



**KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL**

**FINANCIAL STATEMENTS  
JUNE 30, 2023**

# KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL

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June 30, 2023

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**Unmodified Opinion on Financial Statements Accompanied by Required Supplementary  
Information – Governmental Entity**

Independent Auditor's Report

To the Board of Trustees of  
KIPP Philadelphia Octavius Catto Charter School:

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the financial statements of the governmental activities and the general fund of KIPP Philadelphia Octavius Catto Charter School (the School), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of KIPP Philadelphia Octavius Catto Charter School as of June 30, 2023, and the respective changes in net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund shown in page 22 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2023, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*AAFCPA, Inc.*

Westborough, Massachusetts  
December 13, 2023

## KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2023

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The management of the KIPP Philadelphia Octavius Catto Charter School (the School) offers readers of the School's financial statements the narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

### FINANCIAL HIGHLIGHTS

- Total governmental activities revenues of the current fiscal year were \$3,549,576. Total governmental activities expenditures of the current fiscal year were \$6,361,169.
- At the close of the current fiscal year, the School reports ending net position of \$(3,019,906).
- The Schools's cash balance at June 30, 2023, was \$236,702.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Discussion and Analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements as presented comprise three components: Management's Discussion and Analysis (this section), the basic financial statements and budgetary comparison.

#### ***Government-Wide Financial Statements***

The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The statement of net position presents information on the School's assets and liabilities as well as separate sections of deferred outflows of resources and deferred inflows of resources. The difference is reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The government-wide financial statements report on the function of the School that is principally supported by subsidies from school districts whose constituents attend the School.

#### ***Fund Financial Statements***

A *fund* is a group of related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. The School, like governmental type entities, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School has one governmental fund, the General Fund.

## KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2023

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### OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

#### *Notes to the Financial Statements*

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

#### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position.

**KIPP Philadelphia Octavius Catto Charter School  
Statement of Net Position  
As of June 30, 2023**

	<u>Total</u>
Current and Other Assets	\$ 600,979
Capital and Noncurrent Assets	<u>13,830,707</u>
Total Assets	<u>\$ 14,431,686</u>
Current Liabilities	\$ 3,615,325
Long-Term Liabilities	<u>13,836,267</u>
Total Liabilities	<u>\$ 17,451,592</u>
Net Investment in Capital Assets	\$ (195,018)
Unrestricted	<u>(2,824,888)</u>
Total Net Position	<u>\$ (3,019,906)</u>

## KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2023

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### GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The School's revenues are predominately from the School District of Philadelphia, based on the student enrollment.

#### KIPP Philadelphia Octavius Catto Charter School Statement of Activities For the Fiscal Year Ended June 30, 2023

	<u>Total</u>
<b>Revenues:</b>	
Local Educational Agencies	\$ 2,143,153
Other Local Sources	966,648
Operating Grants and Contributions	<u>439,775</u>
Total Revenues	<u>3,549,576</u>
<b>Expenses:</b>	
Instruction and Special Education	2,131,452
Interest	911,754
Depreciation and Amortization (Unallocated)	893,090
Business Services	879,028
Operations and Maintenance	742,263
Administration Support	273,157
Food Services	221,111
Pupil Health	91,634
Student Support Services	91,367
Instructional Staff Support	56,531
Student Activities	55,635
Noninstructional Support Services	12,147
Transportation	<u>2,000</u>
Total Expenses	<u>6,361,169</u>
Change in Net Position	(2,811,593)
Net Position - Beginning	<u>(208,313)</u>
Net Position - Ending	<u>\$ (3,019,906)</u>

### GOVERNMENTAL FUND

The focus of the School's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

The School's governmental fund, the General Fund, reported an ending fund balance of \$(3,033,818). For the year ended June 30, 2023, the School's general revenues of \$3,340,646 and other financing sources of \$13,975,970, did not exceed expenditures of \$20,142,121 by \$(2,825,505).



## **KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL**

Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2023

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### **GOVERNMENTAL FUND BUDGETARY HIGHLIGHTS**

The School's final budget for the General Fund anticipated that expenditures would exceed revenues by \$(868,949). The actual results for the year reported that expenditures exceeded revenues by \$2,825,505, which resulted in the General Fund equity to be \$(3,033,818). This variance reflects a revenue variance of \$1,093,202 due to less than budgeted Federal and state sources offset by greater than budgeted local educational agency assistance sources and other local. There is also an expenditure variance of \$2,863,354 related to more than budgeted expenditures for instruction and special education, student support services, administration support, pupil health, noninstructional support services, and food services.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### ***Capital Assets***

As of June 30, 2022, the School's investment in capital assets for its governmental activities totaled \$13,830,707 (net of accumulated depreciation and amortization). This investment in capital assets includes building improvements, furniture and equipment, and right-to-use assets. Major capital asset purchases during the year included the following:

- Furniture and equipment of \$747,827
- Building and building improvements of \$2,000,000
- Right-to-use assets of \$11,975,970

Additional information on the School's capital assets can be found in Note 4 of this report.

#### ***Long-Term Debt***

As of June 30, 2023, the School has long-term debt of \$1,866,468 for leasehold improvement financing, with a current portion of \$72,053. See Note 5 of this report.

As of June 30, 2023, the School has long-term debt of \$11,969,799 for lease liability, with a current portion of \$117,405. See Note 6 of this report.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

In the 2023-24 school year, the School will be fully enrolled from K to 2<sup>nd</sup> grade with 300 students enrolled. A budgeted increase in regular education per-pupil tuition rate and special education per-pupil tuition rate is expected to be paid to the School by the School District of Philadelphia. As a result, the total per-pupil revenue is expected to increase by 93% to \$4,059,563.

### **FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE SCHOOL**

The School expects a modest increase in per-pupil payment rate in 2023-24 based on current School District's budget developments; however, the School is not able to assess the exact financial impact as the student demographics fluctuate throughout the year.

### **CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

The financial report is designed to provide interested parties a general overview of the School's finances. Questions regarding any of the information provided in this report should be addressed to the Chief Executive Officer, KIPP Philadelphia Octavius Catto Charter School, 4601 Market St, Philadelphia, PA 19139.

**KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL**

## Statement of Net Position

As of June 30, 2023

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash	\$ 236,702
Federal subsidies receivable	24,850
State subsidies receivable	3,692
Other receivable	180,388
Due from related parties	152,760
Prepaid items	2,587
Capital assets, net	<u>13,830,707</u>
Total assets	<u>\$ 14,431,686</u>
<b>Liabilities:</b>	
Accounts payable	\$ 672,069
Accrued benefits payable	209,315
Due to related parties	2,544,483
Leasehold improvement financing - due within one year	72,053
Leasehold improvement financing - due beyond one year	1,866,468
Lease liability - due within one year	117,405
Lease liability - due beyond one year	<u>11,969,799</u>
Total liabilities	<u>17,451,592</u>
<b>Net Position:</b>	
Net investment in capital assets	(195,018)
Unrestricted	<u>(2,824,888)</u>
Total net position	<u>(3,019,906)</u>
Total liabilities and net position	<u>\$ 14,431,686</u>

KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL

Statement of Activities  
For the Year Ended June 30, 2023

Functions	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Total Governmental Activities
<b>Governmental Activities:</b>				
Instruction and special education	\$ 2,131,452	\$ -	\$ 439,775	\$ (1,691,677)
Student support services	91,367	-	-	(91,367)
Instructional staff support	56,531	-	-	(56,531)
Administration support	273,157	-	-	(273,157)
Transportation	2,000	-	-	(2,000)
Pupil health	91,634	-	-	(91,634)
Business services	879,028	-	-	(879,028)
Operations and maintenance	742,263	-	-	(742,263)
Student activities	55,635	-	-	(55,635)
Noninstructional support services	12,147	-	-	(12,147)
Food services	221,111	-	-	(221,111)
Interest	911,754	-	-	(911,754)
Depreciation and amortization (unallocated)	893,090	-	-	(893,090)
Total governmental activities	<u>\$ 6,361,169</u>	<u>\$ -</u>	<u>\$ 439,775</u>	<u>(5,921,394)</u>
<b>General Revenues:</b>				
Local education agencies, not restricted to specific programs				2,143,153
Other local sources				966,648
Total general revenues				<u>3,109,801</u>
Change in net position				(2,811,593)
<b>Net Position</b> - Beginning July 1, 2022				<u>(208,313)</u>
<b>Net Position</b> - Ending June 30, 2023				<u>\$ (3,019,906)</u>

The accompanying notes are an integral part of these statements.

**KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL**

Balance Sheet  
Governmental Fund  
June 30, 2023

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	<b>General Fund</b>
<b>Assets:</b>	
Cash	\$ 236,702
Federal subsidies receivable	24,850
State subsidies receivable	3,692
Other receivable	180,388
Due from related parties	152,760
Prepaid items	<u>2,587</u>
Total assets	<u>\$ 600,979</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances:</b>	
Liabilities:	
Accounts payable	\$ 672,069
Accrued benefits payable	209,315
Due to related entities	<u>2,544,483</u>
Total liabilities	<u>3,425,867</u>
Deferred inflows of resources:	
Unavailable revenues	<u>208,930</u>
Fund balances:	
Nonspendable:	
Prepaid items	2,587
Unassigned	<u>(3,036,405)</u>
Total fund balances	<u>(3,033,818)</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 600,979</u>

**KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL**

Reconciliation of the Balance Sheet of the Governmental Fund  
to the Statement of Net Position  
June 30, 2023

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**Total Fund Balance for Governmental Fund - General Fund** \$ (3,033,818)

Total net position reported for governmental activities in the  
statement of net position is different because:

Capital assets used in governmental funds are not financial resources and,  
therefore, are not reported in the funds. Those assets consist of:

Building improvements, equipment and right-to-use lease assets	14,723,797	
Accumulated depreciation and amortization	<u>(893,090)</u>	
		13,830,707

Long-term liabilities and interest payable that pertain to governmental funds,  
including loan payables, are not due and payable in the current period and,  
therefore, are not reported as fund liabilities. All liabilities, both current and  
long-term, are reported in the statement of net position. The balances at  
year-end are:

Loan payable	(1,938,521)
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Lease liability that pertains to governmental funds is not due and payable in the  
current period and, therefore, is not reported as fund liabilities. All liabilities,  
both current and long-term, are reported in the statement of net position. The  
balances at year-end are:

Lease liability	(12,087,204)
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Certain Federal and state subsidies receivable will be collected in the future,  
but are not available to pay for current period's expenditures and, therefore,  
are not recognized as revenue on the funds:

Unavailable revenue	<u>208,930</u>
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**Total Net Position of Governmental Activities** \$ (3,019,906)

The accompanying notes are an integral part of these statements.

**KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL**

Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Funds  
For the Year Ended June 30, 2023

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	<b>General Fund</b>
<b>Revenues:</b>	
Local educational agency assistance	\$ 2,143,153
Other local sources	966,648
Federal sources	230,845
	<hr/>
Total revenues	3,340,646
	<hr/>
<b>Expenditures:</b>	
Instruction and special education	2,131,452
Student support services	91,367
Instructional staff support	56,531
Administration support	273,157
Transportation	2,000
Pupil health	91,634
Business services	879,028
Operations and maintenance	742,263
Student activities	55,635
Noninstructional support services	12,147
Food services	221,111
Capital outlay	2,747,827
Lease liability expenditures	11,975,970
Lease payments:	
Principal	7,992
Interest	644,809
Debt service:	
Principal	61,479
Interest	147,719
	<hr/>
Total expenditures	20,142,121
	<hr/>
Excess of revenues over expenditures	(16,801,475)
	<hr/>
<b>Other Financing Sources:</b>	
Proceeds from note payable	2,000,000
Proceeds from lease liability	11,975,970
	<hr/>
Total other financing sources	13,975,970
	<hr/>
Net change in fund balance	(2,825,505)
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<b>Fund Balance - July 1, 2022</b>	(208,313)
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<b>Fund Balance - June 30, 2023</b>	\$ (3,033,818)
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The accompanying notes are an integral part of these statements.

**KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL**

Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balance of Governmental Fund  
to the Statement of Activities  
For the Year Ended June 30, 2023

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**Net Change in Fund Balance - Total Government Fund** \$ (2,825,505)

Amounts reported for governmental activities in the statement of activities  
are different because:

Governmental funds reported capital outlays as expenditures. However, in the  
statement of activities, assets are capitalized and cost is allocated over their  
estimated useful lives and reported as depreciation expense. This is the  
amount by which capital outlays exceeds transfers, eliminations, and  
depreciation expense in the current period.

Capital outlays	2,747,827
Depreciation and amortization	(200,462)

GASB 87 resulted in an increase in right-to-use lease assets offset by the current year  
amortization of the right-to-use assets, allocated over the term of the leases.

Amortization of right-to-use lease asset	(692,628)
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Governmental funds report lease liability proceeds as other financing sources in  
the period the lease is initially recognized, while repayment is reported as  
expenditures. In the statement of net position, however, the lease liability  
increases liabilities and does not affect the statement of activities, and repayment  
of principal reduces the obligation. The effect of these differences in the  
treatment of the lease liability is as follows:

Lease liability expenditures	11,975,970
Proceeds from lease liability	(11,975,970)
Payments on lease liability	7,992
Interest in excess of rent payments	(119,226)

Because some state and Federal subsidy revenue will not be collected for several  
months after fiscal year-end, they are not considered as available revenues in the  
funds. Unavailable state and Federal subsidy revenue changed by this amount  
during the year.

208,930

Governmental funds report debt obligation proceeds as financing sources, while  
repayment is reported as expenditures. In the statement of net position, however,  
the debt obligation increases liabilities and does not affect the statement of activities  
and repayment of principal reduces the obligation. The effect of these differences in  
the treatment of the debt obligations is as follows:

Proceeds from note payable	(2,000,000)
Payments on note payable	61,479

**Change in Net Position of Governmental Activities** \$ (2,811,593)

## KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL

Notes to the Basic Financial Statements  
June 30, 2023

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### 1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

KIPP Philadelphia Octavius Catto Charter School (the School) is a charter school located in Philadelphia, Pennsylvania. The School currently has kindergarten through first grade, serving 197 students. On May 17, 2021, the School Reform Commission of the School District of Philadelphia granted a charter to KIPP Philadelphia Octavius Catto Charter School to operate a public charter school commencing from July 1, 2022 and ending June 30, 2027. At full enrollment, the School will serve 500 students in kindergarten through fourth grade. In fiscal year 2024, the School added an additional grade and serves 300 students in kindergarten through second grade.

The School is a charter school which has financial accountability and control over all activities related to the students' education. The School receives funding from local, state and Federal government resources and must comply with the requirements of these funding sources. The School, however, is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board (GASB) pronouncement.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB has issued a codification of governmental accounting and financial reporting standards.

#### **Government-Wide and Fund Financial Statements**

The government-wide financial statements (the statement of net position and the statement of activities) report on the School as a whole. The statement of activities demonstrates the degree to which the direct expenses of the School's functions are offset by program revenues.

The fund financial statements (governmental fund balance sheet and statement of governmental fund revenues, expenditures and changes in fund balance) report on the School's General Fund.

#### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

##### *Government-Wide Financial Statements*

The statement of net position and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of the related cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met.



2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation** (Continued)

*Fund Financial Statements*

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Grants and similar items are recognized as soon as all eligibility requirements imposed by providers have been met. For this purpose, the School considers revenues to be available if they are collected within the current period or within 120 days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt, which is recognized when due. Compensated absences are recognized as expenditures only to the extent that they are normally expected to be paid from existing unrestricted fund net position. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under leases are reported as other financing sources. Under the terms of grant agreements, the School supports certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net positions available to finance the program. It is the School's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

*General Fund* - The General Fund is the operating fund of the School and accounts for all revenues and expenditures of the School.

*Method of Accounting*

The Accounting Standards require a statement of net position and a statement of activities. It requires the classification of net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

- **Net investment in capital assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, lease liabilities, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- **Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The School presently has no restricted net position.
- **Unrestricted net position** - This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

*Method of Accounting (Continued)*

In the fund financial statements, governmental funds report nonspendable portions of the fund balance related to inventory, prepaid items, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained from outside parties (statue, grantors, bond agreements, etc.). Committed fund balances represent resources segregated from the unassigned fund balance. Committed fund balances are established and modified by a resolution approved by the Board of Trustees. Assigned fund balances are intended by the School to be used for specific purposes which are determined by Board approval. Unassigned fund balances are considered the remaining amounts.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance are available, it is the School's policy to use restricted first, then unrestricted fund balance. When expenditures are incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the School's policy to use committed first, then assigned, and finally unassigned amounts.

**Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual budget is adopted for the General Fund.

The Budgetary Comparison Schedule should present both the original and the final appropriated budgets for the reporting period. The School has a general fund budget. The budget is included as required supplementary information.

**Use of Estimates**

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

**Fair Value of Financial Instruments**

The School follows the accounting and disclosure standards pertaining to GASB No. 72, *Fair Value Measurement and Application*, for qualifying assets and liabilities. Fair value is defined as the price that the School would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants at the measurement date.

The School uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the School. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fair Value of Financial Instruments (Continued)**

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and which reflect the assumptions that market participants would use when pricing an asset or liability. Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

**Concentration of Credit Risk**

The School maintains its cash balances in a Pennsylvania bank which is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). Periodically, the School may maintain deposits in excess of the FDIC limit of \$250,000, with the financial institution. The School believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Cash and Cash Equivalents**

Cash and cash equivalents are considered to be cash on hand and demand deposits.

**Accounts Receivable**

Accounts receivable primarily consist of amounts due from the Pennsylvania Department of Education and KIPP Administrative Services Corporation for Federal, state subsidy programs, and other receivables. Accounts receivable are stated at the amount management expects to collect from outstanding balances. As of June 30, 2023, no allowance for doubtful accounts was needed.

**Capital Assets**

Capital assets, which include leasehold improvements and furniture and equipment, are reported in the applicable government-wide financial statements. The School's capitalization policy is to capitalize additions in excess of \$1,500 with a useful life in excess of one year. All capital assets are capitalized at cost and updated for additions and retirements during the year. The School does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

## KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL

Notes to the Basic Financial Statements  
June 30, 2023

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Capital Assets (Continued)

Depreciation of capital assets is computed and recorded by the straight-line method. The following estimated useful lives are used to compute depreciation:

<u>Description of Capital Cost</u>	<u>Estimated Useful Lives</u>
Leasehold improvements	20 years or life of lease
Furniture and equipment	7 - 10 years

#### Unearned Revenue

Funds received in advance of the services performed are recorded as unearned revenue in the accompanying statement of net position.

#### Leases

The School determines if an arrangement is a lease at inception. The School is a lessee for buildings and various equipment. The School recognizes a lease liability and an intangible right-to-use (ROU) assets in the government-wide financial statements based on the criteria dictated in GASB Statement No. 87, *Leases*.

At the commencement of a lease, the School initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease liabilities are reported with the long-term obligations on the statement of net position.

An intangible ROU asset is initially measured as the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date. The intangible ROU asset is amortized on a straight-line basis over the shorter of the life of the underlying asset or the lease term. The intangible ROU asset is reported with the School's capital assets in its own category called right-to-use assets.

Key estimates and judgements related to leases include how the School determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

The School uses the incremental borrowing rate as the discount rate. When the incremental borrowing rate is not provided, and the School is utilizing the Treasury bill rate (corresponding to length of lease) in place at the date of implementation along with other risk factors to determine the discount interest rate for leases.

The lease terms include the noncancellable and renewal periods of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments through the end of the term, which includes any renewal periods.

## KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL

Notes to the Basic Financial Statements  
June 30, 2023

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Leases (Continued)

The School has recognized payments for short-term leases with a term of twelve months or less as expenses as incurred, and these leases are not included as lease liabilities or right-to-use assets on the statement of net position. There were no short-term leases in fiscal year 2023.

#### Income Tax Status

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Accordingly, no provision or liability for income taxes has been recorded in the accompanying financial statements.

#### Uncertain Tax Positions

The School accounts for uncertainty in income taxes in which tax positions initially need to be recognized in the financial statements when it is more-likely-than-not that the positions will be sustained upon examination by taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As of June 30, 2023, the School had no uncertain tax positions that qualified for either recognition or disclosure in the accompanying financial statements. Additionally, the School had no interest or penalties related to income taxes. The School files an information return in the U.S. Federal jurisdiction.

#### Subsequent Events

Subsequent events have been evaluated through December 13, 2023, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

### 3. DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The School does not have a policy for custodial credit risk. As of June 30, 2023, the balance of the School's bank balance of \$236,702 was covered by the bank's insured amount of \$250,000 and caused there to be no uninsured and collateralized amount exposed.

GASB Statement No. 40 requires that the School disclose whether its deposits are exposed to custodial risk (risk that in the event of failure of the counterparty, the School would not be able to recover the value of its deposit or investment).

**KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL**

Notes to the Basic Financial Statements  
June 30, 2023

**4. CAPITAL ASSETS AND RIGHT-TO-USE LEASE ASSETS**

Changes in capital assets and right-to-use lease assets are as follows for the fiscal year ended June 30, 2023:

	<u>Beginning Balance July 1, 2022</u>	<u>Net Additions</u>	<u>Ending Balance June 30, 2023</u>
Capital assets and right-to-use lease assets being depreciated:			
Leasehold improvements	\$ -	\$ 2,000,000	\$ 2,000,000
Furniture and equipment	-	747,827	747,827
Right-to-use lease assets	-	<u>11,975,970</u>	<u>11,975,970</u>
Total capital assets and right-to-use assets being depreciated	<u>-</u>	<u>14,723,797</u>	<u>14,723,797</u>
Less - accumulated depreciation and amortization:			
Accumulated depreciation	-	200,462	200,462
Accumulated amortization	<u>-</u>	<u>692,628</u>	<u>692,628</u>
Total accumulated depreciation and amortization	<u>-</u>	<u>893,090</u>	<u>893,090</u>
Total capital assets and right-to-use lease assets, net	<u>\$ -</u>	<u>\$ 13,830,707</u>	<u>\$ 13,830,707</u>

Depreciation expense of \$200,462 and amortization expense of \$692,628 were charged to an unallocated function.

**5. LONG-TERM DEBT**

The School financed leasehold improvements through the landlord and building lease agreement. The loan is payable in monthly installments of \$17,917 through July 2038 and bears interest at 7.5%. As of June 30, 2023, the balance of the loan was \$1,938,521.

Future minimum payments under these agreements and future amortization are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 72,053	\$ 142,946	\$ 214,999
2025	77,647	137,352	214,999
2026	83,675	131,324	214,999
2027	90,170	124,828	214,998
2028	97,171	117,828	214,999
2029 - 2033	611,423	463,570	1,074,993
2034 - 2038	888,577	186,416	1,074,993
2039	<u>17,805</u>	<u>112</u>	<u>17,917</u>
Total	<u>\$ 1,938,521</u>	<u>\$ 1,304,376</u>	<u>\$ 3,242,897</u>

## KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL

Notes to the Basic Financial Statements  
June 30, 2023

### 6. LEASES

The School entered into a building lease agreement in August 2022 with a landlord which expires in June 2038. The School was required to make monthly payments of approximately \$58,333 during fiscal year 2023. Interest expense on the lease was \$760,893 for the year ended June 30, 2023. The calculated interest on the lease was \$119,226 in excess of the monthly payments. The shortfall was added to the lease liability. The net present value of the lease liability was \$11,982,073 as of June 30, 2023, and was calculated using a discount rate of 7% (the School's estimated incremental borrowing rate as of July 1, 2022, or lease inception). Amortization of the related ROU lease asset was \$683,201 for the year ended June 30, 2023.

The School entered into an equipment lease agreement in February 2023 which expires in January 2028. The School is required to make monthly payments of approximately \$2,200 during fiscal year 2023. Interest expense on the lease was \$3,142 for the year ended June 30, 2023. The net present value of the lease liabilities was \$105,131 as of June 30, 2023, and was calculated using a discount rate of 7% (the School's estimated incremental borrowing rate as of lease inception). Amortization of the related ROU lease asset was \$9,427 for the year ended June 30, 2023.

Lease liability consists of the following at June 30, 2023:

	<u>Beginning Balance July 1, 2022</u>	<u>New Leases</u>	<u>Additional Interest/ Payment</u>	<u>Ending Balance June 30, 2023</u>
Facility	\$ -	\$ 11,862,846	\$ 119,226	\$ 11,982,073
Equipment	-	113,124	(7,992)	105,131
Total	<u>\$ -</u>	<u>\$ 11,975,970</u>	<u>\$ 111,234</u>	<u>\$ 12,087,204</u>

Future minimum payments under these agreements and future amortization are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Amortization</u>
2024	\$ 117,405	\$ 836,819	\$ 767,935
2025	362,920	819,492	767,935
2026	419,167	792,137	767,935
2027	480,230	760,688	767,935
2028	535,146	724,992	758,508
2029 - 2033	3,771,658	2,933,644	3,726,549
2034 - 2038	<u>6,400,678</u>	<u>1,185,757</u>	<u>3,726,545</u>
Total	<u>\$ 12,087,204</u>	<u>\$ 8,053,529</u>	<u>\$ 11,283,342</u>

### 7. LOCAL EDUCATIONAL AGENCIES REVENUE

Charter schools are funded by the local public school district in which each student resides. The rate per student is determined annually and is based on the budgeted total expenditure per average daily membership of the prior school year for each school district. For the year ended June 30, 2023, the rate for the School District of Philadelphia was approximately \$9,442 per year for regular education students plus additional funding for special education students. The annual rate paid monthly by the School District of Philadelphia is prorated if a student enters or leaves during the year. Total revenue from the School District of Philadelphia was \$2,143,153.

## KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL

Notes to the Basic Financial Statements  
June 30, 2023

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### 8. GOVERNMENT GRANTS AND REIMBURSEMENT PROGRAMS

The School participates in numerous state reimbursement and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs and reimbursement programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants and reimbursement programs, refunds of any money received may be required and collectability of any related receivable at June 30, 2023, may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

### 9. RETIREMENT PLAN

The School is part of a defined contribution plan under Section 403(b) of the IRC, which all employees of the School can elect to contribute. Employees can contribute up to 5% of their qualified compensation, with the School matching up to 5% of their qualified compensation. For the year ended June 30, 2023, the School had contributed \$75,064 to the Section 403(b) plan.

Employees are immediately vested in their own contributions and earnings on those contributions. Employees become vested in the School contributions and earnings on School contributions after one year of service. Nonvested contributions are forfeited upon termination of employment and such forfeitures are used to pay a portion of the plan's administrative expenses.

The School had a liability to the plan totaling \$7,325 as of June 30, 2023, which is included in accrued benefits payable in the accompanying statement of net position.

### 10. CONTINGENCIES

The School, from time-to-time, is the defendant in lawsuits. It is management's belief that the School will prevail in these lawsuits. Accordingly, no amounts have been reflected in the accompanying financial statements for any potential liability resulting from these lawsuits.

### 11. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for such risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the year.

### 12. RELATED PARTY TRANSACTIONS

The School, KIPP Philadelphia Charter School (KPCS), KIPP DuBois Charter School, KIPP West Philadelphia Charter School, KIPP North Philadelphia Charter School, and KIPP Administrative Services Corporation (KASC) are considered related parties as a result of common members of the Board and the management of the schools. The School has an arrangement with KASC where KASC provided management, professional, and facility services rendered to the School. The School pays a fee equal to 12% of public local and state funds, as defined in agreement to KASC.

During fiscal year 2023, the School paid \$257,178 to KASC for these services, which is included in business services in the accompanying statement of activities.



## KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL

Notes to the Basic Financial Statements  
June 30, 2023

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### 12. RELATED PARTY TRANSACTIONS (Continued)

As of June 30, 2023, the School had a payable to related parties in the amount of \$2,544,483 and a receivable from related parties in the amount of \$152,760 which consists of the following:

<u>Related Entity</u>	<u>Due to The School</u>	<u>Due from The School</u>
KPCS	\$ -	\$ 2,544,483
KASC	<u>152,760</u>	<u>-</u>
Total	<u>\$ 152,760</u>	<u>\$ 2,544,483</u>

### 13. LICENSE AGREEMENT

The School maintains a trademark licensing agreement with KIPP Foundation (KIPP), a California Public Benefit Corporation, that is renewed annually. The School must abide by certain educational guidelines as set forth in the agreement. Under the licensing agreement, the School has the right to use various trademarks owned by KIPP.

In accordance with its licensing agreement, the School is to pay KIPP an annual fee of 1% of the per-pupil tuition. KIPP's operating committee has elected to charge the School a fee of \$30,000 per fiscal year.

The School can elect to terminate the agreement. However, if the School elects to terminate the agreement, it may be required to reimburse KIPP for an amount intended to offset costs KIPP incurred in the training of staff and assistance in operating the School.

**KIPP PHILADELPHIA OCTAVIUS CATTO CHARTER SCHOOL**

Schedule of Revenues, Expenditures and Changes in Fund Balance -  
Budget and Actual - General Fund (Unaudited)  
For the Year Ended June 30, 2023

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
<b>Revenues:</b>				
Local educational agency assistance	\$ 2,104,010	\$ 2,045,783	\$ 2,143,153	\$ 97,370
Federal sources	816,415	1,032,952	230,845	(802,107)
Other local sources	905,113	1,305,113	966,648	(338,465)
State sources	50,000	50,000	-	(50,000)
	<u>3,875,538</u>	<u>4,433,848</u>	<u>3,340,646</u>	<u>(1,093,202)</u>
<b>Total revenues</b>				
<b>Expenditures:</b>				
Instruction and special education	2,365,958	1,881,825	2,131,452	(249,627)
Student support services	70,054	87,085	91,367	(4,282)
Instructional staff support	-	110,752	56,531	54,221
Administration support	315,967	127,014	273,157	(146,143)
Transportation	12,400	-	2,000	(2,000)
Pupil health	-	41,000	91,634	(50,634)
Business services	770,185	1,163,763	879,028	284,735
Operations and maintenance	468,389	1,694,531	742,263	952,268
Student activities	-	-	55,635	(55,635)
Noninstructional support services	-	-	12,147	(12,147)
Food services	93,812	196,827	221,111	(24,284)
Capital outlay	-	-	2,747,827	(2,747,827)
Lease liability expenditures	11,975,970	11,975,970	11,975,970	-
Lease payments:				
Principal	-	-	7,992	(7,992)
Interest	-	-	644,809	(644,809)
Debt service:				
Principal	-	-	61,479	(61,479)
Interest	-	-	147,719	(147,719)
	<u>16,072,735</u>	<u>17,278,767</u>	<u>20,142,121</u>	<u>(2,863,354)</u>
<b>Total expenditures</b>				
Deficiency of revenues under expenditures	<u>(12,197,197)</u>	<u>(12,844,919)</u>	<u>(16,801,475)</u>	<u>(3,956,556)</u>
<b>Other Financing Sources:</b>				
Proceeds from note payable	-	-	2,000,000	2,000,000
Proceeds from lease liability	11,975,970	11,975,970	11,975,970	-
	<u>11,975,970</u>	<u>11,975,970</u>	<u>13,975,970</u>	<u>2,000,000</u>
<b>Total other financing sources</b>				
Net change in fund balance	(221,227)	(868,949)	(2,825,505)	(1,956,556)
<b>Fund Balance, July 1</b>	<u>-</u>	<u>-</u>	<u>(208,313)</u>	<u>(208,313)</u>
<b>Fund Balance, June 30</b>	<u>\$ (221,227)</u>	<u>\$ (868,949)</u>	<u>\$ (3,033,818)</u>	<u>\$ (2,164,869)</u>

**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 of  
KIPP Philadelphia Octavius Catto 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 the governmental activities and the general fund of KIPP Philadelphia Octavius Catto Charter School (a Pennsylvania Charter School) (the School) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 13, 2023.

**Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

**Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*AAFCPA, Inc.*

Westborough, Massachusetts  
December 13, 2023