Carlos Rosario International Public Charter School, Inc.

Financial Report
June 30, 2019

Contents

RSM US LLP

Independent Auditor's Report

To the Board of Trustees
Carlos Rosario International Public Charter School, Inc.

Report on the Financial Statements
We have audited the accompanying financial statements of Carlos Rosario International Public Charter School, Inc. (the School), which comprise the statement of financial position as of June 30, 2019, 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
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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 Carlos Rosario International Public Charter School as of June 30, 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 Matter
The financial statements of the School, as of and for the year ended June 30, 2018, were audited by other auditors, whose report, dated November 27, 2018, expressed an unmodified opinion on those statements.

Emphasis of Matters
As discussed in Note 1 to the financial statements, the accompanying financial statements are those of Carlos Rosario International Public Charter School, Inc. (parent company) only and are not those of the primary reporting entity. The consolidated financial statements of Carlos Rosario International Public Charter School, Inc. (parent company) and its Affiliates have been issued to its Board of Directors as the general purpose financial statements of the reporting entity and should be read in conjunction with the parent-only financial statements. Our opinion is not modified with respect to this matter.

As disclosed in Note 1 to the financial statements, the School adopted the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoption of this standard resulted in the inclusion of a statement of functional expenses for the year ended June 30, 2019 with comparative 2018 amounts (as permitted in the year of adoption by the ASU), additional disclosures over liquidity, and changes to the classification of net assets. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019, on our consideration of the School's internal control over financial reporting and on our tests of its complliance with certain povisions of laws, regulations, contracts and grant agreements and other matters. The purpose of the report is to solely 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. The report is an intergral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

RSM US LLP

Washington, DC
November 26, 2019

Carlos Rosario International Public Charter School

Statements of Financial Position
June 30, 2019 and 2018

		2019		2018
Assets				
Current assets:				
Cash	**$**	**5,569,692**	$	4,830,948
Grant and other receivables		**156,640**		63,569
Prepaid expenses		**477,992**		262,648
Total current assets		**6,204,324**		5,157,165
Investments		**11,658,981**		11,153,843
Property and equipment, net		**19,873,893**		20,880,358
Restricted cash - facility repair and improvements reserve fund		**304,775**		304,775
Deferred compensation assets		**323,136**		289,739
Deposits		**127,440**		127,440
Total assets	**$**	**38,492,549**	$	37,913,320
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and other accruals	**$**	**538,841**	$	276,324
Accrued salaries and related expenses		**1,942,254**		1,283,530
Due to Community Capital Corporation		**224,856**		77,207
Current portion of capital lease obligations		**158,513**		148,823
Total current liabilities		**2,864,464**		1,785,884
Deferred rent		**1,239,787**		1,677,142
Capital lease obligations		**12,598,507**		12,757,020
Deferred compensation liability		**323,136**		289,739
Accrued postretirement benefit		**414,347**		366,256
Total liabilities		**17,440,241**		16,876,041
Net assets:				
Without donor restrictions		**20,927,640**		20,924,406
With donor restrictions		**124,668**		112,873
Total net assets		**21,052,308**		21,037,279
Total liabilities and net assets	**$**	**38,492,549**	$	37,913,320

See notes to financial statements.

Carlos Rosario International Public Charter School

Statements of Activities
Years Ended June 30, 2019 and 2018

	2019	2018
Changes in net assets without donor restrictions:		
Revenues and support:		
Charter per pupil allotment:		
Regular	**$ 20,965,966**	$ 20,215,075
Facilities	**6,852,300**	6,704,728
	27,818,266	26,919,803
Grants and Contributions	**404,974**	252,639
Cafeteria sales	**446,957**	453,943
Student fees and other income	**386,065**	311,749
Total revenue and support	**29,056,262**	27,938,134
Net assets released from restrictions	**142,279**	92,448
Total revenue, support and other increases	**29,198,541**	28,030,582
Expenses:		
Educational programs	**26,300,834**	24,170,480
Community outreach	**338,833**	6,034
General and administrative	**2,948,325**	3,070,483
Fundraising	**134,697**	123,453
Total expenses	**29,722,689**	27,370,450
(Decrease) increase in net assets without donor restrictions before other activity	**(524,148)**	660,132
Other activity:		
Investment return, net	**527,382**	6,019
Increase in net assets without donor restrictions	**3,234**	666,151
Changes in net assets with donor restrictions:		
Contributions	**154,074**	138,575
Net assets released from restrictions	**(142,279)**	(92,448)
Increase in net assets with donor restrictions	**11,795**	46,127
Change in net assets	**15,029**	712,278
Net assets:		
Beginning of year	**21,037,279**	20,325,001
Ending of year	**$ 21,052,308**	$ 21,037,279

See notes to financial statements.

Carlos Rosario International Public Charter School

Statements of Functional Expenses
Years Ended June 30, 2019 and 2018

	2019					2018				
	Educational Programs	Community Outreach	General and Administrative	Fundraising	Total	Educational Programs	Community Outreach	General and Administrative	Fundraising	Total
Personnel salaries and benefits:										
Salaries	$ 13,636,590	$ 123,944	$ 1,541,248	$ 58,005	$ 15,359,787	$ 12,196,877	$ -	$ 1,508,550	$ -	$ 13,705,427
Employee benefits	2,914,948	38,918	396,848	18,063	3,368,777	2,847,849	-	403,754	-	3,251,603
Contracted staff	36,400	-	98,595	-	134,995	5,412	-	83,510	-	88,922
Professional development	117,525	11,399	98,884	2,436	230,244	164,573	-	67,581	-	232,154
Total personnel salaries and benefits	16,705,463	174,261	2,135,575	78,504	19,093,803	15,214,711	-	2,063,395	-	17,278,106
Direct student costs:										
Supplies and materials	318,249	1,863	-	-	320,112	292,297	152	-	49	292,498
Transportation	62,151	-	-	-	62,151	74,804	-	-	-	74,804
Contracted student services	20,293	2,170	-	-	22,463	24,269	-	-	-	24,269
Student assessments	15,967	-	-	-	15,967	14,646	-	-	-	14,646
Food service/workforce program	330,616	6,041	-	-	336,657	356,814	-	378	407	357,599
Other student costs	143,315	-	-	-	143,315	116,573	-	-	-	116,573
Total direct student costs	890,591	10,074	-	-	900,665	879,403	152	378	456	880,389
Occupancy expenses:										
Rent	3,450,266	-	240,204	7,044	3,697,514	3,249,902	-	399,636	-	3,649,538
Maintenance and repairs	14,985	-	-	-	14,985	676	-	6,993	-	7,669
Depreciation and amortization - facility	1,183,394	-	33,944	996	1,218,334	1,147,665	-	55,096	-	1,202,761
Interest - facility	1,611,122	-	-	-	1,611,122	1,580,911	-	1,571	-	1,582,482
Total occupancy expenses	6,259,767	-	274,148	8,040	6,541,955	5,979,154	-	463,296	-	6,442,450
General and administrative expenses:										
Office supplies and materials	94,792	1,553	7,424	588	104,357	86,611	-	9,208	25	95,844
Office equipment rental and maintenance	46,136	-	15,108	68	61,312	23,625	-	6,004	-	29,629
Software and equipment rental/maintenance	615,996	-	103,214	84	719,294	446,616	-	108,332	98	555,046
Telecommunications	293,501	550	3,870	94	298,015	321,332	-	2,222	-	323,554
Professional fees	319,986	20,776	241,983	27,309	610,054	70,872	-	130,196	-	201,068
Insurance	102,725	-	7,223	212	110,160	133,897	-	17,525	-	151,422
Administration fee - DCPCS	258,650	-	-	-	258,650	221,054	-	27,341	-	248,395
Depreciation and amortization	350,605	-	19,311	1,136	371,052	358,199	-	31,581	-	389,780
Other general expense	362,622	131,619	140,469	18,662	653,372	435,006	5,882	211,005	122,874	774,767
Total general and administrative expenses	2,445,013	154,498	538,602	48,153	3,186,266	2,097,212	5,882	543,414	122,997	2,769,505
Total expenses	$ 26,300,834	$ 338,833	$ 2,948,325	$ 134,697	$ 29,722,689	$ 24,170,480	$ 6,034	$ 3,070,483	$ 123,453	$ 27,370,450

See notes to financial statements.

Carlos Rosario International Public Charter School

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

		2019		2018
Cash flows from operating activities:				
Change in net assets	**$**	**15,029**	$	712,278
Adjustment to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization		**1,589,386**		1,606,817
Net unrealized (gains) losses on investments		**(190,402)**		125,022
Deferred rent		**(437,355)**		(339,974)
Changes in assets and liabilities:				
(Increase) in:				
Grant and other receivables		**(93,071)**		(38,526)
Prepaid expenses and other assets		**(215,344)**		(103,657)
Increase (decrease) in:				
Accounts payable and other accruals		**262,517**		53,653
Accrued salaries and related expenses		**658,724**		101,339
Due to Community Capital Corporation		**147,649**		(2,085,378)
Deferred compensation liability		**33,397**		(6,411)
Accrued postretirement benefit		**48,091**		15,351
Net cash provided by operating activities		**1,818,621**		40,514
Cash flows from investing activities:				
Purchase of investments		**(2,477,790)**		(8,713,443)
Proceeds from investments		**2,129,657**		582,404
Purchase of property and equipment		**(582,921)**		(60,839)
Net cash used in investing activities		**(931,054)**		(8,191,878)
Cash flows used in financing activities:				
Payments on capital lease obligations		**(148,823)**		(140,476)
Net cash used in financing activities		**(148,823)**		(140,476)
Net increase (decrease) in cash		**738,744**		(8,291,840)
Cash:				
Beginning of year		**5,135,723**		13,427,563
End of year	**$**	**5,874,467**	$	5,135,723
Supplemental disclosure of cash flow information:				
Cash paid for interest	**$**	**1,611,682**	$	1,568,534
Taxes paid	**$**	**59,075**	$	-
Property financed through related party payable	**$**	**-**	$	62,292
Noncash donated services received	**$**	**45,966**	$	16,403

See notes to financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Carlos Rosario International Public Charter School, Inc. (the School) was organized in September 1998 under the District of Columbia School Reform Act of 1995. The School's mission is to provide education that prepares the diverse adult immigrant population of Washington, DC to become invested, productive citizens and members of the American society who give back to family and community. The School accomplishes this through excellence in teaching and learning in partnership with the community by fostering a safe and compassionate learning environment.

The School offers classes to adults in subjects including English, U.S. Citizenship, GED preparation, computer literacy, culinary arts, and family literacy. The School's enrollment for the school years 2019 and 2018, were approximately 2,130 and 2,100 students, respectively.

A summary of the School's significant accounting policies follows:

Basis of accounting: The financial statements of the School are prepared on the accrual basis of accounting whereby unconditional support is recognized when received, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: These statements present the stand-alone statements of financial position, activities, functional expenses and cash flows of the School only. Separate consolidated financial statements have been issued for the School and Community Capital Corporation and its Affiliate. Reference should be made to these separate consolidated financial statements for the year ended June 30, 2019, which serve as the School's general-purpose financial statements and are intended to present the School's financial position, changes in net assets, and cash flows in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The financial statements of the School are presented in conformity with U.S. GAAP and have been prepared on the accrual basis of accounting. U.S. GAAP also requires that the School report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and with donor restrictions.

Net assets without donor restrictions: Net assets available for use in general activities and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions that will be met by the passage of time or other events or purpose specified by the donor. Other donor-imposed restrictions are perpetual in nature where the donor stipulates that resources be maintained in perpetuity. 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.

Cash: The School maintains cash balances at various financial institutions which, at times, may exceed federally insured limits. The 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. For the purposes of the statements of cash flows, the School considers all highly liquid debt instruments with a maturity of three months or less to be cash, except the cash held as part of the long-term investments.

Restricted cash - facility reserve funds: The facility reserve funds are segregated cash that the School is required to maintain under a contractual obligation to a related party (Note 4).

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Investments: Investments are recorded at estimated fair value based on quoted market prices provided by the investment managers. Realized and unrealized holding gains and losses are included as non-operating investment income in the statements of activities. Net investment income is reported as an increase in net assets without donor restrictions, unless restricted by donor or law.

Property and equipment: The School capitalizes all property and equipment purchased in excess of $10,000. Property and equipment is recorded at cost, and donated property is recorded at fair market value. Maintenance and repairs are expensed as incurred. Significant renewals and betterments are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to twenty years. The statements of financial position also reflect assets obtained under capital lease agreements. Amortization for capital leased assets is calculated as depreciable equipment. The amortization of leasehold improvements is recorded over the shorter of the lease term or the estimated useful life of the improvements. At the time assets are retired or otherwise disposed of, the property and related accumulated depreciation and amortization accounts are relieved of the applicable amounts and any gain or loss is credited or charged to income.

Valuation of long-lived assets: The School reviews property and equipment and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Contributions receivable: Contributions receivable, if any, are stated at fair value, net of any applicable discounts. An allowance for bad debt is recorded for any uncollectible amounts in the period such a determination is made. No such allowance was recorded for years ended June 30, 2019 and 2018.

Support and funding: The School receives a per-pupil allocation from the District of Columbia to cover the cost of academic expenses. This student allocation is on a per-pupil basis and includes academic year funding and a facilities allotment. The School recognizes the funding as revenue and support in the year in which the School term is conducted.

Contributions and net assets: Unconditional contributions and promises to give are recorded as support when received. Contributions and promises to give that are restricted by the donor as to time or purpose, are reported as an increase in net assets with donor restrictions. When a time restriction ends, or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted support.

Grant revenue and support: Revenue and support from government contracts and grants that provide for cost reimbursement is recognized when the related direct and allocated indirect expenses are incurred, deliverables are met, or per-diem services are provided. Revenue recognized in excess of cash received is reported as a grant receivable. Cash received in excess of revenue recognized is reported as deferred revenue.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Functional allocation of expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Expenses that can be identified with a specific program or support service are charged directly, according to their natural expenditure classification. Depreciation, interest expense, and rent expenses are allocated based on square feet that each function occupies.

Tax status: Under the provision of Section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the District of Columbia, the School is exempt from taxes on income other than unrelated business income. The School had net unrelated business income of $167,984 and $96,652 for the years ended June 30, 2019 and 2018, respectively. Generally, the School is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2016.

Uncertainty in income taxes: The School has a process in place to ensure the maintenance of its exempt-status; to identify and report unrelated business income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The School has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Use of estimates: The preparation of stand-alone financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the stand-alone financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification: Certain amounts on the prior-year financial statements have been reclassified to conform with the current year presentation.

Adoption of new accounting pronouncements: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,* which simplifies and improves how a nonprofit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, net assets with donor restrictions and net assets without donor restrictions, expands disclosures about the nature and amount of any donor restrictions, requires the disclosure of information related to the School's short term liquidity and requires inclusion of information regarding functional expenses. The ASU was retroactively adopted by the School during 2019.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force),* which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The ASU was adopted by the School during the year ended June 30, 2019. Net asset classification, the total net assets, and change in net assets were not impacted by the adoption of this new standard.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Recent accounting pronouncements: In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, along with various updates in 2016 and 2015, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. Management has not yet selected a transition method and is currently evaluating the effect that the ASU will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842*), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

In June, 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The purpose of the ASU is to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in the ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of *Topic 958, Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in the ASU likely will result in more grants and contracts being accounted for as either contributions or conditional contributions than observed in practice under current guidance. The amendments in the ASU should be applied on a modified prospective basis, although retrospective application is permitted. Entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. Entities should apply the amendments for transactions in which the entity serves as the resource provider to annual periods beginning after December 15, 2019. Management is currently evaluating the impact of this ASU on its financial statements.

Subsequent events: Management has evaluated subsequent events through November 26, 2019, which is the date the stand-alone financial statements were available to be issued.

Note 2. Investments

Investments consist of the following at June 30, 2019 and 2018:

	2019	2018
Certificates of deposit	$ 3,240,487	$ 3,170,000
Mutual funds	3,204,461	2,759,240
Exchange-traded and closed-end funds	2,666,259	2,532,650
Common stocks	1,110,024	999,075
Government securities	813,451	987,123
Corporate bonds	465,954	558,910
Money market funds	137,658	146,845
Preferred stocks	20,687	-
	$ 11,658,981	$ 11,153,843

Net investment income consists of the following for the years ended June 30, 2019 and 2018:

	2019	2018
Interest and dividend income	$ 388,026	$ 161,471
Net realized and unrealized gain (losses)	190,402	(125,022)
Investment fees	(51,046)	(30,430)
	$ 527,382	$ 6,019

Note 3. Property and Equipment

The following summarizes property and equipment by major asset categories:

	2019	2018
Capital leased property	$ 17,514,350	$ 17,514,350
Leasehold improvements	11,259,921	11,259,921
Computers and software	2,259,791	3,113,196
Furniture and fixtures	821,844	800,283
Equipment	1,416,079	1,402,694
Capital leased equipment	-	81,315
Vehicles	481,532	481,533
Construction in progress	160,922	-
Total	33,914,439	34,653,292
Less accumulated depreciation and amortization	(14,040,546)	(13,772,934)
Property and equipment, net	$ 19,873,893	$ 20,880,358

Total depreciation and amortization expense for the years ended June 30, 2019 and 2018, was $1,589,386 and $1,606,817, respectively.

Note 3. Property and Equipment (Continued)

The School has capitalized costs for leasehold improvements at the Harvard Street and V Street locations. The capitalized balance as of June 30, 2019 and 2018 was $11,259,921. See Notes 4 and 6 for further information regarding the related party leases.

The School entered into a capital lease for classroom and office space with Community Capital Corporation. See Note 6 for further information regarding the lease agreement.

Note 4. Related Party Transactions

Community Capital Corporation (CCC): CCC was incorporated in 2001, received 501(c)(3) non-profit organization exempt status in 2002, and in 2008 was designated as a Type 2 supporting organization to the School under Section 509(a)(3) of the Internal Revenue Code. CCC's purpose is to operate for charitable and educational purposes for the benefit of the School. The primary role of CCC has been as the developer, manager and landlord of the two facilities that the School occupies.

CCC has a long-term prime lease agreement with the District of Columbia to lease a property on Harvard Street that required substantial building improvements. The School, in tum, entered into a long-term sublease with CCC for office and classroom space in this property. The School is now the sole tenant of the Harvard Street campus.

The costs of the building improvements were originally financed by the issuance of a tax-exempt bond. The financing agreement supporting the bond required the School to guarantee CCC's financial obligations to the lending institution. This guarantee covered assets and contracts. In August 2013, CCC refinanced the Harvard Street property, entered into a new term-loan for $6,107,104 with Bank of America, and used its proceeds to pay off the tax-exempt bond balance. The School is the guarantor of the term-loan and is subject to certain financial covenants, with which the School is in compliance.

In addition, CCC led in the purchase, building, and development of the School's second campus, the Sonia Gutierrez Campus in Northeast DC. The School is the largest tenant of that building. As the leaseholder for the School's two campus buildings, CCC provides standard landlord facility services in addition to contracting with the School to provided expanded facility support services to the School. The School serves as a guarantor of the mortgages on those properties. The School also provides office support services to CCC through a management services agreement.

Community Capital Corporation-Sonia Gutierrez Campus (CCC-SGC) was incorporated on October 10, 2012, as a nonprofit 50l(c)(2) title holding corporation under the laws of the District of Columbia. The organization was formed to hold the real estate property located at 514 V Street, NE, Washington D.C., the Sonia Gutierrez Campus, which has been developed for educational uses on behalf of its parent, CCC.

During December 2011, CCC purchased land for approximately $2 million, and the title to the property was transferred to CCC-SGC during 2013. The School entered into a long-term sublease agreement for classroom and office space for a term of twenty-five years. The lease has been accounted as a capital lease (Note 6). The land has been developed to build the Sonia Gutierrez campus as described above. The development costs, including furniture and fixtures, were approximately $21 million.

Note 4. Related Party Transactions (Continued)

The land acquisition has been financed by a grant from the District of Columbia's Office of the State Superintendent of Education (OSSE). The construction and equipment purchase is being financed with Banc of America CDE V, LLC, a North Carolina limited liability company (BOA CDE), and ESIC New Markets Partners Limited Partnership, a Maryland limited partnership (ESIC CDE) (collectively referred to as the lenders).

CCC shares certain personnel, administrative, and equipment costs with the School. Beginning in 2016, CCC paid its own salaries and benefits and no longer shared labor costs with the School, except for one employee whose salary and fringe benefit expense is allocated based on actual time spent on each organization. The School also processes other payments for shared expenses and is reimbursed for such operating costs based on a cost sharing agreement that provides for a fixed monthly fee of $10,000. Total amounts received from CCC were $0 and $135,803 for years ended June 30, 2019 and 2018, respectively. The balance owed from CCC related to these expenses totaled $3,445 and $24,249 at June 30, 2019 and 2018, respectively.

During 2019 and 2018, the School incurred costs related to renovations and consulting and security expenses that were paid for by CCC. At June 30, 2019 and 2018, the School owed CCC $228,301 and $101,456, respectively, for these expenses. Cash payments for rent and capital leases paid to CCC totaled $5,457,457 and $5,294,430 for 2019 and 2018, respectively.

Consolidation: The accompanying stand-alone financial statements reflect only the activities and net assets of the School. Separate consolidated statements have been issued for the School and Community Capital Corporation and its Affiliate (Note 1).

Note 5. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2019 and 2018, were available for the following purposes:

	2019	2018
Student scholarships	$ 65,329	$ 103,083
IME BECAS - Scholarship	6,675	9,790
Fidelity CDAF-Citizenship	10,000	-
Phillip Graham Fund Grant	42,664	-
Donor restricted net assets	$ 124,668	$ 112,873

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Note 6. Commitments and Contingencies

Capital leases: As mentioned in Note 4, CCC-SGC has title to the Sonia Gutierrez Campus. On October 31, 2012, CCC-SGC closed the financing with proceeds from loans enhanced by federal new market tax credits amounting to approximately $21 million (Note 4). Under the master loan and disbursement agreement, the School has secured the debt with, among other things, the charter per pupil allotment and general revenues, subordinated only to the security interest of CCC as collateral for the School's rent obligations. Starting six months after the completion of the building construction, the School was required to comply with additional financial covenants. The School is in compliance with the financial covenants at June 30, 2019 and 2018.

Note 6. Commitments and Contingencies (Continued)

CCC-SGC entered into a master lease agreement with CCC on October 31, 2012, for 32 years in which CCC leases the building from CCC-SGC commencing on the delivery date, which was the date the certificate of occupancy was issued. In turn, the School signed a sublease agreement on October 12, 2012 with CCC for classroom and office space at the Sonia Gutierrez Campus for a period of 25 years commencing on the delivery date, which was the date the certificate of occupancy was issued. This sublease agreement replaced the build-to-suit master lease agreement signed on June 1, 2012 (Note 4). Complying with the sublease terms, the School started paying rent on October 1, 2013, at which time the sublease was accounted for as a capital lease.

In addition, the School has entered into lease agreements to finance certain equipment over periods ranging from 36 to 60 months. These lease agreements have been classified as capital leases which are generally accounted for as additions to property and equipment using lease financing.

The following is a schedule of future minimum lease payments and interest as of June 30, 2019:

Year ending June 30:	
2020	$ 1,812,743
2021	1,867,125
2022	1,923,139
2023	1,980,833
2024	2,040,258
Thereafter	36,683,498
Total minimum lease payments	46,307,596
Less amount representing interest	(33,550,576)
Present value of minimum lease payments	12,757,020
Current portion of the obligation	(158,513)
Noncurrent portion of the obligation	$ 12,598,507

Interest expense for the years ended June 30, 2019 and 2018, was $1,611,122 and $1,568,207, respectively. At June 30, 2019 and 2018, the book value of the capital lease assets is $12,411,841 and $14,146,637, respectively, net of accumulated amortization of $5,102,509 and $3,367,713, respectively.

Operating leases: As described in Notes 3 and 4, the School entered into a long-term sublease agreement for classroom and office space at Harvard Street with CCC which expires in July 2021. During 2011, the School and CCC signed the fourth addendum to the commercial sublease. Among the modifications are provisions for increase in rentable square feet, rental of the parking lot, minimum annual escalation increases, and a provision for an additional rent-assessment fee known as the facility repair and improvement reserve assessment fee (the reserve fund). All terms and clauses of the master lease not amended by this addendum remained in full force.

Under the terms of the addendum, the School was initially required to pay $1,000,000 to CCC to maintain in the reserve fund to be used for building repairs and improvements. The addendum also requires CCC to conduct an environmental facility and building assessment study every three years to determine the sufficiency of the reserve, which can be funded in a lump sum or quarterly.

In 2019 and 2018, there were no renovations made; therefore, the reserve fund value remained unchanged. The balance of the reserve fund as of June 30, 2019 and 2018 was $304,775, and is included in the accompanying statements of financial position as restricted cash and a noncurrent asset.

Note 6. Commitments and Contingencies (Continued)

This lease calls for monthly rent with annual increases until the expiration of the lease effective July 2021. The total lease payments are recorded as rent expense on a straight-line basis over the lease period resulting in a deferred rent liability. The deferred rent balance at June 30, 2019 and 2018 totaled $1,239,787 and $1,677,142, respectively.

Rent expense for years ended June 30, 2019 and 2018, was $3,697,513 and $3,245,772, respectively.

Future minimum lease payments under operating leases are as follows:

Year ending June 30:	
2020	$ 3,765,000
2021	3,868,000
2022	331,000
	$ 7,964,000

Employment contract: The School has an employment contract with its Chief Executive Officer, which provides for future payments as services are rendered. The agreement is for a five-year period ending on July 31, 2024.

Note 7. Retirement Plans

The School adopted a 401(k) Plan effective August 15, 2013 for all employees over 21 years of age who have completed six months of service working 17.5 hours weekly or 408 hours during the six-month period. This is a plan with salary deferral options (pre-tax and Roth), discretionary matching contributions, and a safe harbor non-elective contribution of 3% of employees' compensation. The matching contribution is 300% of the first 1% employees contribute from their compensation. Participants are immediately vested in all contributions. The School's pension expense for the years ended June 30, 2019 and 2018, totaled $724,053 and $747,598, respectively.

The 401(k) Plan replaced a formerly sponsored 403(b) Plan. Participants have the option to rollover the assets to the 401(k) Plan or to convert their accounts into an IRA. The School terminated the 403(b) plan on November 1, 2018 and all assets were deemed distributed on that date.

The School sponsors a nonqualified deferred compensation plan under the Internal Revenue Code Section 457(b). Funds are invested in mutual funds and are included with other assets and other liabilities in the accompanying statements of financial position. The School's obligation is limited to the market value of the invested funds which was $248,990 and $241,120 at June 30, 2019 and 2018, respectively.

The School also sponsors a nonqualified deferred compensation plan under Internal Revenue Code Section 457(b). Funds are invested in mutual funds and are included with other assets and other liabilities in the accompanying statements of financial position. The School's obligation is limited to the market value of the invested funds which was $74,146 and $48,619 at June 30, 2019 and 2018, respectively.

Note 8. Postretirement Benefits - Healthcare and Dental

In addition to providing pension benefits, in fiscal year 2015, the School adopted a voluntary early retirement incentive program. The program will permit eligible employees, who desire to retire following the attainment of age 62 but prior to the attainment of age 65, an opportunity to continue to receive medical insurance from the School for a specified period at the same rate and level provided to actively employed employees of the School. To be eligible to participate, the employee must have reached the age of 62, have been enrolled in one of the three medical plans offered by the School for at least five years , and have 15 years of full time employment with the School. Surviving spouses are not covered.

The Plan's fiscal year-end and the Plan's valuation are June 30. The School has not contributed to the postretirement benefit plan in fiscal years 2019 or 2018 and the Plan is currently unfunded. There were no benefits paid by the Trust during the years ended June 30, 2019 and 2018.

A summary of the net periodic postretirement benefit costs for the years ended June 30, 2019 and 2018, are as follows:

	2019	2018
Service cost	$ 35,134	$ 35,920
Interest cost	15,016	12,781
Net periodic postretirement benefit cost	$ 50,150	$ 48,701

The following table sets forth the financial status of the plan for the years ended June 30, 2019 and 2018:

	2019	2018
Accumulated postretirement benefit obligation (APBO):		
Active participants fully eligible	$ (26,044)	$ (26,095)
Active participants not fully eligible	(388,303)	(340,161)
Total APBO	(414,347)	(366,256)
Plan assets at fair value	-	-
Accrued postretirement benefit cost unfunded	$ (414,347)	$ (366,256)

The weighted average discount rate used to determine the APBO was 3.35% and 4.10% at June 30, 2019 and 2018, respectively, and the long-term inflation rate was 4.50% in 2019 and 2018. For measurement purposes, assumed healthcare cost trend rates of 6.75% in 2019 were used, trending down to 4.50%. This rate should be achieved in 2029.

If the assumed healthcare cost trend rate were increased by 1 percentage point, the rates would increase the aggregate of interest and service cost components of the NPPBC by 14.4% or $7,222. The APBO as of June 30, 2019 would increase by 12.2% or $50,550.

If the assumed healthcare cost trend rate were decreased by 1 percentage point, the rates would decrease the aggregate of interest and service cost components of the NPPBC by 12.1% or $6,068. The APBO as of June 30, 2019 would decrease 10.5% or $43,506.

Note 8. Postretirement Benefits - Healthcare and Dental (Continued)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next ten fiscal years:

Year ended June 30:		
2020	$	-
2021		13,567
2022		9,406
2023		18,526
2024		19,602
2025-2029		196,708
	$	257,809

Note 9. Donated Services

In 2019 and 2018, the School received pro-bono legal services valued at $45,966 and $16,403, respectively. These amounts are reflected as revenue and expense in the accompanying financial statements.

Note 10. Fair Value Measurements

The School reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by generally accepted accounting principles, gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The fair value hierarchy is as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities that the School has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 10. Fair Value Measurements (Continued)

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported as of the end of the reporting period. For the years ended June 30, 2019 and 2018, there were no significant transfers in or out of Levels 1, 2 or 3.

The following is a description of the valuation methodologies used for investments measured at fair value and their classification in the valuation hierarchy:

Investments in *money market funds, preferred stock* and *common stocks* (Note 3) are valued at the net asset value of shares held by the School at year-end, which generally is $1 per each unit held. Such securities are classified within Level 1 of the valuation hierarchy.

Investments in *mutual funds* (Note 2) are valued at the net asset value of shares of funds selected by the participants of the 457(b) and 457(f) plans (Note 7) as reported at year-end in the listing of the applicable major exchanges. Such securities are classified within Level 1 of the valuation hierarchy.

Investments in *certificates of deposit* and *corporate bonds* (Note 2 and 8) are valued by discounting the related cash flows based on current yields of similar instruments with comparable derivatives considering the creditworthiness of the issuer. Such securities are classified within Level 2 of the valuation hierarchy.

Investments in *U.S. Government securities* (Note 2) are valued using the latest bid process and significant inputs, including benchmarking yields, broker-dealer quotes, issuer spreads, and measures of volatility provided by independent pricing services, and classified within Level 2 of the valuation hierarchy.

The value of liability of deferred compensation is based on observable inputs of the related assets, and classified within Level 2 of the valuation hierarchy.

Note 10. Fair Value Measurements (Continued)

The following summarizes information about the fair value measurements used as June 30, 2019:

	2019		
	Total	Level 1	Level 2
Assets at fair value:			
Certificates of deposit	$ 3,240,487	$ -	$ 3,240,487
Mutual funds	3,204,461	3,204,461	-
Exchange-traded and closed-end funds	2,666,259	2,666,259	-
Common stocks	1,110,024	1,110,024	-
Government securities	813,451	-	813,451
Corporate bonds	465,954	-	465,954
Money market funds	137,658	137,658	-
Preferred stocks	20,687	20,687	-
Total investments (Note 2)	11,658,981	7,139,089	4,519,892
Deferred compensation assets			
Mutual funds	323,136	323,136	-
	$ 11,982,117	$ 7,462,225	$ 4,519,892
Liabilities at fair value:			
Deferred compensation	$ 323,136	$ -	$ 323,136

The following summarizes information about the fair value measurements used as June 30, 2018:

	2018		
	Total	Level 1	Level 2
Assets at fair value:			
Certificates of deposit	$ 3,170,000	$ -	$ 3,170,000
Mutual funds	2,759,240	2,759,240	-
Exchange-traded and closed-end funds	2,532,650	2,532,650	-
Common stocks	999,075	999,075	-
Government securities	987,123	-	987,123
Corporate bonds	558,910	-	558,910
Money market funds	146,845	146,845	-
Total investments (Note 2)	11,153,843	6,437,810	4,716,033
Deferred compensation assets			
Mutual funds	289,739	289,739	-
	$ 11,443,582	$ 6,727,549	$ 4,716,033
Liabilities at fair value:			
Deferred compensation	$ 289,739	$ -	$ 289,739

Note 11. Liquidity and Availability

The School regularly monitors liquidity required to meet its annual operating needs and other contractual commitments while also striving to maximize the return on investments of its funds not required for annual operations. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the financial position date, comprise the following:

Cash	$ 5,569,692
Grant and other receivables	156,640
Investments	11,658,981
Restricted cash - facility repair and improvements reserve fund	304,775
Deferred compensation assets	323,136
Total financial assets available	18,013,224
Donor restricted net assets	124,668
Restricted cash - facility repair and improvements reserve fund	304,775
Deferred compensation assets	323,136
	752,579
Total financial assets available to meet cash needs for general expenditures within one year	$ 17,260,645

RSM

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Independent Auditor's Report on the Supplementary Information

To the Board of Trustees
Carlos Rosario International Public Charter School, Inc.

We have audited the financial statements of Carlos Rosario International Public Charter School, Inc. as of and for the year ended June 30, 2019, and have issued our report thereon, which contains an unmodified opinion on those financial statements. See pages 1 and 2. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The accompanying schedule of vendor payments over $25,000 is presented for purposes of additional analysis and are 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.

RSM US LLP

Washington, D.C.
November 26, 2019

Carlos Rosario International Public Charter School, Inc.

Schedule of Vendor Payments Over $25,000
Year Ended June 30, 2019

Vendor Name	Services Provided	Amount Invoiced
Crawford Advisors, LLC	Health, dental and ancillary insurance	$ 935,806
Proactive School	School SIS system	199,390
Lamb Insurance Services	Employee benefits	144,306
AT&T Mobility	Mobile phones and tablet data	127,084
Capitol Document Solutions	Copier and printing	80,630
ADP, LLP	Payroll and HRIS systems	78,099
Verizon	Telephone and data services	74,214
Cogent Communications, Inc.	Telephone and data services	60,150
Supplyline	Toner and printer services	56,309
Innovative Consultants International, Inc.	Educational services and solutions	55,915
Build Consulting	Technology consulting	53,874
Advanced Network Systems, Inc.	IT infrastructure equipment	53,625
Rubino & Company, Chartered	Legal services	52,650
Jani-King of Washington DC	Kitchen cleaning services	39,736
Electronic Federal Tax Payments System	Tax payments	38,778

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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*

Independent Auditor's Report

To the Board of Trustees
Carlos Rosario International Public Charter School

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 Carlos Rosario International Public Charter School, Inc. (the School), which comprise the statements of financial position as of June 30, 2019, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 26, 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control that we consider to be a significant deficiency reported in the accompanying Schedule of Findings and Other Matters as Finding 2019-001.

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*.

The School's Response to the Finding
The School's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on the response.

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 entity'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Washington, D.C.
November 26, 2019

Significant Deficiency

Finding: 2019-001: Accrual of Teacher Salaries

Criteria: In accordance with generally accepted accounting principles in the United States of America (U.S. GAAP), expenses should be recorded in the period the service was performed.

Condition and context: The School executes contracts on an annual basis for a period from approximately August 11 to August 10 annually for services provided from August until June of each year. The teacher contract service period is for 10 months, however, teachers are paid evenly over a 12 month period. The School did not accrue teacher salaries for the period from July 1, 2018 through August 10, 2018, representing the teaching services performed in full by June 30, 2018. During our testing of the accrued salaries as of June 30, 2019, the expense and accrual was understated as well for the teacher salaries for the contract ending August 12, 2019.

Effect: Net assets as of June 30, 2018 was understated by approximately $431,000 representing three pay periods for teachers' salaries that were for fiscal year 2018 services expensed in fiscal year 2019. This is reported as an uncorrected misstatement for the audit of the financial statements for the year ended June 30, 2019. Teachers' salaries expense and accrual were understated by $392,000 at June 30, 2019. An audit adjustment was posted to the financial statements.

Cause: This was not identified by management as a mismatch of services performed with the respective fiscal year of the School and not noted as an issue by the prior auditor.

Recommendation: We recommend the School implement a policy and procedure to accrue the remainder of the contract payments due for teachers for services performed as of June 30 of each year.

Views of responsible officials and corrective action plan: See attached corrective action plan.
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CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2019

Significant Deficiency

Finding: 2019-001: Accrual of Teacher Salaries

Criteria: In accordance with generally accepted accounting principles in the United States of America (U.S. GAAP), expenses should be recorded in the period the service was performed.

Condition and context: The School executes contracts on an annual basis for a period from approximately August 11 to August 10 annually for services provided from August until June of each year. The teacher contract service period is for 10 months, however, teachers are paid evenly over a 12 month period. The School did not accrue teacher salaries for the period from July 1, 2018 through August 10, 2018, representing the teaching services performed in full by June 30, 2018. During our testing of the accrued salaries as of June 30, 2019, the expense and accrual was understated as well for the teacher salaries for the contract ending August 12, 2019.

Effect: Net assets as of June 30, 2018 was understated by approximately $431,000 representing three pay periods for teachers' salaries that were for fiscal year 2018 services expensed in fiscal year 2019. This is reported as an uncorrected misstatement for the audit of the financial statements for the year ended June 30, 2019. Teachers' salaries expense and accrual were understated by $392,000 at June 30, 2019. An audit adjustment was posted to the financial statements.

Cause: This was not identified by management as a mismatch of services performed with the respective fiscal year of the School and not noted as an issue by the prior auditor.

Recommendation: We recommend the School implement a policy and procedure to accrue the remainder of the contract payments due for teachers for services performed as of June 30 of each year.

Views of responsible officials and corrective action plan: See corrective action plan below.

Corrective action plan: Effective immediately the School is committed to ensure that it accrues the full salary for its teachers and other professionals who perform services over a 10-month period but gets compensated over a 12-month period. The School will adopt a policy effective December 1, 2019 to accrue salaries for wages paid in July and August for services performed through June 30 as part of the academic year.

The School will implement this process by performing the calculation of such salaries as part of the year-end close process. At present, the School accrues salaries and wages for compensation earned at June 30 that is paid as part of the first payroll in July. This will be another task added to our year-end checklist as it pertains to accrued salaries and benefits.

The Payroll Manager, currently Lilian Velasquez, will perform the calculation of all unpaid wages due to teachers and other 10-month professionals that is scheduled to be paid in the months of July and August. The Controller, currently Cynthia Matlack, will review the calculation and support as part of the June month-end close process and the Chief Financial Officer, currently Gerardo Luna, will review the data as part of the year-end audit review process.