59,723	13,110	-	46,048	37,990	8,058	-
Staff Recruiting	24,988	20,490	4,498	-	78,043	64,386	13,657	-
Depreciation Expense	70,147	57,521	12,626	-	115,444	95,241	20,203	-
Other General Expenses	<u>59,288</u>	<u>42,985</u>	<u>9,436</u>	<u>6,867</u>	<u>19,593</u>	<u>15,262</u>	<u>3,238</u>	<u>1,093</u>
Total General Expenses	<u>\$ 347,496</u>	<u>\$ 279,381</u>	<u>\$ 61,248</u>	<u>\$ 6,867</u>	<u>\$ 385,945</u>	<u>\$ 315,155</u>	<u>\$ 69,697</u>	<u>\$ 1,093</u>
TOTAL FUNCTIONAL EXPENSES	<u>\$ 9,584,898</u>	<u>\$ 7,769,169</u>	<u>\$ 1,759,062</u>	<u>\$ 56,667</u>	<u>\$ 9,007,993</u>	<u>\$ 7,543,626</u>	<u>\$ 1,379,274</u>	<u>\$ 85,093</u>

(See Accompanying Notes and Auditor's Report)

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

<u>Federal Grantor/Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Program or Award Amount</u>	<u>Period of Award</u>	<u>Grant Receivable at 7/1/17</u>	<u>Current Year Activity</u>		<u>Grant Receivable at 6/30/18</u>
						<u>Receipts</u>	<u>Receivable Expenditures</u>	
<u>U.S. Department of Education:</u>								
Passed Through the District of Columbia:								
Special Education Cluster:								
Special Education - IDEA 611, Grants to States	84.027A	82027A	\$ 75,630	07/01/17 to 09/30/18	\$ -	\$ -	\$ 45,212	\$ 45,212
Special Education - IDEA 619, Preschool Grants	84.173A	82173A	\$ 1,202	07/01/17 to 09/30/18	-	-	1,202	1,202
Total Special Education Cluster					\$ -	\$ -	\$ 46,414	\$ 46,414
Title I, Part A, Grants to Local Educational Agencies	84.010A	82010A	\$ 254,195	07/01/17 to 09/30/18	\$ -	\$ -	\$ 253,936	\$ 253,936
Title II, Part A, Improving Teacher Quality State Grants	84.367A	82367A	\$ 55,076	07/01/17 to 09/30/18	-	-	55,076	55,076
Title IV, Student Support and Academic Enrichment Program	84.424A	84424A	\$ 10,000	07/01/17 to 09/30/18	-	-	10,000	10,000
DC School Choice Incentive Program	84.370C	U370C180001	\$ 89,221	08/04/17 to 08/03/18	-	45,120	50,852	5,732
DC School Choice Incentive Program	84.370C	N/A	\$ 156,347	07/10/15 to 07/10/17	12,223	12,223	-	-
Education for Homeless Children and Youth	84.196	82196A	\$ 17,000	03/01/18 to 09/30/18	-	-	794	794
Total U.S. Department of Education					\$ 12,223	\$ 57,343	\$ 417,072	\$ 371,952
<u>U.S. Department of Agriculture:</u>								
Passed Through the District of Columbia:								
Child Nutrition Cluster:								
Donated Commodities	10.555	N/A	N/A	07/01/17 to 06/30/18	\$ -	\$ 19,279	\$ 19,279	\$ -
School Breakfast Program	10.553	N/A	N/A	07/01/17 to 06/30/18	-	73,191	95,431	22,240
School Breakfast Program	10.553	N/A	N/A	07/01/16 to 06/30/17	16,378	16,378	-	-
National School Lunch Program	10.555	N/A	N/A	07/01/17 to 06/30/18	-	154,978	204,443	49,465
National School Lunch Program	10.555	N/A	N/A	07/01/16 to 06/30/17	39,617	39,617	-	-
Total Child Nutrition Cluster					\$ 55,995	\$ 303,443	\$ 319,153	\$ 71,705
Fresh Fruit and Vegetable Program	10.582	N/A	N/A	07/01/17 to 06/30/18	\$ -	\$ 11,440	\$ 20,259	\$ 8,819
Fresh Fruit and Vegetable Program	10.582	N/A	N/A	07/01/16 to 06/30/17	1,303	1,303	-	-
Total U.S. Department of Agriculture					\$ 57,298	\$ 316,186	\$ 339,412	\$ 80,524
Total Federal Awards					\$ 69,521	\$ 373,529	\$ 756,484	\$ 452,476

(See Accompanying Notes and Auditor's Report)

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Summary by CFDA

<u>Program</u>	<u>CFDA Number</u>	<u>Amount of Expenditures</u>
DC School Choice Incentive Program	84.370C	\$ 50,852
Title I, Part A, Grants to Local Educational Agencies	84.010A	253,936
Title II, Part A, Improving Teacher Quality State Grants	84.367A	55,076
Title IV, Student Support and Academic Enrichment Program	84.424A	10,000
Education for Homeless Children and Youth	84.196	794
Special Education - IDEA 611, Grants to States	84.027A	45,212
Special Education - IDEA 619, Preschool Grants	84.173A	1,202
Fresh Fruit and Vegetable Program	10.582	20,259
National School Lunch Program	10.555	204,443
Donated Commodities	10.555	19,279
School Breakfast Program	10.553	<u>95,431</u>
 Total Federal Awards		 <u>\$ 756,484</u>

(See Accompanying Notes and Auditor's Report)

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Charter School under programs of the federal government for the year ended June 30, 2018. The information in this 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 operations of the Charter School, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Charter School.

Note 2 - Summary of Significant Accounting Policies:

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

The Charter School has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Food Commodities:

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

Note 4 - Pass-Through Funds:

The Charter School did not pass through any federal funds to subrecipients.

Note 5 - Major Program Selection:

The major Federal Award Programs selected for testing are as follows:

U.S. Department of Agriculture

- School Breakfast, Donated Commodities and National School Lunch Programs

The requirements of the Office of Management and Budget Uniform Guidance prescribe that all major programs as determined by the auditor on a risk-based approach and/or at least 40% (20% for low risk auditees) of all federal awards be subject to specific control and compliance testing. For the City Arts and Prep Public Charter School, the programs subject to these requirements are as listed above. The total expenditures of these programs represent 42.19% of the total federal expenditures.

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Note 5 - Major Program Selection: (Continued)

<u>Programs</u>	<u>CFDA #</u>	<u>Amount of Expenditures</u>
DC School Choice Incentive Program	84.370C	\$ 50,852
Title I, Part A, Grants to Local Educational Agencies	84.010A	253,936
Title II, Part A, Improving Teacher Quality State Grants	84.367A	55,076
Title IV, Student Support and Academic Enrichment Program	84.424A	10,000
Education for Homeless Children and Youth	84.196	794
Special Education - IDEA 611, Grants to States	84.027A	45,212
Special Education - IDEA 619, Preschool Grants	84.173A	1,202
Fresh Fruit and Vegetable Program	10.582	20,259
National School Lunch Program	10.555	204,443*
Donated Commodities	10.555	19,279*
School Breakfast Program	10.553	<u>95,431*</u>
 Total Federal Awards		 <u>\$ 756,484</u>

* Denotes Major Program

Note 6 - Major Program Disclosure:

I. U.S. Department of Agriculture

1) School Breakfast and National School Lunch Programs

The objectives of the child nutrition cluster programs are to: (1) assist states in administering food services that provide healthy, nutritious meals to eligible children in public and non-profit private schools, residential childcare institutions, and summer recreation programs; and (2) encourage the domestic consumption of nutritious agricultural commodities.

Kendall, Prebola and Jones, LLC

Certified Public Accountants

Board of Directors
City Arts and Prep Public Charter School
705 Edgewood Avenue, NE
Washington, DC 20017

INDEPENDENT AUDITOR'S 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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of City Arts and Prep Public Charter School (a nonprofit organization), which comprise the statement of financial position as of June 30, 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 City Arts and Prep Public Charter 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 City Arts and Prep Public Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter 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.

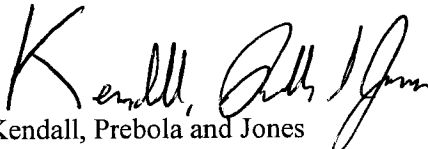
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 City Arts and Prep Public Charter 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 Charter 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 Charter School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
December 3, 2018

Kendall, Prebola and Jones, LLC
Certified Public Accountants

Board of Directors
City Arts and Prep Public Charter School
705 Edgewood Avenue, NE
Washington, DC 20017

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

Report on Compliance for Each Major Federal Program

We have audited City Arts and Prep Public Charter School's (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 City Arts and Prep Public Charter School's major federal programs for the year ended June 30, 2018. City Arts and Prep Public Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs and in the notes to the schedule of expenditures of federal awards.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and 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 City Arts and Prep Public Charter 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 City Arts and Prep Public Charter 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 City Arts and Prep Public Charter School's compliance.

Opinion on Each Major Federal Award Program

In our opinion, City Arts and Prep Public Charter 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 June 30, 2018.

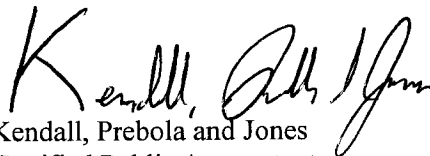
Report on Internal Control Over Compliance

Management of City Arts and Prep Public Charter School is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered City Arts and Prep Public Charter 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 City Arts and Prep Public Charter 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.



Kendall, Prebola and Jones
Certified Public Accountants

Bedford, Pennsylvania
December 3, 2018

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

There were no findings reported in the prior year.

CITY ARTS AND PREP PUBLIC CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

I. Summary of Audit Results

- a. The auditor's report expresses an unmodified opinion on whether the financial statements of City Arts and Prep Public Charter School were prepared in accordance with generally accepted accounting principles.
- b. No significant deficiencies relating to the audit of the financial statements have been reported.
- c. No instances of noncompliance material to the financial statements of City Arts and Prep Public Charter School, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- d. No significant deficiencies relating to the audit of the major federal award programs have been reported.
- e. The auditor's report on compliance for the major federal award programs for City Arts and Prep Public Charter School expresses an unmodified opinion.
- f. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516 (a) of the Uniform Guidance in the schedule of findings and questioned costs.
- g. The major programs of City Arts and Prep Public Charter School was as follows:

<u>Programs</u>	<u>CFDA #</u>
School Breakfast, Donated Commodities and National School Lunch Programs	10.553/10.555

- h. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
- i. The City Arts and Prep Public Charter School was determined to be a high-risk auditee.

II. Findings relating to the financial statements which are required to be reported in accordance with *Government Auditing Standards*

There were no findings in the current year.

III. Findings relating to federal awards, which are required to be reported in accordance with the *Uniform Guidance*

There were no findings in the current year.