CENTRONÍA, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION, AND
GRANT COMPLIANCE

As of and for the Years Ended June 30, 2018 and 2017

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Directors
CentroNía, Inc. and Subsidiary
Washington, D.C.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of CentroNía, Inc. and Subsidiary, (collectively "CentroNía"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CentroNía as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"),* is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2019, on our consideration of CentroNía's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CentroNía's internal control over financial reporting and compliance.

Prior Period Consolidated Financial Statements

The consolidated financial statements of the Company as of June 30, 2017, were audited by other auditors whose report dated February 14, 2018, expressed an unmodified opinion on those statements.

Cherry Bekaert LLP

Tysons Corner, Virginia
February 20, 2019

CENTRONÍA, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current Assets:		
Cash	$ 3,001,148	$ 3,204,214
Restricted cash	5,002,329	-
Certificates of deposit	-	1,253,366
Investments	14,365,330	14,768,588
Grants and contracts receivable	1,389,189	921,178
Accounts receivable	181,706	290,462
Total Current Assets	23,939,702	20,437,808
Property and equipment, net of accumulated depreciation	370,516	153,221
Other Assets:		
Intangible asset, net of accumulated amortization	11,163	18,433
Prepaid expenses	65,142	73,989
Security deposit	143,250	51,630
Total Assets	$ 24,529,773	$ 20,735,081
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 339,519	$ 535,906
Accrued payroll and liabilities	767,939	579,650
Deferred revenue	17,934	17,950
Line of credit	3,040,837	2,267,632
Loan payable to Bainum Family Foundation	5,002,329	-
Loan payable to Department of Housing and Community Development	2,866,692	2,809,738
Total Current Liabilities	12,035,250	6,210,876
Long-Term Liabilities:		
Deferred rent	19,087	-
Total Liabilities	12,054,337	6,210,876
Net Assets:		
Unrestricted	10,060,055	12,065,343
Temporarily restricted	2,415,381	2,458,862
Total Net Assets	12,475,436	14,524,205
Total Liabilities and Net Assets	$ 24,529,773	$ 20,735,081

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

CENTRONÍA, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue:						
Government grants and contract revenue	$ 10,131,344	$ -	$ 10,131,344	$ 9,171,806	$ -	$ 9,171,806
Grants and contributions	859,728	5,000	864,728	1,015,299	2,458,862	3,474,161
In-kind contributions	133,032	-	133,032	60,625	-	60,625
Parents' fees	1,074,473	-	1,074,473	944,155	-	944,155
Rental income	904,651	-	904,651	1,035,540	-	1,035,540
Investment income, net	678,187	-	678,187	1,005,121	-	1,005,121
Catering service fees	637,763	-	637,763	622,252	-	622,252
Other revenue	19,721	-	19,721	13,366	-	13,366
Net assets released from donor restrictions	48,481	(48,481)	-	147,988	(147,988)	-
Total Support and Revenue	14,487,380	(43,481)	14,443,899	14,016,152	2,310,874	16,327,026
Expenses:						
Program services	13,200,620	-	13,200,620	11,731,455	-	11,731,455
General and administrative	3,069,117	-	3,069,117	3,819,126	-	3,819,126
Fundraising	222,931	-	222,931	261,554	-	261,554
Total Operating Expenses	16,492,668	-	16,492,668	15,812,135	-	15,812,135
Total Expenses	16,492,668	-	16,492,668	15,812,135	-	15,812,135
(Decreases) Increases in Net Assets	(2,005,288)	(43,481)	(2,048,769)	(1,795,983)	2,310,874	514,891
Change in Net Assets	(2,005,288)	(43,481)	(2,048,769)	(1,795,983)	2,310,874	514,891
Net assets, beginning of year	12,065,343	2,458,862	14,524,205	13,861,326	147,988	14,009,314
Net assets, end of year	$ 10,060,055	$ 2,415,381	$ 12,475,436	$ 12,065,343	$ 2,458,862	$ 14,524,205

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

CENTRONÍA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 7,333,237	$ 1,162,696	$ 170,660	$ 8,666,593
Payroll taxes and benefits	1,064,260	314,367	30,468	1,409,095
Total personnel costs	8,397,497	1,477,063	201,128	10,075,688
Consultants and substitutes and stipends	327,221	55,358	7,681	390,260
Supplies and small equipment	344,205	17,346	64	361,615
Office supplies	30,388	15,933	275	46,596
Travel and transportation	44,542	2,370	58	46,970
Postage and printing	16,480	12,339	95	28,914
Equipment rental and maintenance	13,593	15,224	-	28,817
Professional fees	475,824	15,650	-	491,474
Staff training	166,260	39,967	-	206,227
Insurance	81,722	13,825	1,918	97,465
Food expenses	530,604	5,010	100	535,714
Telephone and internet services	111,284	18,827	2,612	132,723
Repairs and maintenance	540,103	519	-	540,622
Utilities	251,088	-	-	251,088
Rent	1,451,634	1,167,662	-	2,619,296
Interest	122,155	20,666	2,867	145,688
Depreciation and amortization	75,778	16,961	-	92,739
Bank fees	35,117	5,941	824	41,882
In-kind expenses	-	133,032	-	133,032
Bad debts	47,471	9,595	-	57,066
Scholarships	23,465	-	-	23,465
Parents training, meetings and events	64,111	-	-	64,111
Other	50,078	25,829	5,309	81,216
Total Expenses	$ 13,200,620	$ 3,069,117	$ 222,931	$ 16,492,668

CENTRONÍA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 6,866,276	$ 1,270,717	$ 185,479	$ 8,322,472
Payroll taxes and benefits	961,661	298,466	29,144	1,289,271
Total personnel costs	7,827,937	1,569,183	214,623	9,611,743
Consultants and substitutes and stipends	9,411	326,329	2,850	338,590
Supplies and small equipment	280,931	10,427	237	291,595
Office supplies	44,874	17,050	538	62,462
Travel and transportation	32,613	927	119	33,659
Postage and printing	11,336	14,976	3,423	29,735
Equipment rental and maintenance	17,154	15,922	-	33,076
Professional fees	448,639	25,441	-	474,080
Staff training	158,243	79,669	433	238,345
Insurance	76,545	-	-	76,545
Food expenses	535,202	6,831	14	542,047
Telephone and internet services	54,860	87,135	-	141,995
Repairs and maintenance	527,641	803	-	528,444
Utilities	145,668	139,236	-	284,904
Rent	1,286,876	1,225,160	-	2,512,036
Interest	-	98,337	-	98,337
Depreciation and amortization	66,255	20,710	-	86,965
Bank fees	8,108	25,713	-	33,821
In-kind expenses	-	60,625	-	60,625
Bad debts	67,206	56,245	-	123,451
Scholarships	32,375	-	-	32,375
Parents training, meetings and events	45,639	-	-	45,639
Other	53,942	38,407	39,317	131,666
Total Expenses	$ 11,731,455	$ 3,819,126	$ 261,554	$ 15,812,135

CENTRONÍA, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ (2,048,769)	$ 514,891
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	92,739	86,965
Bad debt expense	57,066	123,451
Realized gain on investment	(511,027)	(383,219)
Accrued interest on Department of Housing and Community Development loan payable and line of credit	59,283	56,954
Unrealized loss (gain) on investments, net	241,280	(535,288)
Change in assets and liabilities:		
Grants and contracts receivable	(468,011)	262,270
Accounts receivable	51,690	(57,424)
Prepaid expenses	8,847	(16,414)
Security deposit	(91,620)	-
Accounts payable	(196,387)	197,080
Accrued payroll and liabilities	188,289	47,570
Deferred revenue	(16)	(13,355)
Deferred rent	19,087	-
Net cash (used in) provided by operating activities	(2,597,549)	283,481
Cash flows from investing activities:		
Purchases of property and equipment	(302,764)	(32,075)
Purchases of investments	(389,899)	-
Sales of investments and certificates of deposit	2,316,270	748,828
Net cash provided by investing activities	1,623,607	716,753
Cash flows from financing activities:		
Repayments on line of credit	(1,605,813)	-
Borrowings on Bainum Family Foundation loan payable	5,002,329	-
Borrowings on line of credit	2,376,689	1,050,000
Net cash provided by financing activities	5,773,205	1,050,000
Net change in cash	4,799,263	2,050,234
Cash and restricted cash, beginning of year	3,204,214	1,153,980
Cash and restricted cash, end of year	$ 8,003,477	$ 3,204,214
Supplemental disclosure of cash flow information:		
Interest paid	$ 88,734	$ 41,383

Note 1—Organization and nature of operations

CentroNía, Inc. ("CentroNía") was formally incorporated as a nonprofit organization in June 1991. The primary purpose of CentroNía is to promote the physical, social, emotional, cognitive, and cultural growth and development of children in a bilingual environment. CentroNía's programs include child development and childcare programs, before and after school care, summer camp, academic support, arts enrichment and family support services. CentroNía receives the majority of its support and revenue from the federal and District of Columbia governments, contributions and grants from private foundations.

Note 2—Summary of significant accounting policies

Basis of Accounting and Presentation – The consolidated financial statements of CentroNía have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("GAAP").

CentroNía's consolidated financial statement presentation follows the recommendations of the Presentation of Financial Statements for Not-For-Profit Entities Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Under this topic, CentroNía is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

The three classes of net assets represent the following:

a. Unrestricted net assets are those currently available for operational purposes under the discretion of management, those designated by management for specific use, and those resources invested in property and equipment.

b. Temporarily restricted net assets are those contributed with donor stipulations for specific operating purposes, those with time restrictions, or those not currently available for use until commitments regarding their use have been fulfilled.

c. Permanently restricted net assets are those which are contributed with donor restrictions requiring that they be held in perpetuity. There were no permanently restricted net assets at June 30, 2018 and 2017.

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of NíaCentral LLC, in which CentroNía has a 100% controlling financial interest. NíaCentral LLC was established on May 5th, 2017. During 2018 and 2017, there were no transactions or activity; therefore, there was no consolidation to be performed.

Cash – CentroNía considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. CentroNía places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers $250,000 for substantially all depository accounts. CentroNía from time to time may have amounts on deposit in excess of insured limits. As of June 30, 2018 and 2017, CentroNía had $7,637,219 and $2,763,209, respectively, which exceeded these amounts.

Restricted Cash – Restricted cash includes the proceeds of a $5,000,000 loan, plus accrued interest from the Bainum Family Foundation that was conditional upon CentroNía acquiring a specific property. As discussed in Notes 7 and 14, the loan was subsequently repaid in full to the Bainum Family Foundation since CentroNía withdrew from its intention to acquire the property.

Note 2—Summary of significant accounting policies (continued)

Investments – CentroNía has adopted the Investments-Debt and Equity Securities for Not-for-Profit Entities Topic of the FASB ASC. Under this topic, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the consolidated statement of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the consolidated statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. Realized gains on securities sold during the year and held at the beginning of the year are recognized to the extent sales proceeds exceed the security's fair market value at the beginning of the year. Donated securities are recorded at their fair market value on the date of donation.

Fair Value Measurements – CentroNía adopted the provisions of the Fair Value Measurements and Disclosure Topic ("Fair Value Topic") of the FASB ASC as its valuation methodology. The Fair Value Topic provides the framework for measuring fair value of assets and liabilities. The Fair Value topic defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. It also establishes a hierarchy to help maximize the use of observable inputs when measuring fair values. These measurements are then classified by how observable or unobservable the inputs used to reach fair market value are. The three levels of the fair value hierarchy are:

Level 1 – Inputs to the valuation methodology are quoted prices available in actively traded markets for identical investments as of the reporting date.

Level 2 – Inputs to the valuation methodology are quoted prices outside of the active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies.

Level 3 – Inputs to valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates or assumptions related to the pricing of the asset or liability including assumptions regarding risk.

The financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of CentroNía's valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy:

Equities, mutual funds, and fixed income – These investments are based on quoted prices in active markets and classified within Level 1 of the valuation hierarchy.

Cash – Cash is recorded at cost which approximates market, and is classified within Level 1 of the valuation hierarchy.

Fair Value of Financial Instruments – The carrying amount of cash and cash equivalents, grants, contracts and accounts receivable and accounts payable approximate fair value due to the short maturity of these financial instruments.

Note 2—Summary of significant accounting policies (continued)

Grants and Contracts Receivable/Accounts Receivables – Grants and contracts receivable/accounts receivable balances are recorded at net realizable value and approximate fair value. It is CentroNía's policy to write off uncollectible amounts when management determines such balances to be uncollectible. For the years ended June 30, 2018 and 2017, these amounts were $57,066 and $123,451, respectively.

Property and Equipment – Equipment is recorded at cost when purchased or its estimated value at the date of donation. Depreciation is computed on a straight-line basis over the useful lives of the related assets, generally five years. CentroNía capitalizes assets purchased at a cost greater than $1,000.

Intangible Asset – Intangible asset consists of costs associated with CentroNía's name change during 2004. The asset is being amortized over fifteen years.

Grants and Contributions – Grants and contributions are recorded when awarded and in accordance with the Revenue Recognition for Not-For-Profit Entities Topic of the FASB ASC. Contributions received and unconditional promises to give are measured at their fair values and are recorded as unrestricted, temporarily restricted, or permanently restricted based on grant or donor designations. Support that is restricted by the grantor or donor is reported as an increase in unrestricted net assets if the restriction is satisfied in the reporting period in which the support is recognized. All other temporarily restricted support is reported as an increase in temporarily restricted net assets, depending on the nature of the restriction, and is reclassified as net assets released from restriction in the period that donor-imposed restrictions have been satisfied.

In-kind Contributions – As required by FASB ASC 958-605-50-1, *Contributed Services*, donated services which create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and typically need to be purchased if not provided by donation are recorded at fair value in the period provided. See Note 11 for further information.

Government Grants and Contract Revenue – CentroNía receives funding under grants and contracts from the federal government, the District of Columbia and State of Maryland agencies for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants and contracts are considered exchange transactions and are recorded as unrestricted revenue to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant and contract agreements.

Parent Fees – Parents' fees are recognized when billed, coinciding with the period students are enrolled in CentroNía.

Catering Service fees – Catering service fees correspond to the catering services for breakfast, lunch, and snack that CentroNía provides to other educational centers in the Washington, DC metro area. These services are invoiced on a monthly basis and are based on the number of plates delivered during such period.

Functional Allocation of Expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Operating expenses directly identifiable with a functional area are charged to that area and, where expenses affect more than one area, they are allocated on the basis of ratios determined by management.

Income Taxes – CentroNía is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code for all activities related to its exempt purposes. CentroNía is classified by the Internal Revenue Service ("IRS") as a public charity under Section 509(a) (2) of the Code.

Note 2—Summary of significant accounting policies (continued)

CentroNía is subject to audit by taxing jurisdictions; however, there are currently no audits for tax periods in progress.

Management has evaluated the effect of the guidance provided by U.S. Generally Accepted Accounting Principles on Accounting for Uncertainty in Income Taxes. Management believes that CentroNía continues to satisfy the requirements of a tax-exempt organization at June 30, 2018. Management has evaluated all other tax positions that could have a significant effect on the consolidated financial statements and determined that CentroNía had no uncertain income tax positions at June 30, 2018 or 2017.

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Upcoming Pronouncements – In August of 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes are decrease in the number of net asset classes from three to two, reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, continues to allow preparers to choose between the direct method and indirect method for presenting operating cash flows, requires disclosures of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks and requires reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature. This standard is effective for all fiscal years beginning after December 15, 2017. Management is currently evaluating the impact of this standard on the CentroNía’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842),* requiring lessees to recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains consistent with U.S. GAAP. This ASU is effective for fiscal years beginning after December 15, 2019. CentroNía is currently evaluating the effect the ASU will have on the consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 provides a more detailed framework for determining whether a grant or similar contract should be accounted for as a contribution or as an exchange transaction. ASU 2018-08 also provides additional guidance to help determine whether a contribution is conditional, and better distinguish between a donor-imposed condition and a donor-imposed restriction. The ASU is effective for fiscal years beginning after December 15, 2019. The ASU requires the provisions to be applied on a modified prospective basis and early adoption is permitted. CentroNía is currently evaluating the effect the ASU will have on the consolidated financial statements.

Adopted Accounting Standards – In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires amounts generally described as restricted cash to be included with cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statements of cash flows. ASU 2016-18 was early adopted for the year ended June 30, 2018, as permitted.

The effect of the adoption of ASU 2016-18 on the consolidated statement of cash flows was to include restricted cash balances in the end of period balances of cash and cash equivalents and restricted cash. CentroNía did not have restricted cash as of June 30, 2017, and therefore, the beginning of period cash was not adjusted.

Note 3—Reclassifications

The following 2017 account balances have been reclassified to conform to the presentation used in 2018:

	Consolidated Statements of Cash Flows		Consolidated Statements of Activities and Changes in Net Assets	
	Cash Flows From Operating Activities	Cash Flows From Investing Activities	Grants and Contributions	In-kind Contributions
Previously stated for the year ended June 30, 2017	$ 617,015	$ 383,219	$ 1,075,924	$ -
Currently stated for the year ended June 30, 2017	283,481	716,753	1,015,299	60,625
Change in presentation	$ (333,534)	$ 333,534	$ (60,625)	$ 60,625

Note 4—Investments

Fair value hierarchy levels at June 30, 2018 were as follows:

	Investments at Fair Value			
	Level 1	Level 2	Level 3	Total
Equities	$ 6,081,622	$ -	$ -	$ 6,081,622
Mutual Funds	6,133,270	-	-	6,133,270
Fixed Income	1,799,399	-	-	1,799,399
Cash	351,039	-	-	351,039
Total investments at fair value	$ 14,365,330	$ -	$ -	$ 14,365,330

Fair value hierarchy levels at June 30, 2017 were as follows:

	Investments at Fair Value			
	Level 1	Level 2	Level 3	Total
Equities	$ 6,115,612	$ -	$ -	$ 6,115,612
Mutual Funds	6,056,764	-	-	6,056,764
Fixed Income	1,750,253	-	-	1,750,253
Cash	845,959	-	-	845,959
Total investments at fair value	$ 14,768,588	$ -	$ -	$ 14,768,588

Note 4—Investments (continued)

Investment income consisted of the following for the years ended June 30:

	2018	2017
Interest and dividends	$ 513,158	$ 157,155
Unrealized loss	(241,280)	535,288
Realized gains	511,027	383,219
Management fees	(104,718)	(70,541)
Total	$ 678,187	$ 1,005,121

Note 5—Property and equipment

Property and equipment consisted of the following at June 30:

	2018	2017
Leasehold improvements	$ 336,132	$ 336,132
Computers and equipment	445,628	406,667
Vehicles	145,138	122,401
Construction in process	241,069	-
Total	1,167,967	865,200
Less accumulated depreciation	(797,451)	(711,979)
Property and equipment, net	$ 370,516	$ 153,221

Depreciation expense for the years ended June 30, 2018 and 2017 was $85,469 and $79,696, respectively.

Construction in process includes the construction of the rooftop playground at the CentroNía 1420 Columbia Road, NW address and is expected to be completed before the summer of 2019.

Note 6—Intangible asset

Intangible asset consisted of the following at June 30:

	2018	2017
Name rebranding	$ 101,770	$ 101,770
Less accumulated amortization	(90,607)	(83,337)
Property and equipment, net	$ 11,163	$ 18,433

Amortization expense for the years ended June 30, 2018 and 2017 was $7,270 and $7,269, respectively.

Note 6—Intangible asset (continued)

Future amortization expense relating to the intangible asset is as follows:

Years Ending June 30,		
2019	$	7,270
2020		3,893
	$	11,163

Note 7—Loan payable and line of credit

Loan Payable to Department of Housing and Community Development – CentroNía obtained a 3% deferred interest construction loan in 1999 from the District of Columbia Department of Housing and Community Development ("DHCD") to finance the renovation of its headquarters building. In March 2016, the building was sold. CentroNía has drawn $1,898,472 out of the $1,900,000 that was available. The loan would have matured in February 2031; however, the related remaining debt due to DHCD has been reclassified to current liabilities pursuant to the loan covenants stipulating that DHCD may demand payment in full anytime subsequent to the sale of the building. Deferred interest accrued on the loan from the occupancy date of 2002 through June 30, 2018 and 2017 amounts to $968,220 and $911,266, respectively, and has been included in the loan payable balance. Extinguishment of this debt is at the discretion of the District of Columbia.

Loan Payable to Bainum Family Foundation – During 2018, CentroNía obtained a $5,000,000 loan from the Bainum Family Foundation for the purpose of helping to finance CentroNía's purchase of the John Nevins Andrews School. The full proceeds of the loan were deposited in an interest bearing restricted account that served as security for the loan. Prior to the close of the property, interest on the note accrues at the same rate that is paid on the restricted cash account. After the date that the property closes, the loan converts to a mortgage loan secured by the purchased property and accrues interest at the fixed rate of 3% per year. The loan was refundable if the close of property purchase was not executed within 24 months of the date of the agreement. As of June 30, 2018, the property had not been purchased. As discussed in Note 14, subsequent to the close of the fiscal period, CentroNía withdrew from its intention to purchase the property and used the funds held in the restricted account to repay the Bainum Loan.

Line of Credit – CentroNía has established three lines of credit with three separate financial institutions; United Bank, Morgan Stanley, and PNC. Total availability under the three lines of credit amount to $7,350,000. Interest rates ranged from 1.80% to the Daily LIBOR plus 3% (4.57% at June 30, 2018).

The United Bank line of credit expired June 17, 2018, and was paid in full on April 9, 2018. The United Bank line of credit had an outstanding balance of $0 and $1,167,632, respectively, as of June 30, 2018 and 2017. The Morgan Stanley line of credit does not have a maturity date and had an outstanding balance of $1,940,837 and $0, respectively, as of June 30, 2018 and 2017. The PNC line of credit expires October 6, 2018 and had an outstanding balance of $1,100,000 as of June 30, 2018 and 2017. See Note 14 for an additional extension that was entered into subsequent to year end.

The lines of credit with Morgan Stanley and PNC are both collateralized by the investment accounts in such entities. There are no financial statement covenants required by the lines of credit.

Note 8—Temporarily restricted net assets

Temporarily restricted net assets consisted of the following at June 30:

	2018	2017
Gudelsky Child Development Center MOU	$ 2,415,131	$ 2,449,887
M4C, Yr 4 Grant - Urban Institute/World Bank	-	8,975
Family Book Club - Nora Roberts	250	-
	$ 2,415,381	$ 2,458,862

Temporarily restricted net assets were released for the following programs at June 30:

	2018	2017
Gudelsky Child Development Center MOU	$ 34,756	$ -
M4C, Yr 4 Grant - Urban Institute/World Bank	8,975	-
Family Book Club	4,750	-
School Age / Community Schools	-	10,000
Family Center	-	5,000
CentroNia Institute	-	90,584
Early Childhood Education	-	10,000
General Operations	-	32,404
	$ 48,481	$ 147,988

Note 9—Rental income

CentroNía subleases several portions of the building at the Columbia Road location under various agreements that terminate through 2023.

Rental income for the years ended June 30, 2018 and 2017 totaled $904,651 and $1,035,540, respectively.

Future minimum lease rental receipts under these sublease arrangements are as follows:

Years Ending June 30,	
2019	$ 724,645
2020	718,913
2021	714,384
2022	732,304
2023 and thereafter	1,047,569
	$ 3,937,815

Note 10—Lease commitments

CentroNía had three non-cancelable lease agreements for educational facilities that expired between March and July 2018. During fiscal year 2018, two of the three leases were extended through 2026 and 2027. CentroNía also had a non-cancelable one year lease agreement for office facilities that expired June 30, 2018. At that time the lease went month to month, until CentroNía entered into a lease extension in October 2018 (see Note 14).

Total rent expense for the years ended June 30, 2018 and 2017, was $2,619,296 and $2,512,036 respectively, including property taxes and applicable operating expenses.

The following schedule summarizes the future minimum lease payments:

Years Ending June 30,	
2019	$ 2,130,606
2020	2,134,385
2021	1,728,404
2022	1,772,330
2023 and thereafter	7,265,797
	$ 15,031,522

Note 11—Donated services

Donated services for the years ended June 30, 2018 and 2017 were $133,032 and $60,625, respectively, for legal and other professional services. Donated services include specialized skills provided by individuals possessing those skills and typically need to be purchased if not provided by donation. These services are recorded as donated with a corresponding expense in the consolidated statements of activities.

Note 12—Pension Plan

CentroNía has a defined contribution plan under section 401(k) of the IRS Code (the "Plan"), under which all employees, including part-time employees working at least twenty hours per week are eligible to participate. For the years ended June 30, 2018 and 2017, CentroNía made contributions to the Plan of $36,409 and $0, respectively.

Note 13—Commitments

Government Grants and Contract Revenue – Certain federal and state-funded government grants are routinely audited by various governmental agencies. Such audits could result in claims against the resources of CentroNía. The reports on those examinations, which are conducted for CentroNía by auditors engaged pursuant to specific regulatory requirements, are required to be submitted to both CentroNía and the respective governmental agency. These governmental agencies have the authority to determine liabilities, as well as to limit, suspend, or terminate CentroNía's participation in these programs. Management does not believe CentroNía will incur significant liabilities as a result of any such audits.

Note 14—Subsequent events

On June 15th, 2018, an unusual incident report was submitted to the Office of State Superintended of Education ("OSSE") which led to the police investigation and arrest of a former employee of CentroNía. OSSE initiated its own investigation by requesting additional information and materials to CentroNía and on July 19th, placed CentroNía's 1420 Columbia Road site on a restricted license. CentroNía's other sites were not affected. The restricted license imposed on CentroNía a series of corrective actions that were completed within the 45 days required by the notice. OSSE rescinded the restricted license and reinstated the operating license on October 1st, 2018.

Additionally, on the same July 19th, OSSE gave CentroNía notice of termination of the Quality Improvement Network Grant ("QIN") and subsequently the Bainum Foundation terminated their funding for the QIN program as well. The QIN program represented approximately $1.4M in revenues during the current fiscal period to CentroNía. The program was migrated to a different provider at the end of August 2018.

Therefore, on August 23, 2018 CentroNía notified Bainum of its decision to return the funds provided by Bainum Foundation to support the purchase of the property of the old John Nevins Andrews School. The loan agreement was canceled and the funds held in the restricted cash account were used to repay the loan.

The PNC line of credit was repaid in full on August 28th, 2018 and expired on October 6, 2018. A new line of credit was signed with PNC on November 7th, 2018 for a maximum principal amount of $1,100,000, expiration date of October 6, 2019 and at a variable interest rate of Libor + 2.50%.

Effective October 2018, CentroNía entered into a non-cancelable lease agreement for educational facilities that expires on June 30, 2020.

The following schedule summarizes the future minimum lease payments:

Years Ending June 30,		
2019	$	415,113
2020		420,000
	$	835,113

CentroNía has evaluated subsequent events through February 20, 2019, the date on which these consolidated financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

CENTRONÍA, INC. AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services			
Passed-through from the District of Columbia Office of the State Superintendent of Education			
Early Childhood - Child Development Associate Continuation	93.575		$ 75,970
Early Childhood - Child Development Associate Continuation	93.575		160,435
Total CCDF Cluster			236,405
Passed-through from the District of Columbia Office of the State Superintendent of Education			
21st Century OST	84.287		102,408
MSDE Pre-K Expansion Federal	84.419B		290,479
Direct Awards			
Head Start	93.600		1,937,482
Passed-through from the District of Columbia Office of the State Superintendent of Education			
QIN/HUB	93.600		543,580
Total Head Start Cluster			2,481,062
Total U.S. Department of Health and Human Services			3,110,354
U.S. Department of Agriculture			
Passed-through from the District of Columbia Office of the State Superintendent of Education			
Child and Adult Care Food Program	10.558		313,229
Passed-through from Maryland State Department of Education			
Child and Adult Care Food Program	10.558		159,722
Total U.S. Department of Agriculture			472,951
Total Expenditures of Federal Awards			$ 3,583,305

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of CentroNía, Inc. and Subsidiary (collectively "CentroNía") under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative* Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of CentroNía, it is not intended to and does not present the consolidated financial position, consolidated changes in net assets, or cash flows of CentroNía.

Note 2—Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Uniform Guidance requires that the Schedule reflect total expenditures for each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance ("CFDA").

CentroNía elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3—Federal programs

The following is a description of the federal programs for the year ended June 30, 2018:

Child Care and Development Fund Cluster (CFDA 93.575)

The Child Care and Development Fund ("CCDF") provides funds that are used to subsidize child care for low-income families where the parents are working or attending educational programs, as well as for activities to promote overall child care quality for all children. It is required that all Federal child care funds be spent in accordance with the provisions of the amended Child Care and Development Block Grant program. In order to receive funds, a plan must be submitted which is effective for a two-year period. CentroNía may operate the CCDF program under a consolidated United States Public Law. No.102-477 demonstration project, the purpose of which is to provide for the integration of employment, training, and related services to improve the effectiveness of those services.

Head Start (CFDA 93.600)

The objectives of the Head Start and Early Head Start (collectively referred to as Head Start) programs are to promote school readiness by enhancing children's cognitive social and emotional development. Head Start and Early Head Start together serve pregnant women and children (birth to 5) and their families, who are under the poverty line or are eligible for public assistance, including federally recognized Indian tribes, Alaska Natives, migrant and seasonal farm workers, homeless children or children in foster care, and children with disabilities. Comprehensive services are provided to enrolled children, pregnant women and their families, which include health, nutrition, social, and other services determined to be necessary by family needs assessments, in addition to education and cognitive development services. Services are designed to be responsive to each child and family's ethnic, cultural, and linguistic heritage.

Note 3—Federal entitlements (continued)

Child and Adult Care Food Program (CFDA 10.558)

Child and Adult Care Food Program assists States, through grants-in-aid and donated foods, to initiate and maintain non-profit food service programs for eligible children and adults in nonresidential day care settings.

21st Century Community Learning Center Grants (CFDA 84.287)

To provide opportunities for communities to establish or expand activities in Out-of-School learning centers that provide opportunities for academic enrichment for children, particularly students who attend high-poverty and low-performing schools. The wrap-around program is intended to help students meet state and local student standards in core academic subjects, such as reading and math; to offer students a broad array of enrichment activities that reinforce and complement their regular academic programs; and to offer literacy and other educational services to the families of participating children.

Pre-School Development Grants – Expansion Grants (CFDA 84.419B)

The Preschool Development Grants – Expansion Grants supports States to (1) build or enhance a preschool program infrastructure that would enable the delivery of high-quality preschool services to children, and (2) expand high-quality preschool programs in targeted communities that would serve as models for expanding preschool to all 4-year-olds from low- and moderate-income families.

Note 4—Federal loan programs

The federal loan program with the Department of Housing and Community Development is included in CentroNía's consolidated financial statements. The loan commenced in 1999, and was for the sole purpose for financing hard construction costs relating to an office building located at 1420 Columbia Road, N.W. The federal government did not impose any continuing compliance requirements, and as such, the outstanding balance as of June 30, 2018 is not included within the Schedule. CentroNía has drawn $1,898,472 out of the $1,900,000 that was available. Deferred interest accrued on the loan from the occupancy date of 2002 through June 30, 2018 and 2017 which amounts to $968,220 and $911,266, respectively, and has been included in the loan payable balance. Activity relating to the federal loan for the year ended June 30, 2018 was as follows:

June 30, 2017	$ 2,809,738
Accrued interest	56,954
June 30, 2018	$ 2,866,692

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
CentroNía, Inc. and Subsidiary
Washington, D.C.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to consolidated financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of CentroNía, Inc. and Subsidiary (collectively "CentroNía"), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and changes in net assets and functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 20, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statement, we considered CentroNía'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of CentroNía's internal control. Accordingly, we do not express an opinion on the effectiveness of the CentroNía'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 consolidated 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 the attention of 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. However, as described in the accompanying schedule of findings and questioned costs as item 2018-01, we identified a deficiency in internal control that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CentroNía's consolidated financial statements are free of 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 consolidated 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*.

Management's Response to Findings

CentroNía's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. CentroNía's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on CentroNía's 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 CentroNía's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CentroNía's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Tysons Corner, Virginia
February 20, 2019

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
CentroNía, Inc. and Subsidiary
Washington, D.C.

Report on Compliance for Each Major Program

We have audited CentroNía, Inc. and Subsidiary's (collectively "CentroNía") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of CentroNía's major federal programs for the year ended June 30, 2018. CentroNía's major federal program is identified in the summary of auditor results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, CentroNía complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-03. Our opinion on the major federal program is not modified with respect to this matter.

CentroNía's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. CentroNía's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly we express no opinion on the response.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs as items 2018-02 and 2018-03, we identified certain deficiencies in internal control that we consider to be material weaknesses.

CentroNía's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. CentroNía's response was not subjected to the auditing procedures applied in the audit of compliance, and, accordingly we express no opinion on the response.

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

Cherry Bekaert LLP

Tysons Corner, Virginia
February 20, 2019

Financial Statement Section

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?	x	yes		no
Significant deficiency(ies) identified not considered to be material weakness(es)?		yes	x	none reported
Noncompliance material to financial statements noted		yes	x	no

Federal Awards Section

Internal control over major programs:				
Material weakness(es) identified?	x	yes		no
Significant deficiency(ies) identified not considered to be material weakness(es)?		yes	x	none reported
Type of auditor's report on compliance for major federal programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Uniform Guidance	x	yes		no

Identification of major federal programs:

CFDA Numbers	Name of Program or Cluster
93.600	Head Start Cluster

Dollar threshold used to determine Type A programs:	$750,000			
Auditee qualified as low-risk auditee for federal purposes?		yes	x	no

Section II – Financial Statement Finding

2018-01 - Documentation of the Allocation Charged to the Grant and Payroll Costs'

Finding: 2018-01 - U. S. Department of Health and Human Services, Head Start, CFDA 93.600

Criteria: Grantees should maintain adequate documentation of shared staff time and charge those costs based on actual hours worked on the Head Start program rather than charging the costs based on the application budget. Grantees should maintain adequate documentation for payroll related costs.

Condition: During two pay periods, CentroNía charged costs to the program based on the application budget, rather than charging the program based on actual hours worked. CentroNía does not consistently maintain adequate supporting documentation for employee pay increases. CentroNía does not consistently maintain adequate supporting documentation for the allocation of time spent on the grant by shared staff.

Context: During our testing performed over the compliance requirements for activities allowed or unallowed and allowable costs/cost principles we noted the following:

- Two instances (out of a sample size of 40) in which the costs charged to the program were based on the application budget rather than actual hours worked by the employee, as a result of a transition within the program.

- Seven instances (out of sample size of 40) in which the pay change notices that were provided as supporting documentation were not current. Six of the instances were the result of a lack of documentation for the cost of living adjustment ("COLA") for the employees. One instance was the lack of documentation for the COLA increase as well as the lack of documentation for the employee's pay increase.

- Three instances (out of a sample size of 40) in which the allocation percentage for a shared staff per the personnel activity report that was provided as supporting documentation did not agree to the allocation percentage charged to the program, as a result of the personnel activity report not including all actual hours worked (including overtime).

- Two instances (out of a sample size of 40) in which no supporting documentation of the allocation percentage for a shared staff could be provided. We were able to corroborate the allocation percentage based on verbal discussions.

- Two instances (out of a sample size of 40) in which the allocation percentage for a shared staff per the personnel activity report that was provided as supporting documentation did not agree to the allocation percentage charged to the program, as a result of the personnel activity report not getting properly updated for the employee's allocation change.

Cause: CentroNía does not consistently follow their process to ensure actual hours worked are charged to the program. CentroNía does not consistently maintain adequate supporting documentation for employee pay increases and the allocation of shared staff.

Effect: Varying conclusions may be reached that could result in a material misstatement to the consolidated financial statements.

Section II – Financial Statement Finding (continued)

2018-01 - Documentation of the Allocation Charged to the Grant and Payroll Costs

Finding: 2018-01 - U. S. Department of Health and Human Services, Head Start, CFDA 93.600

Recommendation: Each pay period, CentroNía should review and approve the costs charged to the program to ensure that the costs are based on actual hours worked on the program rather than the application budget. CentroNía should maintain supporting documentation for any employee pay change, including pay increases and COLA increases. CentroNía should maintain supporting documentation for all shared staff allocations, and also any change in a shared staff's allocation percentage.

Management Response: See the corrective action plan attached.

Corrective Action Plan: See attached.

Section III – Federal award findings and questioned costs

Finding: 2018-02 - U.S. Department of Health and Human Services, Head Start, CFDA 93.600

Finding 2018-02 is the same as finding 2018-01 in Section II- Financial Statement Finding above. Please review this section for further information.

Section III – Federal award findings and questioned costs

Finding: 2018-03 - U.S. Department of Health and Human Services, Head Start, CFDA 93.600

Compliance Requirement: Reporting

Criteria: Management must submit a data collection form to the Federal Clearing House within 9 months after year-end.

Condition: Per discussions with Management, and review of the Federal Clearing House Website, CentroNía had not timely filed the fiscal year 2017 data collection form.

Cause: Due to a change in Management, CentroNía was unaware that the data collection form was not filed timely and has subsequently submitted the form.

Context: The late filing for the fiscal year 2017 was CentroNía's first late filing.

Effect: The data collection form was not timely filed with the consolidated financial statements. This could result in a material misstatement relating to the federal award compliance.

Recommendation: We recommend that Management implement an internal control to ensure all compliance reports are timely filed.

Management Response: Management concurs with this audit finding.

Corrective Action Plan: CentroNía has resolved this issue as the report was eventually submitted, and management is now aware of their responsibilities to file this report.

Section IV – Prior Year Financial Statement Finding

2017-001 - Investment Reconciliations and Accounting

Condition: CentroNía's accounting and finance staff are unaware that its policies and procedures manual required investment account balances to be reconciled to supporting statements on a monthly basis.

Cause: The sale of CentroNía's building in 2016 generated a large amount of excess cash which was invested in the financial markets. As CentroNía had not held an investment portfolio for over ten years, management was unaware that its accounting and financial policies detailed the required monthly reconciliation procedures for investment accounts. As such, the required reconciliation process was inadvertently overlooked until the commencement of the 2017 audit.

Criteria: The finance department of CentroNía should ensure that all accounts that have material impact on internal and external financial reports are regularly reconciled and any necessary adjustments are posted to the general ledger in a timely manner.

Result: The lack of reconciliation, timely review and adherence to accounting and finance policies could lead to misstatements between general ledger balances and financial reports. The sheer volume of transactions in the investment account makes it extremely difficult to reconcile on an annual basis. Although management was ultimately able to successfully complete the reconciliation, a considerable amount of time was spent in that regard.

Recommendation: Management should ensure that investment accounts are reconciled on a monthly basis in accordance with CentroNía's policy and procedures. Proper review and approval of such reconciliations should be performed on a monthly basis to detect errors, lower the risk of fraud and to ensure that transactions are appropriately recorded.

Current Status: Resolved.

February 15th, 2019

Cherry Bekaert LLP
1850 Towers Crescent Plaza, Suite 200
Tysons Corner, Virgnia 22182

We acknowledge the specific instances cited in the auditor's report. Nonetheless, CentroNía can support its approach and does not believe it is unreasonable under the circumstances.

Specifically:

- In the first case this specific situation was unique, transitory and did not result in an over charge under the grants in question.
- In the other four instances where shared personnel documentation was found to be incorrect or lacking, we acknowledge the auditor's observations and concerns and have taken corrective action, but in any case the dollars involved were not material.

Therefore, we disagree with the finding by the auditors that these events rise to the standard required for a finding of "Material Weakness". CentroNía is a $14.8 million in revenue organization, the dollar value of all items identified by the auditor's amount to less than $ 1,000 and did not result in any overcharge under the grants involved. By characterizing these matters in the way the auditors have creates a distorted perspective of what was and is actually going on within the organization and our implementation of internal controls.

Ignacio Bravo, CFO