

SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES AND THE ARTS

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2014
(With Comparative Totals as of June 30, 2013)

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES
AND THE ARTS

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KOCH GROUP & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 Charter School for International Cultures and the Arts as of June 30, 2014, 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.

Report on Summarized Comparative Information

We have previously audited South Bronx Charter School for International Cultures and the Arts' 2013 financial statements, and our report dated October 15, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2014, on our consideration of South Bronx Charter School for International Cultures and the Arts' 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 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 and the Arts' internal control over financial reporting and compliance.

New York, New York
October 30, 2014

Koch Group + Company, LLP
Certified Public Accountants

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2014

(With Comparative Totals as of June 30, 2013)

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,985,261	\$ 2,519,868
Construction cash	7,218,132	17,561,781
Capitalized interest reserve	179,699	371,201
Grants and contracts receivable	346,098	225,045
Prepaid expenses	17,510	36,132
Total Current Assets	10,746,700	20,714,027
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation	16,784,145	4,129,713
OTHER ASSETS		
Debt service escrow	1,486,908	1,486,069
Deferred expenses, net of accumulated amortization	670,631	689,336
Security deposits	19,300	-
Total Assets	\$ 29,707,684	\$ 27,019,145

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 92,245	\$ 67,170
Accrued payroll and benefits	325,161	299,873
Accrued interest payable	134,710	44,903
Construction costs payable	1,882,372	594,005
Loan payable	129,524	109,949
Due to management company	16,309	103,373
Total Current Liabilities	2,580,321	1,219,273
Loan payable, less current portion	399,372	542,014
Bonds payable	22,270,000	22,270,000
Total liabilities	25,249,693	24,031,287
NET ASSETS - UNRESTRICTED	4,457,991	2,987,858
Total Liabilities and Net Assets	\$ 29,707,684	\$ 27,019,145

See notes to financial statements.

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

(With Comparative Totals for the year ended June 30, 2013)

UNRESTRICTED NET ASSETS

	<u>2014</u>	<u>2013</u>
REVENUE, GAINS AND OTHER SUPPORT		
Public School District		
Resident student enrollment	\$ 5,212,061	\$ 5,237,829
Grants and Contracts		
State and local	32,427	33,938
Federal - Title and IDEA	285,291	328,075
Interest and other income	17,062	1,645
Contributions - Foundation/Individual/Corporation	1,597	5,092
Food Service/Child Nutrition Program	125,284	155,551
	<u>5,673,722</u>	<u>5,762,130</u>
Total Public Support and Revenue		
EXPENSES		
Program Expenses		
Regular education	3,202,822	3,591,607
Special education	194,093	213,012
	<u>3,396,915</u>	<u>3,804,619</u>
Supporting Services		
Management and general	806,674	1,038,068
	<u>4,203,589</u>	<u>4,842,687</u>
Total Expenses		
Change in Unrestricted Net Assets	1,470,133	919,443
NET ASSETS		
Beginning of year	<u>2,987,858</u>	<u>2,068,415</u>
End of year	<u>\$ 4,457,991</u>	<u>\$ 2,987,858</u>

See notes to financial statements.

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

(With Comparative Totals for the year ended June 30, 2013)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 1,470,133	\$ 919,443
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	41,543	53,088
Amortization	23,205	1,920
Changes in Assets and Liabilities		
Grants and contracts receivable	(121,053)	(68,692)
Prepaid expenses	18,622	3,765
Security deposits	(19,300)	8,931
Due to management company	(87,064)	100,086
Accrued interest payable	89,807	44,903
Accounts payable	25,075	11,525
Accrued payroll and benefits	25,288	(59,961)
Net cash provided by operating activities	1,466,256	1,015,008
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction cash	10,343,649	(17,932,982)
Restricted cash	-	230,000
Capitalized interest reserve	191,502	-
Debt service escrow	(839)	(1,486,069)
Capitalized assets	(12,695,975)	(1,223,553)
Net cash used in investing activities	(2,161,663)	(20,412,604)
CASH FLOWS FROM FINANCING ACTIVITIES		
Bonds payable	-	22,270,000
Notes payable	-	(1,102,541)
Construction costs payable	1,288,367	594,005
Loan payable	(123,067)	(354,467)
Deferred expenses	(4,500)	(691,256)
Net cash provided by financing activities	1,160,800	20,715,741
NET INCREASE IN CASH AND CASH EQUIVALENTS	465,393	1,318,145
CASH AND CASH EQUIVALENTS		
Beginning of year	2,519,868	1,201,723
End of year	\$ 2,985,261	\$ 2,519,868
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid - expensed	\$ 30,549	\$ 74,657
Interest paid - capitalized	\$ 865,139	\$ -

See notes to financial statements.

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014

(With Comparative Totals for the year ended June 30, 2013)

	Regular Education	Special Education	Total Programs	Management & General	Total 2014	Total 2013
<u>Personnel Expenses</u>						
Salaries and wages	\$ 1,851,233	\$ 112,394	\$ 1,963,627	\$ 394,415	\$ 2,358,042	\$ 2,347,342
Payroll taxes and fringe benefits	341,834	20,754	362,588	72,830	435,418	569,291
Retirement	44,889	2,725	47,614	9,564	57,178	54,722
 Total Personnel Expenses	 <u>2,237,956</u>	 <u>135,873</u>	 <u>2,373,829</u>	 <u>476,809</u>	 <u>2,850,638</u>	 <u>2,971,355</u>
<u>Operating Expenses</u>						
Contracted services						
- financial and administrative	190,400	11,200	201,600	78,400	280,000	537,000
Administrative	26,725	1,623	28,348	5,694	34,042	33,071
Marketing and recruitment	3,672	223	3,895	782	4,677	50
Insurance	40,445	2,456	42,901	53,009	95,910	102,944
Legal and professional	1,178	71	1,249	42,320	43,569	119,100
Equipment and furnishings	65,355	3,968	69,323	13,924	83,247	186,711
Building and land rent/lease	30,771	1,868	32,639	6,556	39,195	37,440
Repairs	9,068	551	9,619	1,932	11,551	8,186
Staff development	82,737	5,023	87,760	17,628	105,388	77,859
Student service	6,889	418	7,307	1,468	8,775	5,543
Supplies and instructional materials	95,466	5,796	101,262	20,339	121,601	155,759
Food service	100,251	6,087	106,338	21,359	127,697	161,692
Transportation service	94,003	5,707	99,710	20,028	119,738	107,282
Telephone and internet services	50,738	3,080	53,818	10,810	64,628	46,411
Interest expense	23,983	1,456	25,439	5,110	30,549	119,897
Depreciation and amortization	50,832	3,086	53,918	10,830	64,748	55,008
Other expenses	92,353	5,607	97,960	19,676	117,636	117,379
 Total Operating Expenses	 <u>964,866</u>	 <u>58,220</u>	 <u>1,023,086</u>	 <u>329,865</u>	 <u>1,352,951</u>	 <u>1,871,332</u>
 TOTAL EXPENSES	 <u>\$ 3,202,822</u>	 <u>\$ 194,093</u>	 <u>\$ 3,396,915</u>	 <u>\$ 806,674</u>	 <u>\$ 4,203,589</u>	 <u>\$ 4,842,687</u>

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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’s charter was renewed in 2013 for an additional five years. The school provides scientifically research-proven standards-based educational programs, with an emphasis on international cultures, the arts, and mastery of a second language.

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 grantor 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, 2014.
- iii) Permanently restricted net assets – Net assets subject to grantor 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, 2014.

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, 2014

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

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

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

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.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

2. Summary of Significant Accounting Policies (Continued)

g) Property and Equipment (Continued)

All applicable direct and indirect costs are capitalized as property costs during the construction period. No provision for depreciation is made on construction in progress until the assets are placed in service. Costs incurred after the property is substantially complete and ready for its intended use will be charged to operations.

h) Revenue Recognition

Revenue from the state and local government resulting from its charter school 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).

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 2011, 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.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

2. Summary of Significant Accounting Policies (Continued)

k) Comparative Financial Information

The June 30, 2014 financial statements include certain prior year summarized comparative information in total but not by net asset class. In addition, only certain of the notes to the financial statements for June 30, 2013 are presented. As a result, the June 30, 2013 comparative information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such June 30, 2013 information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

l) Deferred Expense

Closing costs are amortized on the straight-line method over the life of the related bonds as indicated in note 7.

3. Retirement Plan

The School offers a 401(k) plan for all 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 \$57,178 and \$54,722 for the years ended June 30, 2014 and 2013. 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.

4. Accrued Payroll and Benefits

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

5. Reclassifications

Certain accounts relating to the prior year have been reclassified to conform to the current year's presentation. These reclassifications have no effect on changes in unrestricted net assets as previously reported.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

6. Property and Equipment

At June 30, 2014 and 2013, property and equipment consisted of the following:

	<u>2014</u>	<u>2013</u>	Estimated Useful <u>Life</u>
Furniture and fixtures	\$ 207,502	\$ 202,757	7 years
Computer equipment	234,266	202,180	3 years
Office equipment	93,790	121,277	3 years
Construction in progress	14,882,610	2,232,467	
Land	<u>1,823,000</u>	<u>1,823,000</u>	
	17,241,168	4,581,681	
Less Accumulated depreciation	<u>457,023</u>	<u>451,968</u>	
Total	<u>\$16,784,145</u>	<u>\$4,129,713</u>	

Depreciation expense for the years ended June 30, 2014 and 2013 was \$41,543 and \$53,088.

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.

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 7% per annum, 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. For the year ended June 30, 2014 and 2013 the service fee was \$280,000 and \$537,000.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014, the loan balance and interest expense was \$528,896 and \$30,549.

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

Year ended June 30,

2015	\$ 129,524
2016	136,320
2017	143,473
2018 and thereafter	<u>119,579</u>
	<u>\$ 528,896</u>

9. Deferred Expense

Deferred expense consists of the following:

	<u>2014</u>	<u>2013</u>	<u>Amortization Period</u>
Bond issuance costs	\$695,756	\$691,256	30 years
Less: Accumulated amortization	<u>(25,125)</u>	<u>(1,920)</u>	
Total	<u>\$670,631</u>	<u>\$689,336</u>	

10. 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 with principal due at varying amounts annually through maturity on April 15, 2043, and \$620,000 in Taxable Revenue Bonds (the "Series 2013B Bonds"), bearing interest rate at 6% per annum with principal due at varying amounts annually through maturity on April 15, 2017. The proceeds of the bonds were used to purchase and construct a five-story building, at 164-166 Bruckner Boulevard, Bronx NY 10454, to be used as classroom, cafeteria, kitchen, art, music room and administrative space.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

10. Bonds Payable (Continued)

For the year ended June 30, 2014, interest incurred of \$999,849 was capitalized.

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

Year ended June 30,

2015	\$ -
2016	405,000
2017	430,000
2018	450,000
2019	465,000
2020 and after	<u>20,520,000</u>
Total	<u>\$22,270,000</u>

11. Debt Service Escrow

The bond indenture agreements provide for the creation of debt service escrows. The balance being held by the trustee at June 30, 2014 was \$1,486,908.

12. Capitalized Interest Reserve

Capitalized interest reserve funded by bond proceeds in the original amount of \$371,201 to pay interest during construction. At June 30, 2014, the balance in the account was \$179,699.

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

The School shares space with a New York City public school. The School is not responsible for rent, custodial services, and maintenance and school safety services other than the security needed after public school hours.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

15. 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.

16. 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.

17. Construction Contract

The School entered into a Construction Contract Agreement in the amount of \$14,317,447, including changes orders, to construct a school facility. At June 30, 2014, \$11,539,423 of costs has been incurred.

18. Subsequent Events

Management has evaluated subsequent events through October 30, 2014, 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.



KOCH GROUP & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2014, 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 30, 2014.

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' 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' 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' 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 30, 2014