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

Financial Statements and Single Audit

For the year ended June 30, 2018

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Financial Statements
June 30, 2018

Contents	Page
Independent Auditors' Report.....	1-3
Statement of Financial Position	4
Statement of Activities.....	5
Statement of Functional Expenses	6-7
Statement of Cash Flows	8
Notes to Financial Statements.....	9-16
 Supplemental Information:	
Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2018.....	17
Notes to Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2018	18
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	19-20
Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	21-23
Schedule of Findings and Questioned Costs for the Year Ended June 30, 2018	24-25
Corrective Action Plan.....	26
Summary Schedule of Prior Audit Findings	27

Independent Auditors' Report

To the Board of Trustees of
South Bronx Charter School for
International Culture & The Arts
Bronx, New York

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, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Bronx Charter School for International Cultures & The Arts 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.

Prior period financial statements

The financial statements of South Bronx Charter School for International Cultures & The Arts, as of and for the year ended June 30, 2017, were audited by other auditors whose report dated October 31, 2017 expressed an unmodified opinion on those statements.

Other matters

Report on supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, shown on Page 17, as required by the *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other reporting required by government auditing standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018 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.

Handwritten signature in blue ink that reads "NCheng LLP".

New York, New York
October 31, 2018

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

Statement of Financial Position

June 30, 2018

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 5,227,590	\$ 4,544,965
Grants and other receivables	304,758	335,884
Total current assets	5,532,348	4,880,849
Property and equipment, net - Note 3	19,160,093	19,877,030
Other assets		
Restricted cash and escrow reserves - Note 4	1,848,759	1,826,060
Security deposits	-	23,185
Total assets	<u>\$ 26,541,200</u>	<u>\$ 26,607,124</u>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Bonds payable - current portion - Note 7	\$ 465,000	\$ 450,000
Accounts payable and accrued expenses	181,544	264,940
Accrued payroll and benefits - Note 5	313,389	293,635
Accrued interest payable	219,455	219,454
Refundable advances	42,708	48,626
Total current liabilities	1,222,096	1,276,655
Bonds payable (less current portion; net of unamortized deferred financing costs of \$577,864 in 2018 and \$601,056 in 2017) - Note 7	19,942,136	20,383,944
Total liabilities	<u>21,164,232</u>	<u>21,660,599</u>
Net Assets - unrestricted		
Undesignated	5,301,570	4,871,501
Reserve - contingency	75,398	75,024
Total unrestricted net assets	<u>5,376,968</u>	<u>4,946,525</u>
Total liabilities and unrestricted net assets	<u>\$ 26,541,200</u>	<u>\$ 26,607,124</u>

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

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

Statement of Activities

For the year ended June 30, 2018

	<u>2018</u>	<u>2017</u>
<u>Operating revenue and other support</u>		
State and local per pupil operating revenue		
General education	\$ 5,982,219	\$ 5,710,392
Grants, contracts and other support		
State and local grants	184,926	214,251
Federal grants	403,663	241,956
Food service	408,537	388,459
Interest income	60,085	22,814
Contributions	1,181	600
Total operating revenue and other support	<u>7,040,611</u>	<u>6,578,472</u>
<u>Expenses</u>		
Program expenses		
Regular education	4,698,506	4,501,428
Special education	391,189	382,277
Food service	598,829	570,194
Total program expenses	<u>5,688,524</u>	<u>5,453,899</u>
Supporting services		
Management and general	921,644	976,483
Total program and supporting services expenses	<u>6,610,168</u>	<u>6,430,382</u>
Change in net assets	430,443	148,090
Unrestricted net assets - beginning of year	4,946,525	4,798,435
Unrestricted net assets - end of year	<u>\$ 5,376,968</u>	<u>\$ 4,946,525</u>

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

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

Statement of Functional Expenses

For the year ended June 30, 2018

	Program expenses			Supporting services	Total 2018
	Regular education	Special education	Food service	Management & general	
Salaries and staff					
Instructional personnel	\$ 1,420,642	\$ 106,930	\$ -	\$ -	\$ 1,527,572
Administrative staff personnel	434,517	23,809	-	136,903	595,229
Non-instructional personnel	177,304	14,184	229,290	163,119	583,897
Total salaries and staff	<u>2,032,463</u>	<u>144,923</u>	<u>229,290</u>	<u>300,022</u>	<u>2,706,698</u>
Operating expenses					
Payroll taxes and fringe benefits	348,685	24,863	39,336	51,471	464,355
Retirement	55,919	3,987	6,308	8,255	74,469
Contracted service - financial and administrative	-	-	-	176,170	176,170
Administrative	6,007	428	678	887	8,000
Marketing and recruitment	4,422	315	499	653	5,889
Insurance	36,227	2,583	4,087	84,493	127,390
Legal and professional	33,557	2,393	3,786	4,953	44,689
Equipment and furnishings	41,895	2,987	4,727	6,184	55,793
Building and land rent/lease	14,709	1,049	1,659	2,171	19,588
Repairs	16,888	1,204	1,905	2,493	22,490
Building security	98,893	7,051	11,157	14,598	131,699
Office expense	-	-	-	19,009	19,009
Staff development	46,179	3,293	5,210	6,817	61,499
Student service	56,252	4,011	6,346	8,304	74,913
Supplies and instructional material	50,497	3,601	5,697	7,454	67,249
Food costs	-	-	174,058	-	174,058
Transportation service	161,820	12,180	-	-	174,000
Telephone and Internet services	66,282	4,726	7,478	9,784	88,270
Utilities	153,442	10,941	17,310	22,650	204,343
Interest expense	817,309	113,803	5,173	98,284	1,034,569
Other expenses	54,365	3,876	6,133	8,025	72,399
Depreciation and amortization	602,695	42,975	67,992	88,967	802,629
Total operating expenses	<u>2,666,043</u>	<u>246,266</u>	<u>369,539</u>	<u>621,622</u>	<u>3,903,470</u>
Total expenses	<u>\$ 4,698,506</u>	<u>\$ 391,189</u>	<u>\$ 598,829</u>	<u>\$ 921,644</u>	<u>\$ 6,610,168</u>

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

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

Statement of Functional Expenses

For the year ended June 30, 2017

	Program expenses				Supporting	Total
	Regular education	Special education	Food service	Total programs	Management & general	
Salaries and staff						
Instructional personnel	\$ 1,245,817	\$ 93,771	\$ -	\$ 1,339,588	\$ -	\$ 1,339,588
Administrative staff personnel	426,077	23,347	-	449,424	134,243	583,667
Non-instructional personnel	214,019	17,122	221,033	452,174	196,897	649,071
Total salaries and staff	<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>
Operating expenses						
Payroll taxes and fringe benefits	320,339	22,802	37,544	380,685	56,247	436,932
Retirement	49,282	3,508	5,776	58,566	8,653	67,219
Contracted service - financial and administrative	-	-	-	-	165,790	165,790
Administrative	3,666	261	430	4,357	644	5,001
Marketing and recruitment	949	68	111	1,128	167	1,295
Insurance	36,128	2,572	4,234	42,934	87,503	130,437
Legal and professional	34,532	2,458	4,047	41,037	6,063	47,100
Equipment and furnishings	47,362	3,371	5,551	56,284	8,316	64,600
Building and land rent/lease	13,972	995	1,638	16,605	2,453	19,058
Repairs	14,336	1,020	1,680	17,036	2,517	19,553
Building security	89,246	6,353	10,460	106,059	15,670	121,729
Office expense	-	-	-	-	17,641	17,641
Staff development	11,372	809	1,333	13,514	1,997	15,511
Student service	57,771	4,112	6,771	68,654	10,144	78,798
Supplies and instructional material	45,167	3,215	5,294	53,676	7,931	61,607
Food costs	-	-	161,491	161,491	-	161,491
Transportation service	163,711	12,322	-	176,033	-	176,033
Telephone and Internet services	34,562	2,460	4,051	41,073	6,069	47,142
Utilities	150,711	10,728	17,664	179,103	26,463	205,566
Interest expense	899,115	125,193	5,691	1,029,999	108,121	1,138,120
Other expenses	44,530	3,170	5,219	52,919	7,819	60,738
Depreciation and amortization	598,764	42,620	70,176	711,560	105,135	816,695
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>
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>

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

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

Statement of Cash Flows

For the year ended June 30, 2018

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 430,443	\$ 148,090
Adjustments to reconcile change in net assets to to net cash provided by operating activities		
Depreciation	779,437	793,503
Amortization	23,192	23,192
Changes in operating assets and liabilities		
Grants and other receivables	31,126	(1,408)
Security deposits	23,185	5,645
Accounts payable and accrued expenses	(83,396)	28,648
Accrued payroll and benefits	19,754	24,624
Accrued interest payable	1	84,739
Refundable advances	(5,918)	38,911
Net cash provided by operating activities	<u>1,217,824</u>	<u>1,145,944</u>
Cash flows used in investing activities		
Restricted cash and escrow reserves	(22,699)	(10,231)
Capitalized assets	(62,500)	(38,387)
Net cash used in investing activities	<u>(85,199)</u>	<u>(48,618)</u>
Cash flows used in financing activities		
Bonds payable	(450,000)	(430,000)
Net cash used in financing activities	<u>(450,000)</u>	<u>(430,000)</u>
Net increase in cash and cash equivalents	682,625	667,326
Cash and cash equivalents - beginning of year	<u>4,544,965</u>	<u>3,877,639</u>
Cash and cash equivalents - end of year	<u>\$ 5,227,590</u>	<u>\$ 4,544,965</u>
Supplemental disclosure		
Cash paid for interest	<u>\$ 1,034,568</u>	<u>\$ 1,053,384</u>

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

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

Notes to Financial Statements

June 30, 2018

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. In fiscal year 2019, the School added the sixth grade and will add the seventh grade in fiscal year 2020 and the eighth grade in fiscal year 2021. The School has received approval of its third charter renewal which would be effective from July 1, 2018 to June 30, 2023. 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

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

Reclassifications. Certain accounts relating to the prior year have been reclassified to conform to the current year’s presentation. The reclassifications had no effect on 2017 net assets.

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.

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.

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

Notes to Financial Statements

June 30, 2018

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. The School has no temporarily restricted net assets at June 30, 2018.

Unrestricted – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

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

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 the 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 might be returned to the granting agency or the granting agency can approve that those amounts be applied to a future grant period.

Grants and other receivables. 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 collectability. Grants receivable were \$270,895 and \$332,911 at June 30, 2018 and 2017, respectively. There was no allowance recorded at June 30, 2018, as all amounts are deemed collectible.

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

Notes to Financial Statements

June 30, 2018

Note 2 Summary of significant accounting policies – (continued)

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. The estimated depreciable lives of the different classes of property are as follows:

<u>Asset</u>	<u>Useful Life</u>
Building	39 years
Furniture and fixtures	7 years
Computer and office equipment	3 years

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.

Deferred expenses. Deferred financing costs are amortized over the terms of the bonds and are reported net of accumulated amortization as of June 30, 2018 and 2017 in bond payable – net, on the accompanying statement of financial position, pursuant to Accounting Standards Update (ASU) 2015-03.

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.

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

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.

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

Notes to Financial Statements

June 30, 2018

Note 2 Summary of significant accounting policies – (continued)

Income taxes. The School is tax-exempt 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, 2018, there are no uncertain positions taken or expected to be taken that would require recognition or disclosure in the accompanying financial statements.

The School is no longer subject to income tax examination by federal, state or local tax authorities for years before June 30, 2014.

Subsequent events. Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through October 31, 2018, the date that the financial statements were available to be issued.

Note 3 Property, plant and equipment

Property, plant and equipment consist of the following as of June 30,:

	<u>2018</u>	<u>2017</u>
Furniture and fixtures	\$ 883,819	\$ 858,096
Computer equipment and software	1,705,212	1,668,415
Office equipment	115,999	115,999
Building	18,057,399	18,057,399
Land	<u>1,823,000</u>	<u>1,823,000</u>
	22,585,429	22,522,909
Less, accumulated depreciation	<u>(3,425,336)</u>	<u>(2,645,879)</u>
Total	<u>\$ 19,160,093</u>	<u>\$ 19,877,030</u>

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

Notes to Financial Statements

June 30, 2018

Note 4 Restricted cash and escrow reserves

Restricted cash and escrow reserve accounts as of June 30, 2018 and 2017 are as follows:

	2018	2017
Interest reserve	\$ 257,012	\$ 251,155
Debt service	1,514,380	1,498,045
Reserve – construction	2,343	2,297
Escrow – New York City Department of Education	75,024	74,563
Total	<u>\$ 1,848,759</u>	<u>\$ 1,826,060</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. As of June 30, 2018 and 2017, accrued payroll amounted to \$313,389 and \$293,635, respectively.

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, up to IRS limits for each calendar year. The School matches an employee’s contribution up to 4% of the employee’s annual compensation. For the years ended June 30, 2018 and 2017, the School’s matching contribution was \$74,469 and \$67,219, respectively. 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

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

Notes to Financial Statements

June 30, 2018

Note 7 Bonds payable

On June 11, 2013, Build NYC Resource Corporation provided construction and permanent financing of \$22,270,000 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 bearing interest at 6% per annum which were repaid in varying amounts 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.

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>
2019	\$ 465,000
2020	480,000
2021	500,000
2022	520,000
2023	540,000
Thereafter	18,480,000
Unamortized financing charge	<u>(577,864)</u>

Total	<u>\$ 20,407,136</u>
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	<u>Amount</u>
Bonds payable - current	\$ 465,000
Bonds payable – long term	<u>19,942,136</u>

Total bonds payable	<u>\$ 20,407,136</u>
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**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**

Notes to Financial Statements

June 30, 2018

Note 7 Bonds payable – (continued)

Pursuant to the loan agreement, the School is required to comply with various debt covenants. The minimum requirement and actual results as of and for the year ended June 30, 2018 for each of the debt covenants are as follows:

	<u>Minimum Requirement</u>	<u>Actual</u>
Debt service coverage ratio	1.10	1.53
Days cash on hand	30	329
Net asset balance	\$ 715,946	\$ 5,376,968

The debt service coverage ratio is calculated as follows:

Increase in net assets	\$ 430,443		
Add back: Interest expense	1,034,569		
Depreciation and amortization	802,629		
Net revenues available for debt service	<u>\$ 2,267,641</u>		
Debt service payments			
Interest expense	\$ 1,034,569		
Principal	450,000		
Total current debt service	<u>\$ 1,484,569</u>		
Net revenues available for debt service	\$ 2,267,641	=	1.53
Total current debt service	\$ 1,484,569		

The days cash on hand is calculated as follows:

Total expenses	\$ 6,610,168		
Less: Depreciation and amortization	(802,629)		
Net expenses	<u>5,807,539</u>		
Number of days	365		
Cash used per day	<u>\$ 15,911</u>		
Cash and cash equivalents at year end	\$ 5,227,590	=	329
Cash used per day	\$ 15,911		

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

Notes to Financial Statements

June 30, 2018

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 management of the School believes it is not exposed to significant credit risk on cash and cash equivalents.

The School received approximately 85% and 87% of its operating revenue, which is subject to specific requirements, from per pupil funding from the New York City Department of Education during the years ended June 30, 2018 and 2017, respectively. Additionally, the School's grants receivable consists of approximately 69% and 75% 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, 2018 but was renewed for an additional year.

For the years ended June 30, 2018 and 2017, service fees under the agreement amounted to \$176,170 and \$165,790, respectively.

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2018

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA No.</u>	<u>Pass-through identifying number</u>	<u>Federal expenditures</u>
U.S. Department of Education			
Office of Elementary and Secondary Education:			
<u>Pass-through New York State Department of Education:</u>			
Title I Grants to Local Education Agencies	84.010A	0021-18-4312	\$ 308,828
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367A	0147-18-4312	37,030
English Language Acquisition Grants	84.365A	0293-18-4312	<u>16,724</u>
Total U.S. Department of Education			<u>362,582</u>
Child Nutrition Cluster:			
U.S. Department of Agriculture:			
<u>Pass-through New York State Department of Education</u>			
School Breakfast Program	10.553		90,919
National School Lunch Program	10.555		289,599
Summer Food Service Program	10.559		<u>8,477</u>
Total Child Nutrition Cluster (U.S. Department of Agriculture)			<u>388,995</u>
Total Expenditures of Federal Awards			<u>\$ 751,577</u>

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2018

Note 1 Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of South Bronx Charter School for International Cultures & the Arts for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) 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 South Bronx Charter School for International Cultures & the Arts, it is not intended to, and does not, present the financial position, changes in net position or cash flows of South Bronx Charter School for International Cultures & the Arts.

Note 2 Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The amounts reported as expenditures in this Schedule may differ from certain financial reports submitted to federal funding agencies, due to those reports being submitted on either the cash or modified cash basis of accounting.

Note 3 Indirect Cost Rate

South Bronx Charter School for International Cultures & the Arts has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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
Bronx, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Bronx Charter School for International Cultures & the Arts, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2018.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered South Bronx Charter School for International Cultures & the Arts' 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 South Bronx Charter School for International Cultures & the Arts' internal control. Accordingly, we do not express an opinion on the effectiveness of South Bronx Charter School for International Cultures & the Arts' internal control.

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

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

Compliance and other matters

As part of obtaining reasonable assurance about whether South Bronx Charter School for International Cultures & the Arts' 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature in blue ink that reads "NChang LLP".

New York, New York
October 31, 2018

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors of
South Bronx Charter School for
International Cultures & the Arts
Bronx, New York

Report on Compliance for Each Major Federal Program

We have audited South Bronx Charter School for International Cultures & the Arts' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of South Bronx Charter School for International Cultures & the Arts' major federal programs for the year ended June 30, 2018. South Bronx Charter School for International Cultures & the Arts' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of South Bronx Charter School for International Cultures & the Arts' compliance.

Opinion on Each Major Federal Program

In our opinion, South Bronx Charter School for International Cultures & the Arts complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of South Bronx Charter School for International Cultures & the Arts 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 South Bronx Charter School for International Cultures & the Arts' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South Bronx Charter School for International Cultures & the Arts' 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 were not identified.

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

NChang LLP

New York, New York
October 31, 2018

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Schedule of Findings and Questioned Costs
 For the year ended June 30, 2018

Schedule I – Summary of auditor’s results

Financial statements

Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not Considered to be material weakness(es)?

yes no
 yes none reported

Noncompliance material to financial statements noted?

yes no

Federal awards

Internal control over major federal programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not Considered to be material weakness(es)?

yes no
 yes none reported

Type of auditor’s report issued on compliance for major federal programs:

Unmodified opinion

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance under Section 2CFR200.516(a)

yes no

Identification of major federal programs:

<u>CFDA number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

yes no

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Schedule of Findings and Questioned Costs
For the year ended June 30, 2018

Section II – Financial Statement Findings

There are no financial statement findings and questioned costs noted that are required to be reported under *Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs that were noted.

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Corrective Action Plan
For the year ended June 30, 2018

Corrective action plan is not applicable for the year ended June 30, 2018.

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Summary Schedule of Prior Audit Findings
For the year ended June 30, 2018

There were no prior audit findings.