

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
South Bronx Charter School for
International Cultures & The Arts

Report on the Financial Statements

We have audited the accompanying financial statements of South Bronx Charter School for International Cultures & The Arts, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in unrestricted net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Bronx Charter School for International Cultures & The Arts as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of South Bronx Charter School for International Cultures & The Arts, as of and for the year ended June 30, 2016, were audited by other auditors whose report dated October 20, 2016 expressed an unmodified opinion on those statements. The summarized comparative information presented herein, as of and for the year ended June 30, 2016, was derived from those audited financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017 on our consideration of South Bronx Charter School for International Cultures & The Arts internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 South Bronx Charter School for International Cultures & The Arts internal control over financial reporting and compliance.

Berdon LLP
Certified Public Accountants

New York, New York
October 31, 2017

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(WITH COMPARATIVE TOTALS FOR 2016)**

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,544,965	\$ 3,877,639
Grants and other receivables	<u>335,884</u>	<u>334,476</u>
TOTAL CURRENT ASSETS	<u>4,880,849</u>	<u>4,212,115</u>
PROPERTY, PLANT AND EQUIPMENT - NET	<u>19,877,030</u>	<u>20,632,147</u>
OTHER ASSETS:		
Restricted cash and escrow reserves	1,826,060	1,815,831
Security deposits	<u>23,185</u>	<u>28,830</u>
TOTAL OTHER ASSETS	<u>1,849,245</u>	<u>1,844,661</u>
TOTAL ASSETS	<u>\$ 26,607,124</u>	<u>\$ 26,688,923</u>
LIABILITIES AND UNRESTRICTED NET ASSETS		
CURRENT LIABILITIES:		
Bond payable - current portion	\$ 450,000	\$ 430,000
Accounts payable and accrued expenses	264,940	206,926
Due to management company	-	29,367
Accrued payroll and benefits	293,635	269,013
Accrued interest payable	219,454	134,716
Refundable advances	<u>48,626</u>	<u>9,714</u>
TOTAL CURRENT LIABILITIES	1,276,655	1,079,736
BOND PAYABLE (Less, current portion; net of unamortized deferred financing costs of \$601,056 in 2017 and \$624,248 in 2016)	<u>20,383,944</u>	<u>20,810,752</u>
TOTAL LIABILITIES	<u>21,660,599</u>	<u>21,890,488</u>
NET ASSETS - UNRESTRICTED:		
Undesignated	4,871,501	4,723,909
Reserve - contingency	<u>75,024</u>	<u>74,526</u>
TOTAL NET ASSETS - UNRESTRICTED	<u>4,946,525</u>	<u>4,798,435</u>
TOTAL LIABILITIES AND UNRESTRICTED NET ASSETS	<u>\$ 26,607,124</u>	<u>\$ 26,688,923</u>

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

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**

**STATEMENT OF ACTIVITIES AND CHANGES IN UNRESTRICTED NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	2017	2016
		(SUMMARIZED)
OPERATING REVENUE AND OTHER SUPPORT:		
State and local per pupil operating revenue:		
General education	\$ <u>5,890,080</u>	\$ <u>6,044,717</u>
Total state and local per pupil operating revenue	<u>5,890,080</u>	<u>6,044,717</u>
Grants, contracts and other support:		
State and local grants	34,563	37,735
Federal grants	240,556	280,443
Food service	388,459	372,681
Interest income	22,814	8,829
Contributions	<u>2,000</u>	<u>-</u>
Total grants, contracts and other support	<u>688,392</u>	<u>699,688</u>
TOTAL OPERATING REVENUE AND OTHER SUPPORT	<u>6,578,472</u>	<u>6,744,405</u>
EXPENSES:		
Program expenses:		
Regular education	4,501,428	4,670,596
Special education	382,277	389,847
Food service	<u>570,194</u>	<u>592,460</u>
Total program expenses	<u>5,453,899</u>	<u>5,652,903</u>
Supporting services:		
Management and general	<u>976,483</u>	<u>877,445</u>
Total supporting services	<u>976,483</u>	<u>877,445</u>
TOTAL EXPENSES	<u>6,430,382</u>	<u>6,530,348</u>
INCREASE IN UNRESTRICTED NET ASSETS	148,090	214,057
NET ASSETS - UNRESTRICTED - BEGINNING OF YEAR	<u>4,798,435</u>	<u>4,584,378</u>
NET ASSETS - UNRESTRICTED - END OF YEAR	<u>\$ 4,946,525</u>	<u>\$ 4,798,435</u>

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

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>REGULAR EDUCATION</u>	<u>SPECIAL EDUCATION</u>	<u>FOOD SERVICE</u>	<u>TOTAL PROGRAMS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>TOTAL - 2017</u>	<u>TOTAL - 2016 (SUMMARIZED)</u>
PERSONNEL SERVICES COSTS:							
Administrative staff personnel	\$ 426,077	\$ 23,347	\$ -	\$ 449,424	\$ 134,243	\$ 583,667	\$ 599,491
Instructional personnel	1,245,817	93,771	-	1,339,588	-	1,339,588	1,372,736
Noninstructional personnel	<u>214,019</u>	<u>17,122</u>	<u>221,033</u>	<u>452,174</u>	<u>196,897</u>	<u>649,071</u>	<u>500,071</u>
TOTAL PERSONNEL SERVICES COSTS	<u>1,885,913</u>	<u>134,240</u>	<u>221,033</u>	<u>2,241,186</u>	<u>331,140</u>	<u>2,572,326</u>	<u>2,472,298</u>
OPERATING EXPENSES:							
Payroll taxes and fringe benefits	320,339	22,802	37,544	380,685	56,247	436,932	426,078
Retirement	49,282	3,508	5,776	58,566	8,653	67,219	79,779
Contracted service - financial and administrative	-	-	-	-	165,790	165,790	150,000
Administrative	3,666	261	430	4,357	644	5,001	15,000
Marketing and recruitment	949	68	111	1,128	167	1,295	10,049
Insurance	36,128	2,572	4,234	42,934	87,503	130,437	120,181
Legal and professional	34,532	2,458	4,047	41,037	6,063	47,100	88,165
Equipment and furnishings	47,362	3,371	5,551	56,284	8,316	64,600	73,646
Building and land rent/lease	13,972	995	1,638	16,605	2,453	19,058	15,993
Repairs	14,336	1,020	1,680	17,036	2,517	19,553	25,844
Building security	89,246	6,353	10,460	106,059	15,670	121,729	112,897
Office expense	-	-	-	-	17,641	17,641	17,663
Staff development	11,372	809	1,333	13,514	1,997	15,511	84,662
Student service	57,771	4,112	6,771	68,654	10,144	78,798	81,086
Supplies and instructional material	45,167	3,215	5,294	53,676	7,931	61,607	140,852
Food costs	-	-	161,491	161,491	-	161,491	191,767
Transportation service	163,711	12,322	-	176,033	-	176,033	181,000
Telephone and Internet services	34,562	2,460	4,051	41,073	6,069	47,142	34,766
Utilities	150,711	10,728	17,664	179,103	26,463	205,566	207,582
Interest expense	899,115	125,193	5,691	1,029,999	108,121	1,138,120	1,077,684
Other expenses	44,530	3,170	5,219	52,919	7,819	60,738	109,892
Depreciation and amortization	<u>598,764</u>	<u>42,620</u>	<u>70,176</u>	<u>711,560</u>	<u>105,135</u>	<u>816,695</u>	<u>813,464</u>
TOTAL OPERATING EXPENSES	<u>2,615,515</u>	<u>248,037</u>	<u>349,161</u>	<u>3,212,713</u>	<u>645,343</u>	<u>3,858,056</u>	<u>4,058,050</u>
TOTAL EXPENSES	<u>\$ 4,501,428</u>	<u>\$ 382,277</u>	<u>\$ 570,194</u>	<u>\$ 5,453,899</u>	<u>\$ 976,483</u>	<u>\$ 6,430,382</u>	<u>\$ 6,530,348</u>

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

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>2017</u>	<u>2016</u> (SUMMARIZED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in unrestricted net assets	\$ 148,090	\$ 214,057
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation	793,503	790,272
Deferred financing costs	23,192	23,192
Changes in operating assets and liabilities:		
Grants and contracts receivable	(1,408)	(50,224)
Prepaid expenses	-	2,580
Security deposits	5,645	-
Accounts payable and accrued expenses	58,014	61,397
Due to management company	(29,366)	24,031
Accrued payroll and benefits	24,624	28,464
Accrued interest payable	84,739	3
Refundable advances	<u>38,911</u>	<u>9,714</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,145,944</u>	<u>1,103,486</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction cash	-	334,794
Restricted cash and escrow reserves	(10,231)	(5,301)
Capitalized assets	<u>(38,387)</u>	<u>(128,061)</u>
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	<u>(48,618)</u>	<u>201,432</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Bond payable	(430,000)	(405,000)
Construction costs payable	<u>-</u>	<u>(113,634)</u>
NET CASH (USED IN) FINANCING ACTIVITIES	<u>(430,000)</u>	<u>(518,634)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	667,326	786,284
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>3,877,639</u>	<u>3,091,355</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,544,965</u>	<u>\$ 3,877,639</u>

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

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

South Bronx Charter School for International Cultures & The Arts (the "School"), a 501(c)(3) tax-exempt organization, is a public charter school located in the Bronx, New York. The School opened in 2005 and currently operates classes from kindergarten to fifth grade. The School's charter was renewed in 2013 for an additional five years. The School provides scientifically research-proven, standards-based educational programs, with an emphasis on international cultures, the arts, and mastery of a second language.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(b) Reclassifications

Certain accounts relating to the prior year have been reclassified to conform to the current year's presentation. The reclassifications have no effect on 2016 unrestricted net assets.

(c) Net Asset Presentation

The classification of the School's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position, and that the amounts of change in each of those classes of net assets be displayed in a statement of activities and changes in unrestricted net assets.

These classes are defined as follows:

- Permanently restricted - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School. The School currently does not possess any permanently restricted net assets. The School has no permanently restricted net assets at June 30, 2017.

(continued)

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Temporarily restricted - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in unrestricted net assets. The School has no temporarily restricted net assets at June 30, 2017.
- Unrestricted - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

(d) Cash and Cash Equivalents

The School considers all short-term, highly liquid investments, such as money market funds, to be cash equivalents.

(e) Revenue Recognition

The School recognizes revenue from the state and local governments based on the School's charter status and the number of students enrolled. Such revenue is recorded when services are performed, in accordance with the charter agreement. The New York State Department of Education mandates the rate per pupil. Such revenue is recognized ratably over the related school year in which it is earned.

Grants and contracts revenue is recognized when qualifying expenditures are incurred and/or services are provided to students during the applicable school year. Funds received in advance, or any unspent funds for which qualifying expenditures have not been incurred, are recorded as refundable advances. Any unspent amounts usually are returned to the granting agency. However, the granting agency can approve that such amounts be applied to a future grant period.

(f) Grants Receivable

Grants and other receivables are recorded at net realizable value and do not bear interest. The allowance for doubtful accounts is the School's best estimate of the amount of probable credit losses in existing receivables. Management determines the allowance based on historical write-off experience and reviews its allowance for doubtful accounts periodically. Past due balances are reviewed individually for collectibility. Grants receivable are \$332,911 at June 30, 2017. There is no allowance recorded at June 30, 2017, as all amounts are deemed collectible.

(continued)

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Donated assets are capitalized at the estimated fair value at date of receipt. Maintenance and repairs are charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$1,000. Depreciation is computed using the straight-line method over estimated useful lives of the respective asset of three to seven years for furniture and equipment and 39 years for the building.

(h) Restricted Cash and Escrow Reserves

Restricted cash and escrow reserves relate to reserve and escrow accounts that are required to be maintained by the School in accordance with the bond indenture and charter requirements.

(i) Deferred Expenses

Deferred financing costs are amortized over the terms of the bonds and are reported net of accumulated amortization as of June 30, 2017 and 2016 in bond payable - net, on the accompanying statements of financial position, pursuant to the adoption of Accounting Standards Update (ASU) 2015-03.

(j) Refundable Advances

Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances from state and local government grants in the accompanying statements of financial position.

(k) Donated Goods and Services

The School receives donated services from unpaid volunteers. No amounts have been recognized in the accompanying statements of activities and changes in net assets, since the services do not meet the specialized skill criteria for recognition under U.S. GAAP.

(l) Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications using bases determined by management to be reasonable. Management and general expense includes expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the school.

(continued)

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Income Taxes

On August 14, 2007, South Bronx Charter School for International Cultures & The Arts received approval of its application for tax-exempt status from the Internal Revenue Service (IRS) under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified as a publicly supported organization as described in IRC sections 509(A)(1) and 170(B)(1)(A)(II).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability (or asset) if the School has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that, as of June 30, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the accompanying financial statements. The School has not incurred any unrelated business income.

The School is no longer subject to income tax examination by federal, state or local tax authorities for years before June 30, 2013.

(n) Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2016 is presented for comparative purposes only. The notes to the financial statements and certain activity by net asset classification are not included in this report. Accordingly, such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the School's financial statements as of and for the years ended June 30, 2016 from which the summarized comparative information was derived.

(continued)

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Recently Adopted Accounting Policy

In April 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not affected. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015 and interim periods with fiscal years beginning after December 15, 2016 and shall be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. On July 1, 2016, the School adopted ASU 2015-03 and applied the guidance to its bonds payable for the periods presented. The adoption of this guidance did not have a material impact on the School's financial statements, as the update relates only to changes in financial statement presentation.

In August 2016, the FASB issued ASU No. 2016-14, "Presentation of Financial Statements for Not-for-Profit Entities." Under the new guidance, the existing three-category classification of net assets will be collapsed into two categories: with donor restrictions and without donor restrictions. Endowments that have a current fair value that is less than the original gift amount (underwater) will be classified in net assets with donor restrictions and expanded disclosures will be required. Additional requirements include disclosure of board-designated net assets, expanded reporting to present expenses by function and natural classification, and eliminating the disclosure of investment expenses that are netted against investment returns. ASU No. 2016-14 is effective for the fiscal years beginning after December 15, 2017 and early adoption is permitted. The School has not yet evaluated the impact this adoption will have on the financial statements.

(p) Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through October 31, 2017, the date that the financial statements were available to be issued.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

At June 30, 2017, property, plant and equipment consisted of the following:

Furniture and fixtures	\$ 858,096
Computer equipment and software	1,668,415
Office equipment	115,999
Building	18,057,399
Land	<u>1,823,000</u>
	22,522,909
Less, accumulated depreciation	<u>(2,645,879)</u>
	<u>\$ 19,877,030</u>

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - RESTRICTED CASH AND ESCROW RESERVES

Restricted cash and escrow reserve accounts at June 30, 2017 consist of:

Interest reserve	\$ 251,155
Debt service	1,498,045
Reserve - construction	2,298
Escrow - New York City Department of Education	<u>75,024</u>
	<u>\$ 1,826,522</u>

NOTE 5 - ACCRUED PAYROLL AND BENEFITS

Accrued payroll and benefits consist of amounts earned by the staff during the school year, but paid over the summer months.

NOTE 6 - RETIREMENT PLAN

The School offers a 401(k) plan (the "Plan") for substantially all of its qualifying employees. Employees are eligible for the Plan immediately upon employment. Participation in the Plan is voluntary. Employees can make pretax contributions up to a maximum of 100% of their annual compensation, subject to IRS restrictions. The School matches an employee's contribution up to 4% of the employee's annual compensation. For the year ended June 30, 2017, the School's matching contribution was \$67,219. Plan assets are held in a separate trust and are not included in the accompanying financial statements. All plan assets are held for the exclusive benefit of the Plan's participants and beneficiaries.

NOTE 7 - BONDS PAYABLE

On June 11, 2013, Build NYC Resource Corporation provided construction and permanent financing through the issuance of \$21,650,000 in Tax-Exempt Revenue Bonds (the "Series 2013A Bonds"), bearing interest at 2.75% to 5% per annum, with principal due at varying amounts annually through maturity on April 15, 2043, and \$620,000 in Taxable Revenue Bonds (the "Series 2013B Bonds"), bearing interest rate at 6% per annum, with principal due at varying amounts annually through maturity on April 15, 2017. The proceeds of the bonds were used to construct a five-story building in the Bronx, New York, to be used as classroom, cafeteria, kitchen, art, music room and administrative space.

(continued)

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - BONDS PAYABLE (Continued)

Future minimum principal payments for the next five years and in the aggregate thereafter are as follow:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 450,000
2019	465,000
2020	480,000
2021	500,000
2022	520,000
Thereafter	<u>19,020,000</u>
	<u>\$ 21,435,000</u>

Pursuant to the loan agreement, the School is required to maintain, and is in compliance with, ongoing debt service coverage ratio greater than 1.1.

NOTE 8 - CONCENTRATION OF CREDIT RISK

The School maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to significant credit risk on cash and cash equivalents.

The School received approximately 90% of its operating revenue, which is subject to specific requirements, from per pupil funding from the New York City Department of Education during the year ended June 30, 2017. Additionally, the School's grants receivable consists of approximately 99% from the New York State Department of Education.

NOTE 9 - CONTINGENCY

The School participates in a number of federal and state programs. These programs require that the School comply with certain laws, regulations, contracts, and agreements applicable to the programs in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government grants and contracts by government agencies is presently not determinable, it should not, in the opinion of the management, have a material effect on the financial position or results of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

NOTE 10 - SUPPORT SERVICES

The School entered into an agreement (the "Agreement") with a third party to provide assistance with accounting and bookkeeping, financial reporting and budgeting, and grant financial management. The agreement expired on June 30, 2017 but was renewed for an additional year.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of
South Bronx Charter School for
International Cultures & The Arts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of South Bronx Charter School for International Cultures & The Arts (the "School"), which comprise the statements of financial position as of June 30, 2017, and the related statements of activities and changes in unrestricted net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the School's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Berdon LLP
Certified Public Accountants

New York, New York
October 31, 2017