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

Financial Statements and Single Audit

For the years ended June 30, 2019 and 2018

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

Financial Statements

June 30, 2019 and 2018

Contents	Page
Independent Auditors' Report.....	1-3
Statements of Financial Position.....	4
Statements of Activities	5
Statements of Functional Expenses	6-7
Statements of Cash Flows	8
Notes to the Financial Statements.....	9-15
Supplemental Information:	
Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2019.....	16
Notes to Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2019	17
Schedule of Debt Covenants for the Year Ended June 30, 2019.....	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, 2019	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 statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 16, 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. The schedule of debt covenants calculations, shown on page 18, is present for the 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 29, 2019 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.

A handwritten signature in blue ink that reads "NChing LLP".

New York, New York
October 29, 2019

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

Statements of Financial Position

As of June 30,

	2019	2018
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 6,192,617	\$ 5,227,590
Grants and other receivables	245,741	304,758
Prepaid expenses	1,256	-
Total current assets	6,439,614	5,532,348
Property and equipment, net - Note 4	18,400,355	19,160,093
Other assets		
Restricted cash and escrow reserves - Note 5	1,891,914	1,848,759
Total assets	<u>\$ 26,731,883</u>	<u>\$ 26,541,200</u>
<u>Liabilities and Net Assets</u>		
Current liabilities		
Bonds payable - current portion - Note 8	\$ 480,000	\$ 465,000
Accounts payable and accrued expenses	165,896	181,544
Accrued payroll and benefits - Note 6	482,692	313,389
Accrued interest payable	212,724	219,455
Refundable advances	9,915	42,708
Total current liabilities	1,351,227	1,222,096
Bonds payable (less current portion; net of unamortized deferred financing costs of \$554,672 in 2019 and \$577,864 in 2018) - Note 8	19,485,328	19,942,136
Total liabilities	20,836,555	21,164,232
Net assets without donor restrictions		
Undesignated	5,819,043	5,301,570
Reserve - contingency	76,285	75,398
Total net assets without donor restrictions	5,895,328	5,376,968
Total liabilities and net assets without restrictions	<u>\$ 26,731,883</u>	<u>\$ 26,541,200</u>

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

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Statements of Activities
For the years ended June 30,

	<u>2019</u>	<u>2018</u>
<u>Operating revenue and other support</u>		
State and local per pupil operating revenue		
General education	\$ 6,709,288	\$ 5,982,219
Grants, contracts and other support		
State and local grants	243,395	184,926
Federal grants	395,293	403,663
Food service	359,573	408,537
Interest income	104,443	60,085
Contributions	<u>33,248</u>	<u>1,181</u>
Total operating revenue and other support	<u>7,845,240</u>	<u>7,040,611</u>
<u>Expenses</u>		
Program expenses		
Regular education	5,320,716	4,698,506
Special education	398,722	391,189
Food service	<u>625,990</u>	<u>598,829</u>
Total program expenses	<u>6,345,428</u>	<u>5,688,524</u>
Supporting services		
Management and general	<u>981,452</u>	<u>921,644</u>
Total program and supporting services expenses	<u>7,326,880</u>	<u>6,610,168</u>
Change in net assets	518,360	430,443
Net assets without donor restrictions - beginning of year	<u>5,376,968</u>	<u>4,946,525</u>
Net assets without donor restrictions - end of year	<u><u>\$ 5,895,328</u></u>	<u><u>\$ 5,376,968</u></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, 2019

	Program expenses				Supporting services	Total program expenses and supporting services
	Regular education	Special education	Food service	Total programs	Management & general	
Salaries						
Instructional personnel	\$ 1,703,695	\$ 108,555	\$ -	\$ 1,812,250	\$ -	\$ 1,812,250
Administrative staff personnel	513,311	28,127	-	541,438	161,728	703,166
Non-instructional personnel	192,254	15,380	235,321	442,955	176,874	619,829
Total salaries	<u>2,409,260</u>	<u>152,062</u>	<u>235,321</u>	<u>2,796,643</u>	<u>338,602</u>	<u>3,135,245</u>
Operating expenses						
Payroll taxes and fringe benefits	437,625	27,621	42,744	507,990	61,505	569,495
Retirement	69,246	4,371	6,764	80,381	9,732	90,113
Contracted Services - financial and administrative	-	-	-	-	191,700	191,700
Marketing/Recruitment	8,185	517	799	9,501	1,150	10,651
Insurance	31,708	2,001	3,097	36,806	71,246	108,052
Legal and professional	44,902	2,834	4,386	52,122	6,311	58,433
Equipment leasing	40,641	2,565	3,970	47,176	5,711	52,887
Building and land rent and lease	13,992	883	1,367	16,242	1,966	18,208
Repairs and Maintenance	23,325	1,472	2,278	27,075	3,279	30,354
Building security and maintenance	117,025	7,386	11,430	135,841	16,448	152,289
Office Expense	-	-	-	-	13,408	13,408
Staff Development	62,233	3,928	6,079	72,240	8,746	80,986
Student Services	78,947	4,983	7,711	91,641	11,095	102,736
Supplies and instructional materials	73,973	4,669	7,225	85,867	10,396	96,263
Food costs	-	-	194,759	194,759	-	194,759
Transportation service	156,305	11,765	-	168,070	-	168,070
Telephone and internet services	64,153	4,049	6,266	74,468	9,016	83,484
Utilities	183,361	11,573	17,910	212,844	25,770	238,614
Interest expense	801,326	111,577	5,072	917,975	96,362	1,014,337
Other expenses	81,621	5,152	7,972	94,745	11,467	106,212
Depreciation and amortization	622,888	39,314	60,840	723,042	87,542	810,584
Total operating expenses	<u>2,911,456</u>	<u>246,660</u>	<u>390,669</u>	<u>3,548,785</u>	<u>642,850</u>	<u>4,191,635</u>
Total expenses	<u>\$ 5,320,716</u>	<u>\$ 398,722</u>	<u>\$ 625,990</u>	<u>\$ 6,345,428</u>	<u>\$ 981,452</u>	<u>\$ 7,326,880</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 program expenses and supporting services
	Regular education	Special education	Food service	Total programs	Management & general	
Salaries						
Instructional personnel	\$ 1,420,642	\$ 106,930	\$ -	\$ 1,527,572	\$ -	\$ 1,527,572
Administrative staff personnel	434,517	23,809	-	458,326	136,903	595,229
Non-instructional personnel	177,304	14,184	229,290	420,778	163,119	583,897
Total salaries	2,032,463	144,923	229,290	2,406,676	300,022	2,706,698
Operating expenses						
Payroll taxes and fringe benefits	348,685	24,863	39,336	412,884	51,471	464,355
Retirement	55,919	3,987	6,308	66,214	8,255	74,469
Contracted service - financial and administrative	-	-	-	-	176,170	176,170
Administrative	6,007	428	678	7,113	887	8,000
Marketing and recruitment	4,422	315	499	5,236	653	5,889
Insurance	36,227	2,583	4,087	42,897	84,493	127,390
Legal and professional	33,557	2,393	3,786	39,736	4,953	44,689
Equipment and furnishings	41,895	2,987	4,727	49,609	6,184	55,793
Building and land rent/lease	14,709	1,049	1,659	17,417	2,171	19,588
Repairs	16,888	1,204	1,905	19,997	2,493	22,490
Building security	98,893	7,051	11,157	117,101	14,598	131,699
Office expense	-	-	-	-	19,009	19,009
Staff development	46,179	3,293	5,210	54,682	6,817	61,499
Student service	56,252	4,011	6,346	66,609	8,304	74,913
Supplies and instructional material	50,497	3,601	5,697	59,795	7,454	67,249
Food costs	-	-	174,058	174,058	-	174,058
Transportation service	161,820	12,180	-	174,000	-	174,000
Telephone and Internet services	66,282	4,726	7,478	78,486	9,784	88,270
Utilities	153,442	10,941	17,310	181,693	22,650	204,343
Interest expense	817,309	113,803	5,173	936,285	98,284	1,034,569
Other expenses	54,365	3,876	6,133	64,374	8,025	72,399
Depreciation and amortization	602,695	42,975	67,992	713,662	88,967	802,629
Total operating expenses	2,666,043	246,266	369,539	3,281,848	621,622	3,903,470
Total expenses	\$ 4,698,506	\$ 391,189	\$ 598,829	\$ 5,688,524	\$ 921,644	\$ 6,610,168

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

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

Statements of Cash Flows

For the years ended June 30,

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 518,360	\$ 430,443
Adjustments to reconcile change in net assets to to net cash provided by operating activities		
Depreciation	787,392	779,437
Amortization	23,192	23,192
Changes in operating assets and liabilities		
Grants and other receivables	59,017	31,126
Prepaid expenses	(1,256)	-
Security deposits	-	23,185
Accounts payable and accrued expenses	(15,648)	(83,396)
Accrued payroll and benefits	169,303	19,754
Accrued interest payable	(6,731)	1
Refundable advances	(32,793)	(5,918)
Net cash provided by operating activities	<u>1,500,836</u>	<u>1,217,824</u>
Cash flows used in investing activities		
Restricted cash and escrow reserves	(43,155)	(22,699)
Capitalized assets	(27,654)	(62,500)
Net cash used in investing activities	<u>(70,809)</u>	<u>(85,199)</u>
Cash flows used in financing activities		
Bonds payable	(465,000)	(450,000)
Net cash used in financing activities	<u>(465,000)</u>	<u>(450,000)</u>
Net increase in cash and cash equivalents	965,027	682,625
Cash and cash equivalents - beginning of year	<u>5,227,590</u>	<u>4,544,965</u>
Cash and cash equivalents - end of year	<u><u>\$ 6,192,617</u></u>	<u><u>\$ 5,227,590</u></u>
Supplemental disclosure		
Cash paid for interest	<u><u>\$ 1,021,068</u></u>	<u><u>\$ 1,034,568</u></u>

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

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Notes to the Financial Statements
June 30, 2019 and 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 through fiscal year 2018 operated classes from kindergarten to fifth grade. In fiscal year 2019, the School added the sixth grade. In fiscal year 2020, the School will add the seventh grade and in fiscal year 2021 the eighth grade. 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.

Friends of South Bronx Charter School for International Culture & the Arts, Inc. (the “Friends of SBCSICA”), is a non-profit organization, founded in October 2018 under Section 402 of the Not-for-Profit Corporate Law of the State of New York. Friends of SBCSICA is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The board of trustees of the School has control over the board of trustees of Friends of SBCSICA. As of June 30, 2019, Friends of SBCSICA has no financial activity, and as a result, the two entities did not consolidate as of and for the year ended June 30, 2019.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

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 and other receivable amounted to \$245,741 and \$304,758 as of June 30, 2019 and 2018, respectively. There was no allowance recorded at June 30, 2019 and 2018, as all amounts are deemed collectible.

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Notes to the Financial Statements
June 30, 2019 and 2018

Note 2 Summary of significant accounting policies – (continued)

Financial statements presentation. The financial statements of the School have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the School to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions. Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization.

Net assets with donor restrictions. Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

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.

Grant and contracts revenue. 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.

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Notes to the Financial Statements
June 30, 2019 and 2018

Note 2 Summary of significant accounting policies – (continued)

Property and equipment. Property 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, software 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.

Financing charge. Financing charges are amortized over the terms of the bonds and are reported net of accumulated amortization as of June 30, 2019 and 2018 in bond payable – net, on the accompanying statements of financial position.

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 statements of activities, since the services do not meet the specialized skill criteria for recognition under U.S. GAAP.

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, 2019, 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, 2016.

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Notes to the Financial Statements
June 30, 2019 and 2018

Note 2 Summary of significant accounting policies – (continued)

Functional expenses. The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services, and supporting services. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Salaries	Time and effort
Payroll taxes and fringe benefits	Time and effort
Contracted Services - financial and administrative	Direct allocation
Legal and professional	Time and effort
Insurance	Square footage
Repairs and maintenance	Time and effort

Change in accounting principle. On August 18, 2016, FABS issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for Profit Entities. The update addresses the complexity and understandability of net asset classification, efficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly.

Note 3 Liquidity and availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of June 30, are:

Financial assets:	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 6,192,617	\$ 5,227,590
Grants and other receivables	<u>245,741</u>	<u>304,758</u>
Amount available for general expenditures within one year	<u>\$ 6,438,358</u>	<u>\$ 5,532,348</u>

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Notes to the Financial Statements
June 30, 2019 and 2018

Note 4 Property and equipment

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

	<u>2019</u>	<u>2018</u>
Furniture and fixtures	\$ 893,091	\$ 883,819
Computer equipment and software	1,723,593	1,705,212
Office equipment	115,999	115,999
Building	18,057,399	18,057,399
Land	1,823,000	1,823,000
Total property and equipment	22,613,082	22,585,429
Less, accumulated depreciation	(4,212,727)	(3,425,336)
Property and equipment, net	<u>\$ 18,400,355</u>	<u>\$ 19,160,093</u>

Note 5 Restricted cash and escrow reserves

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

	<u>2019</u>	<u>2018</u>
Interest reserve	\$ 267,593	\$ 257,012
Debt service	1,545,644	1,514,380
Reserve – construction	2,392	2,343
Escrow – New York City Department of Education	76,285	75,024
	<u>\$ 1,891,914</u>	<u>\$ 1,848,759</u>

Note 6 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, 2019 and 2018, accrued payroll amounted to \$482,692 and \$313,389, respectively.

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

Notes to the Financial Statements

June 30, 2019 and 2018

Note 7 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, 2019 and 2018, the School’s matching contribution was \$90,113 and \$74,469, 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.

Note 8 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>
2020	\$ 480,000
2021	500,000
2022	520,000
2023	540,000
2024	560,000
Thereafter	17,920,000
Unamortized financing charge	(554,672)
	<u>\$ 19,965,328</u>
	<u>Amount</u>
Bonds payable - current	\$ 480,000
Bonds payable – long term	19,485,328
Total bonds payable	<u>\$ 19,965,328</u>

As of June 30, 2019, the School was in compliance with all debt covenant pursuant to the bond agreement.

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Notes to the Financial Statements
June 30, 2019 and 2018

Note 9 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 86% and 85% 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, 2019 and 2018, respectively. Additionally, the School's grants receivable consists of approximately 70% and 69% from the New York State Department of Education.

Note 10 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 11 Subsequent events

Management has evaluated its June 30, 2019 financial statements for subsequent events through October 29, 2019, which is the date the financial statements were available to be issued. Based on this evaluation, management has determined that no subsequent events have occurred which require adjustment or disclosure in the financial statements.

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

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2019

<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	0021-19-4312	\$ 294,169
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367A	0147-19-4312	65,217
English Language Acquisition Grants	84.365A	0293-19-4312	<u>18,516</u>
Total U.S. Department of Education			377,902
Child Nutrition Cluster:			
U.S. Department of Agriculture:			
<u>Pass-through New York State Department of Education</u>			
School Breakfast Program	10.553		83,632
National School Lunch Program	10.555		287,484
Summer Food Service Program	10.559		<u>9,412</u>
Total Child Nutrition Cluster (U.S. Department of Agriculture)			<u>380,528</u>
Total Expenditures of Federal Awards			<u>\$ 758,430</u>

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2019

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 years ended June 30, 2019. 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.

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

Schedule of Debt Covenants

For the year ended June 30, 2019

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, 2019 for each of the debt covenants are as follows:

	Minimum Requirement	Actual
Debt service coverage ratio	1.10	1.58
Days cash on hand	30	347
Net asset balance	\$ 732,688	\$ 5,895,328

The debt service coverage ratio is calculated as follows:

Increase in net assets	\$ 518,360	
Add back: Interest expense	1,014,337	
Depreciation and amortization	810,584	
Net revenues available for debt service	<u>\$ 2,343,281</u>	
Debt service payments		
Interest expense	\$ 1,014,337	
Principal	465,000	
Total current debt service	<u>\$ 1,479,337</u>	
Net revenues available for debt service	\$ 2,343,281	
Total current debt service	\$ 1,479,337	= 1.58

The days cash on hand is calculated as follows:

Total expenses	\$ 7,326,880	
Less: Depreciation and amortization	(810,584)	
Net expenses	6,516,296	
Number of days	365	
Cash used per day	<u>\$ 17,853</u>	
Cash and cash equivalents at year end	\$ 6,192,617	
Cash used per day	\$ 17,853	= 347

The minimum net asset balance is calculated as follows:

Beginning net asset balance	\$ 5,376,968	
Net surplus/(deficit)	518,360	
Ending net asset balance	<u>\$ 5,895,328</u>	
Estimated required fund balance		
Maximum annual debt service	\$ 1,479,337	
Gross revenue	7,845,240	
Percentage	19%	
Requirement percentage	10%	
Estimated required fund balance	\$ 732,688	
Amount over (needed) to meet fund balance	\$ 5,162,640	

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, 2019, 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 29, 2019.

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.

NChing LLP

New York, New York
October 29, 2019

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

To the Board of Trustees 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, 2019. South Bronx Charter School for International Cultures & the Arts' major federal programs are identified in the summary of auditors' 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, 2019.

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.

NChing LLP

New York, New York
October 29, 2019

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Schedule of Findings and Questioned Costs
For the year ended June 30, 2019

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 X no
___ yes X none reported
___ ___

Noncompliance material to financial statements noted?

___ yes X 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 X no
___ yes X 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 X no

Identification of major federal programs:

<u>CFDA number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010A	Title I Grants to Local Educational Agencies

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

\$750,000

Auditee qualified as low-risk auditee?

___ yes X no

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Schedule of Findings and Questioned Costs
For the year ended June 30, 2019

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

None noted.

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Corrective Action Plan
For the year ended June 30, 2019

Corrective action plan is not applicable for the year ended June 30, 2019.

**SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES & THE ARTS**
Summary Schedule of Prior Audit Findings
For the year ended June 30, 2019

There were no prior audit findings.