

**SOUTH BRONX EARLY COLLEGE  
ACADEMY CHARTER SCHOOL**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORTS**

**JUNE 30, 2017**

**SOUTH BRONX EARLY COLLEGE  
ACADEMY CHARTER SCHOOL**

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**Independent Auditor's Report on Financial Statements  
and Supplementary Information**

**Board of Trustees  
South Bronx Early College  
Academy Charter School**

***Report on the Financial Statements***

We have audited the accompanying financial statements of South Bronx Early College Academy Charter School, which comprise the balance sheet as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

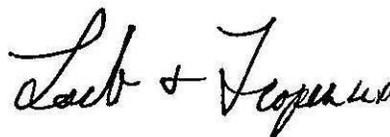
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Bronx Early College Academy Charter School as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting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

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in Schedule 1 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 26, 2017 on our consideration of South Bronx Early College Academy Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of South Bronx Early College Academy Charter School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Bronx Early College Academy Charter School's internal control over financial reporting and compliance.



October 26, 2017

**SOUTH BRONX EARLY COLLEGE  
ACADEMY CHARTER SCHOOL**

**BALANCE SHEET**

**JUNE 30, 2017**

**ASSETS**

Current assets	
Cash and cash equivalents	\$ 125,243
Certificates of deposit	300,000
Government grants and contracts receivable	361,426
Prepaid expenses and other receivables	<u>214,375</u>
Total current assets	1,001,044
Cash - reserve for dissolution (Note 2)	50,028
Security deposits (Note 4)	67,435
Fixed assets - net (Note 3)	<u>424,559</u>
Total assets	<u>\$ 1,543,066</u>

**LIABILITIES AND NET ASSETS**

Current liabilities	
Accounts payable and accrued expenses	\$ 86,854
Accrued salaries and related liabilities	364,648
Due to New York City Department of Education (Note 10)	60,605
Refundable advance	<u>351</u>
Total current liabilities	<u>512,458</u>
Net assets (Exhibit B)	
Unrestricted	984,283
Temporarily restricted (Note 9)	<u>46,325</u>
Total net assets	<u>1,030,608</u>
Total liabilities and net assets	<u>\$ 1,543,066</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**EXHIBIT B****SOUTH BRONX EARLY COLLEGE  
ACADEMY CHARTER SCHOOL****STATEMENT OF ACTIVITIES****YEAR ENDED JUNE 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating revenues and other support			
State and local per-pupil operating revenues - resident student enrollment	\$ 3,030,183		\$ 3,030,183
State and local per-pupil operating revenues - students with disabilities	894,126		894,126
Government grants and contracts	826,095		826,095
Contributions	13,795		13,795
Other revenues	14,155		14,155
Forgiveness of debt (Note 8)	44,854		44,854
Net assets released from restrictions (Note 9)	65,322	\$ (65,322)	
 Total operating revenues and other support	 <u>4,888,530</u>	 <u>(65,322)</u>	 <u>4,823,208</u>
Expenses (Schedule 1)			
Program services			
Education	2,234,008		2,234,008
Special education	1,247,529		1,247,529
 Total program services	 <u>3,481,537</u>		 <u>3,481,537</u>
Supporting services			
Management and general	735,362		735,362
Fundraising	30,847		30,847
 Total supporting services	 <u>766,209</u>		 <u>766,209</u>
 Total expenses	 <u>4,247,746</u>		 <u>4,247,746</u>
Change in net assets (Exhibit C)	640,784	(65,322)	575,462
Net assets - beginning of year	<u>343,499</u>	<u>111,647</u>	<u>455,146</u>
Net assets - end of year (Exhibit A)	<u>\$ 984,283</u>	<u>\$ 46,325</u>	<u>\$ 1,030,608</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**SOUTH BRONX EARLY COLLEGE  
ACADEMY CHARTER SCHOOL**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED JUNE 30, 2017**

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ 575,462
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	128,562
Forgiveness of debt	(44,854)
Decrease (increase) in assets	
Government grants and contracts receivable	(297,338)
Prepaid expenses and other receivables	(101,507)
Security deposits	35,182
Increase (decrease) in liabilities	
Accounts payable and accrued expenses	46,351
Accrued salaries and related liabilities	275,460
Due to New York City Department of Education	60,605
Refundable advance	(60,171)
	617,752
Net cash provided by operating activities	617,752
Cash flows from investing activities	
Fixed asset acquisitions	(370,087)
Purchase of certificates of deposit	(300,000)
Cash - reserve for dissolution	(25,024)
	(695,111)
Net cash used by investing activities	(695,111)
Net change in cash and cash equivalents	(77,359)
Cash and cash equivalents - beginning of year	202,602
Cash and cash equivalents - end of year	\$ 125,243

See independent auditor's report.

The accompanying notes are an integral part of these statements.

**SOUTH BRONX EARLY COLLEGE  
ACADEMY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 1 - NATURE OF ORGANIZATION**

South Bronx Early College Academy Charter School (the “School”) is an educational corporation that operates as a charter school in the Borough of Bronx, New York. On December 17, 2013, the Board of Regents and the Board of Trustees of the State University of New York, on behalf of the State Education Department, granted the School a charter valid for a term of 5 years after the School opens for instruction (expiring June 30, 2020) and renewable upon expiration. The School was granted a charter for grades 6-8.

The School was organized to create a learning environment that emphasizes differentiation and personalization of instruction and a student-centered and fully inclusive approach to teaching and learning. This focus on the learner as an individual allows the School to serve the demographic of students from the South Bronx neighborhood it serves. The School served 216 students in grades 6 and 7 in 2017.

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The School is supported primarily by state and local per-pupil operating revenues and government grants and contracts.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of accounting*** - The financial statements are prepared on the accrual basis of accounting.

***Use of estimates*** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

***Cash equivalents*** - Cash equivalents include certain investments in highly liquid instruments with original maturities, when acquired, of three months or less.

***Certificates of deposit*** - Certificates of deposit have maturity dates of more than three months and are considered investments for purposes of cash flow reporting.

***Cash - reserve for dissolution*** - The cash reserve for dissolution represents funds held aside for contingency purposes as required by the School’s charter.

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**SOUTH BRONX EARLY COLLEGE  
ACADEMY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Allowance for doubtful accounts* - The School determines whether an allowance for uncollectibles should be provided for government grants and contracts receivable. Such estimates are based on management's assessment of the aged basis of its contributions and other sources, current economic conditions and historical information. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. Management has determined that no allowance is necessary as of June 30, 2017.

*Fixed assets* - Fixed assets are recorded at cost. Items with a cost of \$1,000 or more and an estimated useful life of more than one year are capitalized.

*Refundable advances* - Refundable advances are monies owed to New York City Department of Education when payments received exceed the per-pupil revenue.

*Operating leases* - Operating lease payments are charged to rental expense. Operating lease expense has been recorded on the straight-line basis over the life of the lease. Deferred rent, when material, is recorded for the difference between the fixed payment and the rent expense.

*Unrestricted net assets* - Unrestricted net assets include funds having no restrictions as to use or purpose imposed by donors.

*State and local per-pupil operating revenues* - Revenues from the state and local governments resulting from the School's charter status and based on the number of students enrolled are recorded when services are performed in accordance with the charter agreement. These grants are recorded as revenue by the School when services are rendered.

*Government grants and contract revenues and receivables* - Revenues from government grants to which the School is entitled is recognized mostly on student enrollment. Some grants are provided for specific educational endeavors which are not based on student enrollment and are recorded when related expenditures are incurred by the School. Receivables are recorded when revenues are earned.

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**SOUTH BRONX EARLY COLLEGE  
ACADEMY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Contributions* - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donors. The gifts are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Functional allocation of expenses* - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*Uncertainty in income taxes* - The School has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2015 and subsequent remain subject to examination by applicable taxing authorities.

*Subsequent events* - Subsequent events have been evaluated through October 26, 2017, which is the date the financial statements were available to be issued.

**NOTE 3 - FIXED ASSETS**

		<u>Estimated Useful Lives</u>
Computer equipment	\$ 361,095	3 years
Furniture and fixtures	148,336	5 years
Construction in progress	<u>110,000</u>	
	619,431	
Accumulated depreciation	<u>(194,872)</u>	
	<u>\$ 424,559</u>	

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**SOUTH BRONX EARLY COLLEGE  
ACADEMY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 4 - LEASE COMMITMENT**

- A. The School entered a one-year lease agreement for classroom space for the 2015-2016 school year. The lease expired on July 15, 2016. Rent expense for the year ended June 30, 2017 was \$15,500. Subsequent to year-end, the School relocated and is in dispute with the landlord over the repayment of the security deposit.
- B. Effective July 1, 2016, the School entered into an agreement with the New York City Department of Education to use temporary classroom space for the 2016-2017 school year at no charge to the School. As the value of the space is difficult to determine, it is not recorded in the financial statements.
- C. In December 2015, the School entered into a 15-year lease agreement for new classroom space that was under development by the landlord. The lease was expected to take effect once the space was completed, which was expected to be in December 2016. The space was not completed at that date, and the School signed an amendment to the lease that became effective on September 7, 2017. Under the lease amendment, the term of the lease was extended to 18 years through June 30, 2035, with an option to renew for four additional five-year periods. The future minimum lease payments under this lease will be:

2017-2018	\$ 1,350,000
2018-2019	1,450,000
2019-2020	1,550,000
2020-2021	1,596,500
2021-2022	1,644,395
Thereafter	<u>25,305,014</u>
	<u>\$ 32,895,909</u>

**NOTE 5 - PENSION**

The School has a 403(b) pension plan for all full-time employees who are not eligible for the Teachers Retirement System of the City of New York (TRS) plan (faculty). The School contributes 10% of each participant's compensation. Pension expense for the 403(b) Plan for the year ended June 30, 2017 was \$55,440. In 2017, the School accrued \$350,204 for the required employer contribution under the TRS plan. This was recorded as pension expense for the year ended June 30, 2017. Total pension expense was \$405,644 for the year ended June 30, 2017.

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**SOUTH BRONX EARLY COLLEGE  
ACADEMY CHARTER SCHOOL**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**NOTE 6 - CONTINGENCIES**

Certain grants and contracts may be subject to audit by the funding sources. Such audits might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

The School is subject to potential litigation, which in the opinion of management, will not have a material adverse impact on the financial position of the School. Management also believes it carries adequate insurance.

**NOTE 7 - CONCENTRATIONS**

The School obtained approximately 81% of its operating revenues through its charter from New York State Department of Education for the year ended June 30, 2017.

**NOTE 8 - LOAN PAYABLE**

In January 2015, the School obtained a non-collateralized, interest-free loan in the amount of \$44,854 from Women's Housing and Economic Development Corporation (Whedco), an unrelated organization, which was integrally involved in establishing the School. On December 31, 2016, the loan was fully forgiven by Whedco.

**NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets of \$46,325 at June 30, 2017 are restricted for the music education program. During the year ended June 30, 2017, \$65,322 of temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes.

**NOTE 10 - DUE TO NEW YORK CITY DEPARTMENT OF EDUCATION**

In 2017, the School relocated into space provided by the New York City Department of Education (NYCDOE), but continued to receive a rent subsidy grant from NYCDOE. The School is in the process of refunding these monies to the NYCDOE.

**SOUTH BRONX EARLY COLLEGE  
ACADEMY CHARTER SCHOOL**

**SCHEDULE 1**

**SCHEDULE OF FUNCTIONAL EXPENSES**

**YEAR ENDED JUNE 30, 2017**

	<u>No. of Positions</u>	<u>Program Services</u>			<u>Supporting Services</u>		
		<u>Education</u>	<u>Special Education</u>	<u>Total</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Administrative staff	11	\$ 84,441	\$ 39,636	\$ 124,077	\$ 382,027	\$ 20,680	\$ 526,784
Instructional personnel	41	1,286,086	735,345	2,021,431			2,021,431
Non-instructional personnel					8,088		8,088
<b>Total salaries</b>	<b>52</b>	<b>1,370,527</b>	<b>774,981</b>	<b>2,145,508</b>	<b>390,115</b>	<b>20,680</b>	<b>2,556,303</b>
Payroll taxes and employee benefits		436,240	246,677	682,917	121,600	6,582	811,099
Contracted services		111,369	54,968	166,337	560	30	166,927
Professional fees					151,029		151,029
Occupancy		39,376	22,266	61,642	10,976	594	73,212
Repairs and maintenance		16,771	9,484	26,255	4,675	253	31,183
Instructional supplies and materials		66,746	31,330	98,076			98,076
Office supplies and equipment		72,632	41,071	113,703	20,246	1,096	135,045
Insurance		22,690	12,831	35,521	6,325	342	42,188
Depreciation		69,146	39,099	108,245	19,274	1,043	128,562
Board and staff development		10,444	5,906	16,350	8,776	158	25,284
Student and staff recruitment		3,763	2,128	5,891	1,048	57	6,996
Travel		770	435	1,205	214	12	1,431
Miscellaneous expenses		13,534	6,353	19,887	524		20,411
<b>Total expenses (Exhibit B)</b>		<b>\$ 2,234,008</b>	<b>\$ 1,247,529</b>	<b>\$ 3,481,537</b>	<b>\$ 735,362</b>	<b>\$ 30,847</b>	<b>\$ 4,247,746</b>

See independent auditor's report.



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

Independent Auditor's Report

**Board of Trustees  
South Bronx Early College  
Academy Charter School**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Bronx Early College Academy Charter School, which comprise the balance sheet as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered South Bronx Early College Academy Charter 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 South Bronx Early College Academy Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of South Bronx Early College Academy Charter School's internal control.

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

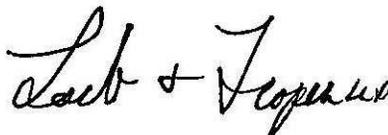
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether South Bronx Early College Academy Charter 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



October 26, 2017