

SOUTH BRONX CHARTER SCHOOL FOR
INTERNATIONAL CULTURES AND THE ARTS

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2015
(With Comparative Totals as of June 30, 2014)

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, 2015, 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, 2015, 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' 2014 financial statements, and our report dated October 30, 2014, 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, 2014, 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 28, 2015 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 28, 2015

Koch Group + Company, LLP
Certified Public Accountants

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

(With Comparative Totals as of June 30, 2014)

ASSETS	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,165,881	\$ 2,985,261
Construction cash	335,350	7,218,132
Grants and contracts receivable	284,252	346,098
Prepaid expenses	2,580	17,510
Total Current Assets	3,788,063	10,567,001
PROPERTY AND EQUIPMENT,		
at cost, less accumulated depreciation	21,294,358	16,784,145
OTHER ASSETS		
Debt service escrow	1,488,047	1,486,908
Capitalized interest reserve	247,401	179,699
Deferred expenses, net of accumulated amortization	647,440	670,631
Security deposits	28,830	19,300
Total Assets	\$ 27,494,139	\$ 29,707,684
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Bond payable - current portion	\$ 405,000	\$ -
Accounts payable	105,928	108,554
Accrued payroll and benefits	285,486	325,161
Accrued interest payable	134,713	134,710
Construction costs payable	113,634	1,882,372
Loan payable	-	129,524
Total Current Liabilities	1,044,761	2,580,321
Loan payable	-	399,372
Bonds payable, less current portion	21,865,000	22,270,000
Total liabilities	22,909,761	25,249,693
NET ASSETS - UNRESTRICTED		
Total Liabilities and Net Assets	\$ 27,494,139	\$ 29,707,684

See notes to financial statements.

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

(With Comparative Totals for the year ended June 30, 2014)

UNRESTRICTED NET ASSETS

	2015	2014
REVENUE, GAINS AND OTHER SUPPORT		
Public School District		
Resident student enrollment	\$ 5,873,259	\$ 5,212,061
Grants and Contracts		
State and local	158,766	32,427
Federal - Title and IDEA	269,965	285,291
Interest and other income	6,812	17,062
Contributions - Foundation/Individual/Corporation	10,341	1,597
Food Service/Child Nutrition Program	330,694	125,284
Total Public Support and Revenue	6,649,837	5,673,722
EXPENSES		
Program Expenses		
Regular education	4,640,350	3,202,822
Special education	397,215	194,093
Food service	422,410	-
	5,459,975	3,396,915
Supporting Services		
Management and general	1,063,475	806,674
Total Expenses	6,523,450	4,203,589
Change in Unrestricted Net Assets	126,387	1,470,133
NET ASSETS		
Beginning of year	4,457,991	2,987,858
End of year	\$4,584,378	\$4,457,991

See notes to financial statements.

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2015

(With Comparative Totals for the year ended June 30, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Net Assets	\$ 126,387	\$ 1,470,133
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Depreciation	605,081	41,543
Amortization	23,191	23,205
Changes in Assets and Liabilities		
Grants and contracts receivable	61,846	(121,053)
Prepaid expenses	14,930	18,622
Security deposits	(9,530)	(19,300)
Accrued interest payable	3	89,807
Accounts payable	(2,626)	(61,989)
Accrued payroll and benefits	(39,675)	25,288
Net cash provided by operating activities	779,607	1,466,256
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction cash	6,882,782	10,343,649
Capitalized interest reserve	(67,702)	191,502
Debt service escrow	(1,139)	(839)
Capitalized assets	(5,115,294)	(12,695,975)
Net cash provided by (used in) investing activities	1,698,647	(2,161,663)
CASH FLOWS FROM FINANCING ACTIVITIES		
Construction costs payable	(1,768,738)	1,288,367
Loan payable	(528,896)	(123,067)
Deferred expenses	-	(4,500)
Net cash provided by (used in) financing activities	(2,297,634)	1,160,800
NET INCREASE IN CASH AND CASH EQUIVALENTS	180,620	465,393
CASH AND CASH EQUIVALENTS		
Beginning of year	2,985,261	2,519,868
End of year	\$ 3,165,881	\$ 2,985,261
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid - expensed	\$1,100,023	\$ 30,549

See notes to financial statements.

SOUTH BRONX CHARTER SCHOOL FOR INTERNATIONAL CULTURES AND THE ARTS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2015
(With Comparative Totals for the year ended June 30, 2014)

	Regular Education	Special Education	Food Service	Total Programs	Management & General	Total 2015	Total 2014
Personnel Expenses							
Salaries and wages	\$ 1,844,852	\$ 112,236	\$ 200,023	\$ 2,157,111	\$ 423,010	\$ 2,580,121	\$ 2,358,042
Payroll taxes and fringe benefits	319,939	19,464	-	339,403	108,048	447,451	435,418
Retirement	48,696	2,963	-	51,659	16,446	68,105	57,178
Total Personnel Expenses	2,213,487	134,663	200,023	2,548,173	547,504	3,095,677	2,850,638
Operating Expenses							
Contracted services							
- financial and administrative	196,112	11,536	4,038	211,686	76,714	288,400	280,000
Administrative	10,208	621	172	11,001	3,276	14,277	34,042
Marketing and recruitment	8,493	517	143	9,153	2,725	11,878	4,677
Insurance	105,261	14,657	666	120,584	12,658	133,242	95,910
Legal and professional	-	-	3,529	3,529	67,047	70,576	43,569
Equipment and furnishings	69,743	4,243	1,178	75,164	22,375	97,539	83,247
Building and land rent/lease	6,880	419	116	7,415	2,208	9,623	34,195
Repairs and maintenance	25,987	1,581	439	28,007	8,337	36,344	6,468
Building security	31,619	1,924	534	34,077	10,144	44,221	-
Supplies	40,178	2,444	678	43,300	12,891	56,191	5,083
Staff development	71,609	4,356	1,209	77,174	22,974	100,148	105,388
Student services	7,158	436	-	7,594	-	7,594	8,775
Supplies and instructional materials	54,678	3,326	923	58,927	17,543	76,470	121,601
Food service	-	-	195,231	195,231	-	195,231	127,697
Transportation service	144,048	8,764	-	152,812	-	152,812	119,738
Telephone and internet services	45,662	2,778	771	49,211	14,650	63,861	64,628
Utilities	153,181	9,319	2,587	165,087	49,144	214,231	5,000
Interest expense	869,018	121,003	5,500	995,521	104,502	1,100,023	30,549
Other expenses	90,693	5,518	1,531	97,742	29,097	126,839	117,636
Depreciation and amortization	496,335	69,110	3,141	568,586	59,687	628,273	64,748
Total Operating Expenses	2,426,863	262,552	222,387	2,911,802	515,971	3,427,773	1,352,951
TOTAL EXPENSES	\$ 4,640,350	\$ 397,215	\$ 422,410	\$ 5,459,975	\$ 1,063,475	\$ 6,523,450	\$ 4,203,589

See independent auditor's report.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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, 2015.
- 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, 2015.

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, 2015

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 \$1,000. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 7 years for equipment, furniture and fixtures, and 39 years for the building.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

2. Summary of Significant Accounting Policies (Continued)

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, 2015

2. Summary of Significant Accounting Policies (Continued)

k) Comparative Financial Information

The June 30, 2015 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, 2014 are presented. As a result, the June 30, 2014 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, 2014 information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

l) Deferred Expenses

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

m) Donated Services

The School receives donated services from unpaid volunteers. No amounts have been recognized in the statement of activities since the services do not meet the specialized skill criteria for recognition under generally accepted accounting principles.

3. 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.

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.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

5. 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 \$68,105 and \$57,178 for the years ended June 30, 2015 and 2014. 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.

6. Property and Equipment

At June 30, 2015 and 2014, property and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>	Estimated Useful Life
Furniture and fixtures	\$ 858,096	\$ 207,502	7 years
Computer equipment	1,611,759	234,266	3 years
Office equipment	115,999	93,790	3 years
Building	17,947,608	-	39 years
Construction in progress	-	14,882,610	
Land	<u>1,823,000</u>	<u>1,823,000</u>	
	22,356,462	17,241,168	
Less Accumulated depreciation	<u>1,062,104</u>	<u>457,023</u>	
Total	<u>\$21,294,358</u>	<u>\$16,784,145</u>	

Depreciation expense for the years ended June 30, 2015 and 2014 was \$605,081 and \$41,543.

7. 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. In June 2015, the School paid the entire loan balance.

For the year ended June 30, 2015, interest expense on the loan was \$22,339.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

8. Deferred Expense

Deferred expense consists of the following:

	<u>2015</u>	<u>2014</u>	<u>Amortization</u> <u>Period</u>
Bond issuance costs	\$695,756	\$695,756	30 years
Less: Accumulated amortization	<u>(48,316)</u>	<u>(25,125)</u>	
Total	<u>\$647,440</u>	<u>\$670,631</u>	

9. Bonds Payable

On June 11, 2013, Build NYC Resource Corporation provided construction and permanent 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 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.

For the year ended June 30, 2015, interest expense was \$1,077,684.

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

Year ended June 30,

2016	\$	405,000
2017		430,000
2018		450,000
2019		465,000
2020		480,000
2021 and after		<u>20,040,000</u>
Total		<u>\$22,270,000</u>

a) Debt Service Escrow

The bond indenture agreements provide for the creation of a debt service escrow which funded by bond proceeds. The balance being held by the trustee at June 30, 2015 was \$1,488,047.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

9. Bonds Payable (Continued)

b) Capitalized Interest Reserve

A capitalized interest reserve was funded by bond proceeds in the original amount of \$371,201 to pay interest during construction. At June 30, 2015, the balance in the account was \$247,401.

c) Debt Service Coverage Ratio

Pursuant to the loan agreement, The School is required to maintain ongoing debt service coverage ratio greater than 1.0.

10. 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.

11. School Facility

Prior to the construction of the new facility, The School shared space with a New York City public school. The School was not responsible for rent, custodial services, and maintenance and school safety services other than the security needed after public school hours.

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.

SOUTH BRONX CHARTER SCHOOL
FOR INTERNATIONAL CULTURES AND THE ARTS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

13. Construction Contract

The School entered into a Construction Contract Agreement in the amount of \$14,680,437, including changes orders, to construct a school facility. At June 30, 2015, the construction was completed.

14. Subsequent Events

Management has evaluated subsequent events through October 28, 2015, 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

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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, 2015, 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 28, 2015.

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' 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 28, 2015