

SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES AND THE ARTS

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2013 AND 2012

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES
AND THE ARTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of South Bronx Charter School for International Cultures and the Arts, which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for 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.

Auditor's 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 and the Arts as of June 30, 2013 and 2012, 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.

Report on Supplementary Information

Our audits were performed for the purpose of forming an opinion on the basic financial statements of the School taken as a whole. The accompanying schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic 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 schedule of functional expenditures is fairly stated in all material respects in relation to the financial statements as a whole.

Koch Group + Company, LLP
Certified Public Accountants

New York, New York
October 15, 2013

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS

STATEMENTS OF FINANCIAL POSITION

JUNE 30,

ASSETS

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,519,868	\$ 1,201,723
Construction cash	17,932,982	-
Restricted cash	-	230,000
Debt service escrow	1,486,069	-
Due from government agencies	123,851	156,353
Grants and contribution receivable	101,194	-
Deferred expenses	689,336	-
Prepaid expenses	36,132	39,897
	22,889,432	1,627,973
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	4,129,713	2,959,248
OTHER ASSETS		
Security deposits	-	8,931
	\$ 27,019,145	\$ 4,596,152

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Construction loans	\$ 22,270,000	\$ -
Construction costs payable	594,005	-
Accounts payable	67,170	55,645
Accrued expenses	299,873	359,834
Accrued interest payable	44,903	-
Notes payable	-	409,092
Loan payable	109,949	104,467
Due to management company	103,373	3,287
	23,489,273	932,325
Notes payable, less current portion	-	693,449
Loan payable, less current portion	542,014	901,963
	24,031,287	2,527,737
NET ASSETS - UNRESTRICTED	2,987,858	2,068,415
Total Liabilities and Net Assets	\$ 27,019,145	\$ 4,596,152

See notes to financial statements.

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30,

UNRESTRICTED NET ASSETS

	<u>2013</u>	<u>2012</u>
REVENUE, GAINS AND OTHER SUPPORT		
Public School District		
Resident student enrollment	\$ 5,237,829	\$ 5,315,121
Grants and Contracts		
State and local	33,938	18,255
Federal - Title and IDEA	328,075	307,884
Interest and other income	1,645	64
Contributions - Foundation/Individual/Corporation	5,092	300
Contributions-in-kind	623,357	400,000
Food Service/Child Nutrition Program	155,551	195,184
	<u>6,385,487</u>	<u>6,236,808</u>
EXPENSES		
Program Expenses		
Regular education	4,066,144	3,365,599
Special education	241,124	135,702
	<u>4,307,268</u>	<u>3,501,301</u>
Supporting Services		
Management and general	1,158,776	1,296,462
	<u>5,466,044</u>	<u>4,797,763</u>
Change in Unrestricted Net Assets	919,443	1,439,045
NET ASSETS		
Beginning of year	<u>2,068,415</u>	<u>629,370</u>
End of year	<u><u>\$ 2,987,858</u></u>	<u><u>\$ 2,068,415</u></u>

See notes to financial statements.

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30,

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 919,443	\$ 1,439,045
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation	53,088	66,952
Amortization	1,920	
Changes in Assets and Liabilities		
Due from government agencies	32,502	117,681
Other receivable	(101,194)	73,259
Prepaid expenses	3,765	(540)
Security deposits	8,931	-
Due to management company	100,086	-
Accrued interest payable	44,903	-
Accounts payable	11,525	23,690
Accrued expenses	(59,961)	18,210
	<u>1,015,008</u>	<u>1,738,297</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction cash	(17,932,982)	-
Restricted cash	230,000	-
Debt service escrow	(1,486,069)	-
Acquisition of fixed assets	(1,223,553)	(77,163)
	<u>(20,412,604)</u>	<u>(77,163)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Construction loans	22,270,000	-
Notes payable	(1,102,541)	(413,851)
Construction costs payable	594,005	
Loan payable	(354,467)	(99,259)
Deferred expenses	(691,256)	
Obligation under capital lease	-	(1,056)
	<u>20,715,741</u>	<u>(514,166)</u>
Net cash provided by (used in) financing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,318,145	1,146,968
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,201,723</u>	<u>54,755</u>
End of year	<u>\$ 2,519,868</u>	<u>\$ 1,201,723</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	<u>\$ 74,994</u>	<u>\$ 130,265</u>

See notes to financial statements.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

1. Organization

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

2. Summary of Significant Accounting Policies

a) Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

b) Financial Statement Presentation

The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

- i) Unrestricted net assets – Net assets that are not subject to grant or donor-imposed stipulations.
- ii) Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the School and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There are no temporarily restricted net assets at June 30, 2013 and 2012.
- iii) Permanently restricted net assets – Net assets subject to grant or donor-imposed stipulations that they be maintained permanently by the School to use all or part of the assets for general or specific purposes. There are no permanently restricted net assets at June 30, 2013 and 2012.

Furthermore, information is required to segregate program service expenses from support expenses.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

2. Summary of Significant Accounting Policies (Continued)

c) Cash and Cash Equivalents

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

For purposes of the statement of cash flows, the School considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

d) Grants and Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as grants and contribution receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met.

e) Contributions and Contributions-in-kind

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

Contributions of non-cash goods and similar items, such as rent, are recorded at the estimated fair value on the date of the contribution. Contributions of services that (1) create or enhanced non-financial assets or those that require specialized skills, (2) are provided by individuals possessing those skills, and (3) would typically need to be purchased if not provided by donation are recorded at their fair value in the period received.

f) Functional Allocation of Expenses

Costs and expenses of various programs and other activities have been analyzed on a functional basis. Accordingly, all costs and expenses incurred have been allocated among the programs and supporting services benefited

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

2. Summary of Significant Accounting Policies (Continued)

g) Property and Equipment

Purchase of property and equipment are capitalized at cost. Donated assets are capitalized at the estimated fair value at date of receipt. The cost of maintenance and repairs is charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$500. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 7 years.

Construction in progress includes the cost of construction and other indirect costs attributable to the construction. No provision for depreciation is made on construction in progress until the assets are placed in service.

h) Revenue Recognition

Revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. 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 statement of financial position

i) Income Taxes

In August 14, 2007 South Bronx Charter School for International Cultures and Arts received approval of its application for tax exempt status from the internal revenue service under section 501 (c) (3) of the internal revenue code and has been classified as a publicly supported organization as described in internal revenue code section 509 (A) (1) and 170 (B) (1) (A) (II).

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

2. Summary of Significant Accounting Policies (Continued)

i) Income Taxes (Continued)

Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition. The Organization is no longer subject to income tax examination by federal, state or local tax authorities for years before 2010, which is the standard statute of limitations look-back period.

j) Estimates

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

k) Deferred Expense

Closing costs are amortized on the straight-line method over the life of the bonds

3. Restricted Cash

At June 30, 2012, restricted cash of \$230,000 was held in a non-interest bearing account as collateral for the note payable.

4. Defined Contribution Plan

The School offers a 401(k) plan for substantially all of its employees. Employees are eligible for the plan immediately upon employment and participation in the plan is voluntary. Employees can make pretax contributions up to a maximum of 100% of their annual compensation, subject to IRS restrictions. The School matches the employee contribution up to 4% of the employee's annual compensation. The employer contribution recognized in the statement of activities was \$54,722 and \$37,078 for the years ended June 30, 2013 and 2012. 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 AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of amounts due to vendors and to staff for payroll earned during the school year but paid out over the summer months.

6. Property and Equipment

At June 30, 2013 and 2012, property and equipment consisted of the following:

	<u>2013</u>	<u>2012</u>	Estimated Useful <u>Life</u>
Furniture and fixtures	\$ 202,757	\$ 202,757	7 years
Computer equipment	202,180	171,146	3 years
Office equipment	121,277	121,277	3 years
Land	1,823,000	1,823,000	-
Construction in progress	<u>2,232,467</u>	<u>1,039,948</u>	-
	4,581,168	3,358,128	
Less Accumulated depreciation	<u>451,968</u>	<u>398,880</u>	
Total	<u>\$4,129,713</u>	<u>\$2,959,248</u>	

Depreciation expense for the years ended June 30, 2013 and 2012 was \$53,088 and \$66,952.

7. Management

In May 2005, the School entered into an agreement with Victory Schools, Inc. (VSI) d/b/a Victory Education Partners (VEP) to provide services related to certain education and operational aspects of the School. Victory serves as an advisor regarding functions associated with the educational services to be provided to the students at the School and consults with the School with respect to its legal and operational compliance in accordance with the terms of the charter and the Charter School Act. In providing the above services, VEP was paid a fixed service fee in the amount of \$537,000.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

7. Management (Continued)

The School entered into a service agreement with Victory that expires on June 30, 2015. Service fees for the years ended June 30, 2013 and 2012 were \$537,000 and \$537,000. Victory is entitled to receive the fees on a bi-monthly basis, Any fees not paid within thirty days of its due date bear interest at an annualized rate of 7% per annum on the outstanding past due amount, provided that such past due payments are not as a result of the New York City Public School District's failure to timely remit the district funding to the Charter School, or causes otherwise beyond the control of the Charter School.

Future fee payments for the next two years are as follow:

Fiscal year ending June 30

2014	\$280,000
2015	280,000

8. Loan Payable

Loan payable to Victory Education Partners in the amount of \$1,200,000 bears interest at 5% per annum. The loan requires monthly principal and interest payment of \$12,801, with a final principal payment and interest due in June 2020. An additional payment of \$250,000 was made during the year ended June 30, 2013.

For the year ended June 30, 2013, the loan balance and interest expense was \$651,963 and \$49,148.

Future minimum principal payments for the next five years are as follow:

Fiscal year ending June 30

2014	\$ 109,949
2015	115,718
2016	121,790
2017	117,247
2018 and thereafter	<u>187,259</u>
	<u>\$ 651,963</u>

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

9. Deferred Expense

Deferred expense consists of the following:

	<u>2013</u>
Bond issuance costs	\$691,256
Less: Accumulated amortization	<u>(1,920)</u>
Total	<u>\$ 689,336</u>

10. Notes Payable

First note payable to Bank of America, N.A. bears interest at LIBOR plus 5% per annum. The loan requires a monthly principal payment of \$25,926 plus interest. During June 2013, the note payable balance of \$441,601 was paid off with bonds proceeds.

Second note payable to Nonprofit Finance Fund bears interest at prime rate plus 2% per annum, The loan requires a monthly principal payment and interest of \$9,783, with final principal payment and interest due September 15, 2015. During June 2013, the note payable balance of \$233,776 was paid off with bonds proceeds.

11. Bonds Payable

On June 11, 2013, Build NYC Resource Corporation provided financing through the issuance of \$21,650,000 in Tax-Exempt Revenue Bonds (the "Series 2013A Bonds"), bearing interest at 2.75 to 5% per annum and principal due at maturity on April 15, 2043, and \$620,000 in Taxable Revenue Bonds (the "Series 2013B Bonds"), bearing interest rate at 6% per annum and principal due at maturity on April 15, 2017. For the year ended June 30, 2013, interest expense was \$44,903.

The proceeds of the Series 2013 Bonds are to be used for the following purposes:

- 1) refinancing outstanding commercial notes in the principal amount of \$675,377.
- 2) the acquisition and demolition of an existing land and building.
- 3) the construction a new five-story building ("New Facility"), renovation and equipping of the New Facility.
- 4) paying Series 2013 Bonds issuance costs.
- 5) funding a Debt Service Reserve account.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

11. Bonds Payable (Continued)

Future minimum principal payments for the next five years are as follow:

For year ending April 15,

2014	\$ -
2015	-
2016	405,000
2017	430,000
2018 and after	<u>21,435,000</u>
Total	<u>\$22,270,000</u>

12. Contingency

The School participates in a number of federal and state programs. These programs require that the School comply with certain requirements of 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 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.

13. Concentration of Risk

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues the School's finances could be materially adversely affected.

14. School Facility

As part of the New York City Chancellor's Charter School Initiative, the New York City Department of Education has provided space to the School at no charge. Management evaluated the fair market value rent to be \$623,357 and recorded in-kind contribution revenue and occupancy expense of this amount on the statements of activities.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

15. Food Service

The New York City Department of Education provides free lunches directly to some of the School's students. Such costs are not included in these financial statements. The School covers the unreimbursed cost of lunches for children not entitled to free lunches.

16. Subsequent Events

Management has evaluated subsequent events through October 15, 2013, the date that financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment or disclosure in the accompanying financial statements.

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30,
(With Summarized Comparative Information for the Year Ended June 30, 2012)

	Regular Education	Special Education	Total Programs	Management & General	Total 2013	Total 2012
<u>Personnel Expenses</u>						
Salaries and wages	\$ 1,786,938	\$ 105,860	\$ 1,892,798	\$ 454,544	\$ 2,347,342	\$ 2,325,801
Payroll taxes and fringe benefits	433,378	25,674	459,052	110,239	569,291	467,744
Retirement	41,657	2,468	44,125	10,597	54,722	37,078
Total Personnel Expenses	<u>2,261,973</u>	<u>134,002</u>	<u>2,395,975</u>	<u>575,380</u>	<u>2,971,355</u>	<u>2,830,623</u>
<u>Operating Expenses</u>						
Contracted services						
- financial and administrative	365,160	21,480	386,640	150,360	537,000	537,000
Administrative	25,176	1,491	26,667	6,404	33,071	32,170
Marketing and recruitment	38	2	40	10	50	2,880
Insurance	40,029	2,371	42,400	60,544	102,944	102,063
Legal and professional	77,725	4,604	82,329	36,771	119,100	16,000
Equipment and furnishings	142,136	8,420	150,556	36,155	186,711	58,106
Building and land rent/lease	503,039	29,800	532,839	127,958	660,797	420,558
Repairs	6,232	369	6,601	1,585	8,186	9,250
Staff development	59,271	3,511	62,782	15,077	77,859	46,533
Student service	4,220	250	4,470	1,073	5,543	14,318
Supplies and instructional materials	118,573	7,024	125,597	30,162	155,759	133,697
Food service	123,090	7,292	130,382	31,310	161,692	192,868
Transportation service	81,670	4,838	86,508	20,774	107,282	76,925
Telephone and internet services	35,331	2,093	37,424	8,987	46,411	32,006
Interest expense	91,273	5,407	96,680	23,217	119,897	130,266
Depreciation and amortization	41,854	2,874	44,728	10,280	55,008	66,952
Other expenses	89,354	5,296	94,650	22,729	117,379	95,548
Total Operating Expenses	<u>1,804,171</u>	<u>107,122</u>	<u>1,911,293</u>	<u>583,396</u>	<u>2,494,689</u>	<u>1,967,140</u>
TOTAL EXPENSES	<u>\$ 4,066,144</u>	<u>\$ 241,124</u>	<u>\$ 4,307,268</u>	<u>\$ 1,158,776</u>	<u>\$ 5,466,044</u>	<u>\$ 4,797,763</u>



KOCH GROUP & COMPANY, LLP

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INDEPENDENT AUDITOR'S 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 and the Arts

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 and the Arts, which comprise the balance sheet as of June 30, 2013, and the related statements of income and expense, changes in partner's capital, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 15, 2013.

Internal Control Over Financial Reporting

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

Koch Group & Company, LLP
Certified Public Accountants

New York, New York
October 15, 2013