

**BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)**

FINANCIAL STATEMENTS

JUNE 30, 2023

**(WITH COMPARATIVE TOTALS AS OF AND
FOR THE YEAR ENDED JUNE 30, 2022)**

BRAZO DE ORO CHILDREN’S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
FINANCIAL STATEMENTS
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF AND
FOR THE YEAR ENDED JUNE 30, 2022)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Brazo De Oro Children's Foundation
Philadelphia, Pennsylvania

Opinion

We have audited the accompanying financial statements of **BRAZO DE ORO CHILDREN'S FOUNDATION** (a nonprofit organization and a component unit of Mariana Bracetti Academy Charter School), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **BRAZO DE ORO CHILDREN'S FOUNDATION** as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **BRAZO DE ORO CHILDREN'S FOUNDATION** and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2023, **BRAZO DE ORO CHILDREN'S FOUNDATION** adopted the provisions of FASB ASU 2016-02, "Leases (ASC Topic 842)." Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **BRAZO DE ORO CHILDREN'S FOUNDATION's** ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 **BRAZO DE ORO CHILDREN'S FOUNDATION'S** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **BRAZO DE ORO CHILDREN'S FOUNDATION'S** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited **BRAZO DE ORO CHILDREN'S FOUNDATION'S** June 30, 2022 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 14, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Haefele, Flanagan & Co., p.c.

Maple Shade, New Jersey
December 19, 2023

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023
(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2022)

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,487,961	\$ 223,345
Restricted cash equivalents	3,327,580	7,191,025
Prepaid expenses	37,758	18,879
Total current assets	5,853,299	7,433,249
Property and equipment, net of accumulated depreciation	37,924,280	33,891,208
Other assets		
Deferred rent	1,612,814	1,517,928
Total other assets	1,612,814	1,517,928
Total assets	\$ 45,390,393	\$ 42,842,385
LIABILITIES AND NET DEFICIT		
Current liabilities		
Accounts payable and accrued expenses	\$ 925,394	\$ 1,465,358
Accrued interest	88,313	88,824
Bonds payable, current portion	655,000	625,000
Total current liabilities	1,668,707	2,179,182
Other liabilities		
Due to related parties	1,593,985	1,678,668
Prepaid rent	8,105,556	4,416,667
Bonds payable, net of current portion	36,224,438	36,723,491
Total other liabilities	45,923,979	42,818,826
Total liabilities	47,592,686	44,998,008
Net deficit		
Without donor restrictions	(2,202,293)	(2,155,623)
Total liabilities and net deficit	\$ 45,390,393	\$ 42,842,385

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

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	<u>2023</u>	<u>2022</u>
Revenues		
Rental income	\$ 3,208,917	\$ 3,037,969
Investment and other income	<u>231,658</u>	<u>3,260</u>
Total revenues	<u>3,440,575</u>	<u>3,041,229</u>
Expenses		
Program services	3,452,789	3,537,811
Management and general	<u>34,456</u>	<u>44,201</u>
Total expenses	<u>3,487,245</u>	<u>3,582,012</u>
Change in net deficit without donor restrictions	(46,670)	(540,783)
Net deficit without donor restrictions, beginning of year	<u>(2,155,623)</u>	<u>(1,614,840)</u>
Net deficit without donor restrictions, end of year	<u><u>\$ (2,202,293)</u></u>	<u><u>\$ (2,155,623)</u></u>

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

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	2023			2022
	Program Services	Management and General	Total	Total
Bank charges	\$ -0-	\$ 58	\$ 58	\$ 5,088
Depreciation	1,036,055	-0-	1,036,055	989,807
Insurance	126,564	-0-	126,564	131,382
Interest expense	2,290,170	-0-	2,290,170	2,416,622
Management fees	-0-	23,552	23,552	22,867
Professional fees	-0-	10,631	10,631	16,246
Supplies	-0-	215	215	-0-
Total expenses	\$ 3,452,789	\$ 34,456	\$ 3,487,245	\$ 3,582,012

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	2023	2022
Cash flows from operating activities		
Change in net deficit without donor restrictions	\$ (46,670)	\$ (540,783)
Adjustments to reconcile change in net deficit without donor restrictions to net cash provided by operating activities		
Depreciation	1,036,055	989,807
Amortization of bond issuance costs	16,543	16,543
Amortization of underwriter's discount	21,167	21,166
Amortization of deferred loss on bond refund	118,237	118,237
(Increase) in operating assets:		
Deferred rent	(94,886)	(155,140)
Prepaid expenses	(18,879)	(16,973)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(539,964)	1,117,666
Accrued interest	(511)	(21,304)
Prepaid rent	(311,111)	(83,333)
Net cash provided by operating activities	179,981	1,445,886
Cash used in investing activities		
Capital expenditures	(5,069,127)	(8,532,359)
Cash flows from financing activities		
Repayment of bonds payable	(625,000)	(240,000)
Due to related parties	(84,683)	(84,683)
Advance of prepaid rent	4,000,000	1,500,000
Net cash provided by financing activities	3,290,317	1,175,317
Net decrease in cash and restricted cash equivalents	(1,598,829)	(5,911,156)
Cash, cash equivalents, and restricted cash equivalents, beginning of year	7,414,370	13,325,526
Cash, cash equivalents, and restricted cash equivalents, end of year	\$ 5,815,541	\$ 7,414,370
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest during the year	\$ 2,134,734	\$ 2,281,980
Reconciliation of cash, cash equivalents, and restricted cash equivalents as presented above to the Statement of Financial Position		
Cash and cash equivalents	\$ 2,487,961	\$ 223,345
Restricted cash equivalents	3,327,580	7,191,025
	\$ 5,815,541	\$ 7,414,370

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

BRAZO DE ORO CHILDREN’S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Note 1 – Nature of Activities

Brazo De Oro Children’s Foundation (the “Foundation”) operates as a nonprofit corporation established under the laws of the Commonwealth of Pennsylvania. The Foundation is considered to be a component unit of Mariana Bracetti Academy Charter School (the “School”), an exempt organization under Section 501(c)(3) of the Internal Revenue Code, that operates a public charter school for children in grades kindergarten through 12. As a component unit, the Foundation, although a legally separate entity, is in substance part of the School’s operations. The Foundation was organized to provide one or more public educational school facilities, including land, buildings and improvements, and other property and equipment for the benefit of the School.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Foundation have been prepared using the accrual basis of accounting, which reflects all significant receivables, payables, and other liabilities. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Subtopic 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC Subtopic 958-205, to ensure the observance of limitations and restrictions placed on the use of resources available to the Foundation, its net assets and revenues have been reported according to the following 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 Foundation. These net assets may be used at the discretion of the Foundation’s management and the board of directors.

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 Foundation or by the passage of time. At June 30, 2023, there were no net assets with donor restrictions.

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 Statement of Activities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although management believes the estimates that have been used are reasonable, actual results could vary from the estimates that were used.

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Note 2 – Summary of Significant Accounting Policies (continued)

Prior Year Summarized Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

Cash, Cash Equivalents, and Restricted Cash Equivalents

For the purpose of the Statement of Cash Flows, the Foundation considers all demand deposits at financial institutions and highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Restricted cash equivalents on the Statement of Financial Position include restricted government obligation money market funds held with a restriction that limits usage pursuant to the bond issuance agreement.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful life of the assets. The estimated useful lives of assets for financial reporting purposes are 15 to 30 years. When items of property or equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income. At June 30, 2023, \$14,591,742 of construction work on the gymnasium and dining hall project is presented within property and equipment, has not been placed in service, and is classified as construction in progress.

Long-lived Assets

The Foundation reviews the carrying value of its property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. Based on these reviews, there were no adjustments to the carrying value of long-lived assets for the year ended June 30, 2023.

Bond Issuance Costs

Bond issuance costs incurred by the Foundation in connection with issuance of revenue bonds, discussed in Note 7 to the financial statements, are amortized over the 30 year life of the bonds using the straight-line method. The unamortized balance is reported as a direct reduction of the obligation to which such costs relate.

During the year ended June 30, 2021, the Foundation refinanced its bonds payable and as part of the transaction, incurred \$496,292 of bond issuance costs. Bond issuance costs in the net amount of \$281,352 incurred as part of previous bonds payable agreement that was refinanced and previously amortized over the life of that agreement, were reclassified to a deferred loss on bond refund amount that offsets the total amount of the bonds payable and is amortized over the 30 year life of the bonds.

BRAZO DE ORO CHILDREN’S FOUNDATION
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Note 2 – Summary of Significant Accounting Policies (continued)

Bond Issuance Costs (continued)

Amortization of bond issuance costs, included in interest expense, for the year ended June 30, 2023, was \$16,543. Accumulated amortization of bond issuance costs at June 30, 2023, was \$49,629.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and support services benefited. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Certain categories of expenses are attributable to more than one program or supporting function, but are charged directly to that function as their usage is directly identifiable.

Income Taxes

The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC” or the “Code”), and classified by the Internal Revenue Service (“IRS”) as other than a private foundation. The Commonwealth of Pennsylvania also recognizes the Foundation as tax-exempt. The Foundation follows the accounting guidance for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest, penalties, and disclosures required. The Foundation believes that it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Foundation’s Federal Exempt Organization Business Income Tax returns (Form 990) for 2022, 2021, and 2020 are subject to examination by the IRS, generally for three years after they were filed.

Recently Adopted Accounting Pronouncement

Leases

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, “Leases (ASC Topic 842),” which increases lease transparency and comparability among organizations and codifies the lease guidance under ASC Topic 842. Under the new standard, lessees are required to recognize a right-of-use (“ROU”) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, with the exception of leases with a term of 12 months or less, which permits a lessee to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities. Lessor adoption of the new standard is expected to have significantly less impact and is mainly centered around contract definition and disclosures. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021.

BRAZO DE ORO CHILDREN’S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Note 2 – Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Pronouncement (continued)

Leases (continued)

The Foundation adopted the new leasing standard on the required effective date of July 1, 2022, using the alternative transition method. Under the alternative transition method, the requirement to restate prior period financial statements is eliminated and the cumulative effect of the retrospective allocation is recorded as an adjustment to the opening balance of net assets without donor restrictions at the date of adoption. Results for reporting periods beginning on July 1, 2022 are presented under ASC Topic 842, while prior period amounts continue to be reported and disclosed in accordance with the historical accounting treatment under ASC Topic 840, “Leases (ASC Topic 840).”

The Foundation elected to apply the package of practical expedients permitted under the ASC Topic 842 transition guidance. Accordingly, the Foundation did not reassess whether any expired or expiring contracts contain leases, lease classification between finance and operating leases, and the recognition of initial direct costs of leases commencing before the effective date. The Foundation also applied the practical expedient to not separate lease and non-lease components to existing leases, as well as new leases through transition. However, the Foundation did not elect the hindsight practical expedient to determine the lease term for existing leases. As a result of the Foundation’s adoption procedures, since the Foundation is a lessor with one operating lease contract, the Foundation has determined that the new guidance did not have a material impact on the Statement of Financial Position as of June 30, 2023, or the Statement of Activities and the Statement of Cash Flows for the year then ended. The effects of the transition to ASC Topic 842 resulted in no cumulative adjustment to net assets without donor restrictions in the period of adoption.

Note 3 – Concentration of Credit Risk

The Foundation maintains cash and cash equivalents at various financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to \$250,000 per depositor. At June 30, 2023, the Foundation had \$2,237,961 in excess of FDIC insured limits. Restricted cash equivalent amounts are invested in government obligation money market funds and are not insured nor guaranteed by the FDIC. The Foundation has not experienced any losses in these accounts.

Note 4 – Restricted Cash Equivalents

The Foundation maintains various escrow deposit accounts required pursuant to the bond issuance agreement. Amounts maintained in the accounts include highly liquid investments in government obligation money market accounts with an initial maturity of three months or less at a financial institution. These restricted balances are limited in use and are reported as restricted cash equivalents because the Foundation holds those funds for the specific purposes as discussed below.

Revenue Funds

The Revenue Fund escrow was set up to directly receive the portion of the School’s monthly lease payments, paid by the School through the School District of Philadelphia, which are used to fund the escrow accounts pursuant to the bond settlement agreement. The receipts are transferred from this account to the other funds as detailed under each respective fund’s description.

BRAZO DE ORO CHILDREN’S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Note 4 – Restricted Cash Equivalents (continued)

Bond Principal and Bond Interest Funds

The Bond Principal Fund and Bond Interest Fund (collectively, the “Debt Service Fund”) Escrows are used for the payment of the principal and premium, if any, and interest on the bonds as due. The funds were established for the sole purpose of payments of interest and principal on the bonds. Also, retained in these funds are the interest or other income received on investment of monies in the funds. Any additional funds needed will first be drawn from the Debt Service Reserve Fund and paid in the order of maturity, interest due first including interest on overdue principal, and then principal. Amounts remaining in the fund after all requirements are met will be paid to the borrower upon expiration of the agreement.

Debt Service Reserve Fund

The Debt Service Reserve Fund escrow account was funded from the Series 2020A and Series 2020B Bonds and is to be used in the event that the monies in the Debt Service Fund are insufficient to make the necessary principal and interest bond payments on the Series 2020 Bonds. Investment obligations within the Debt Service Reserve Fund are valued semi-annually in June and December based on their market value. If the value of the Debt Service Reserve Fund is greater than the Debt Service Reserve Fund Requirement (the lesser of either 10% of the sale proceeds of any additional Bonds, 125% of the average annual debt service on any additional Bonds, or the maximum annual debt service on any additional bonds), such excess is to be transferred to the Bond Interest Fund and applied to the payment of interest on the Series 2020A and Series 2020B Bonds. If the value of the Debt Service Reserve Fund is less than the minimum requirement as determined by the trustee, the escrow trustee will notify the Foundation of its obligation to fund the deficiency.

Project Fund

The Project Fund escrow account was funded from the Series 2020A and Series 2020B Bonds and is to be used for specific requisition requests that are approved by the Philadelphia Authority for Industrial Development for the School’s Gymnasium Project. During the year ended June 30, 2023, the Foundation, with approval of the Philadelphia Authority for Industrial Development, withdrew approximately \$4,169,000 from the escrow account to fund various improvements on the building owned by the Foundation and used by the School.

Repair and Replacement Fund

One Repair and Replacement Fund Escrow account is required for the Series 2020A and Series 2020B Bonds. The Foundation is required to deposit \$5,000 monthly into this fund commencing in June 2023 until such time that the Repair and Replacement Fund requirement of \$300,000 has been satisfied for the fund. The funds in this escrow are to be used in association with costs of improvements to the School facility, repairs, or replacement parts of the school facility, and to purchase equipment needed for the School.

Rebate Fund

Amounts on deposit in the Rebate Fund under the agreement will be applied to make rebate payments, if necessary, to the United States government, and are not available to make payments on the debt service for the Series 2020A and Series 2020B Bonds. At June 30, 2023, there were no amounts held in this escrow account.

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Note 4 – Restricted Cash Equivalents (continued)

A summary of the principal escrow accounts held by the Foundation, comprised of money market accounts, at June 30, 2023 is as follows:

Bond Principal Fund	\$ 331,145
Bond Interest Fund	94,590
Debt Service Reserve Fund	2,780,143
Project Fund	991
Repair and Replacement Fund	5,000
Revenue Fund	<u>115,711</u>
	<u>\$ 3,327,580</u>

Note 5 – Availability and Liquidity

The following represents the Foundation's financial assets at June 30, 2023:

Financial assets at year end:	
Cash and cash equivalents	\$ 2,487,961
Restricted cash equivalents	<u>3,327,580</u>
	5,815,541
 Net assets with donor restrictions	 -0-
 Less restricted cash equivalents not available to meet general expenditures	 <u>(3,327,580)</u>
 Financial assets available to meet general expenditures over the next twelve months	 <u>\$ 2,487,961</u>

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while striving to maximize the investment of its available funds. The Foundation typically maintains its financial assets in cash accounts or short-term investments, such as money market accounts, with a goal of having funds available when needed. The Foundation is obligated per the bond agreement, to maintain funds in the restricted cash equivalent accounts and while these are liquid money market accounts, the Foundation is only able to use these funds for specified purposes. See Note 4 to the financial statements for further discussion.

In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

BRAZO DE ORO CHILDREN’S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Note 6 – Property and Equipment

Property and equipment at June 30, 2023 consists of the following:

Land		\$ 344,068
Building and improvements		31,081,657
Construction in progress		<u>14,591,742</u>
		46,017,467
Less: accumulated depreciation		<u>(8,093,187)</u>
		<u>\$ 37,924,280</u>

Depreciation expense for the year ended June 30, 2023 was \$1,036,055.

Note 7 – Bonds Payable

On July 7, 2020, the Foundation borrowed \$17,000,000 of Series 2020A Bonds and \$25,000,000 of Series 2020B Bonds as a repayment and refinance of the prior borrowed Series 2011 Bonds and for construction and improvements to the School. The total amount of the bond proceeds is allocated to the Foundation. The loan is payable in annual installments of principal and interest, which correspond to the repayment or redemption of the bonds that were issued on behalf of the Foundation by the Philadelphia Authority for Industrial Development. The bonds are secured by substantially all of the assets of the Foundation, as well as a security interest in the lease with the School. The bonds were issued with various maturities, interest rates, and principal amounts as follows: \$12,455,000, which matures on December 15, 2035, with interest at 4.875%, \$12,545,000, which matures on December 15, 2044, with interest at 5.125%, and \$17,000,000, which matures on June 15, 2050, with interest at 5.375%. The bonds call for interest only payments at June 15th and payments of principal and interest at December 15th of each year.

The bonds require the Foundation to comply with nonfinancial covenants and the School to comply with financial covenants.

The Series 2020A and Series 2020B Bonds were issued with an underwriter’s discount of \$635,000. This amount represents the difference between the par amount of the bonds and the aggregate principal amount. Amortization of the underwriter’s discount, included as additional interest expense, was \$21,167 during the year ended June 30, 2023. Accumulated amortization of the underwriter’s discount was \$63,500 at June 30, 2023.

A deferred loss on bond refund is included as a reduction in the bonds payable amount presented on the Statement of Financial Position. Components of the deferred loss on bond refund include amounts resulting from the refinance of the Series 2011 Bonds: \$281,352 of remaining net bond issuance costs on the Series 2011 Bonds, \$490,159 of the remaining unamortized original issue discount on the Series 2011 Bonds, \$317,497 of the remaining unamortized underwriter’s discount on the Series 2011 Bonds, and \$2,458,102 in scheduled interest payments in connection with repayment of the Series 2011 Bonds. Amortization of the deferred loss on bond refund, included as additional interest expense, was \$118,237 during the year ended June 30, 2023. Accumulated amortization of the deferred loss on bond refund was \$354,711 at June 30, 2023.

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

Note 7 – Bonds Payable (continued)

The balance of bonds payable at June 30, 2023 was as follows:

Total bonds payable	\$ 41,090,000
Less: current portion of bonds payable	<u>(655,000)</u>
Bonds payable, less current portion	40,435,000
Less: unamortized bond issuance costs	(446,663)
Less: underwriter's discount	(571,500)
Less: deferred loss on bond refund	<u>(3,192,399)</u>
Bonds payable, net	<u>\$ 36,224,438</u>

Future principal and interest payments of bonds payable are as follows:

Years ending June 30,	Principal	Interest	Total
2024 (current)	\$ 655,000	\$ 2,103,534	\$ 2,758,534
2025	690,000	2,070,750	2,760,750
2026	720,000	2,036,381	2,756,381
2027	760,000	2,000,306	2,760,306
2028	795,000	1,962,403	2,757,403
2029-2033	4,595,000	9,176,316	13,771,316
2034-2038	5,830,000	7,905,688	13,735,688
2039-2043	7,465,000	6,224,253	13,689,253
2044-2048	9,595,000	4,020,659	13,615,659
2049-2050	<u>9,985,000</u>	<u>974,623</u>	<u>10,959,623</u>
	<u>\$ 41,090,000</u>	<u>\$ 38,474,913</u>	<u>\$ 79,564,913</u>

Note 8 – Net Deficit

There were no net assets with donor restrictions at June 30, 2023.

Net deficit without donor restrictions was as follows at June 30, 2023:

Investment in property and equipment, net of related debt	\$ 1,044,842
Board designated restricted escrow deposits	3,327,580
Undesignated	<u>(6,574,715)</u>
Total net deficit without donor restrictions	<u>\$ (2,202,293)</u>

Note 9 – Support and Revenue

The Foundation receives substantially all of its revenue from rental income which is available for use in general operations.

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Note 10 – Related Party Transactions

Facility Leasing Arrangement

On July 7, 2020, the Foundation entered into a long-term operating lease agreement with the School, expiring June 15, 2050. Actual base rent paid for the year ended June 30, 2023 under the current agreement was \$2,718,237. This includes a downward adjustment due to increased interest income earned on bond escrows. Rental income is recognized on the straight-line basis over the term of the lease. Total rental income for the year ended June 30, 2023 of \$3,208,917 also includes \$168,017 of amortization revenue related to prepaid rent, and deferred rent totaling \$94,886 (see “Deferred Rent” section below).

The lease agreement includes a provision that minimum rentals may be increased as needed based on the debt service requirement of the Foundation, which are typically in excess of the minimum rental amounts. All costs of operating the facilities are borne by the School.

Future minimum rentals are as follows:

<u>Years ending June 30,</u>	
2024	\$ 2,776,034
2025	2,775,750
2026	2,776,381
2027	2,777,806
2028	2,777,403
Thereafter	<u>65,209,181</u>
	<u>\$ 79,092,555</u>

Deferred Rent

Deferred rent is calculated based on the excess or deficiency of the straight-line rental payments compared to the actual payments made. At June 30, 2023, the accumulated excess of straight line rental payments above actual rent payments per the lease agreement was \$132,735. Deferred rent also includes deferred amounts under the prior agreement that are amortized over the term of the updated agreement. At June 30, 2023, total deferred rent was \$1,612,814. Amortization of deferred rent, included within rental income on the Statement of Activities, was \$94,886 for the year ended June 30, 2023.

Due to Related Party

As part of the prior lease, the School prepaid additional rent of \$2,163,822 in the year ended June 30, 2015. Upon prepayment, the amount was amortized over the remainder of the prior lease, or 26.5 years. During the year ended June 30, 2021, the School prepaid an additional \$96,650, which is amortized over the life of the current lease, or 30 years. Amortization revenue recognized during the year ended June 30, 2023 for these prepayments was \$84,684. The remaining balance of prepayments by the School, considered due to the Foundation, at June 30, 2023 was \$1,593,985. The amounts are non-interest bearing and are amortized as the rental revenue is recognized on the Foundation.

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Note 10 – Related Party Transactions (continued)

Prepaid Rent

The School also prepaid additional rent of \$3,000,000 in the year ended June 30, 2021, \$1,500,000 in the year ended June 30, 2022, and \$4,000,000 in the year ended June 30, 2023 for various construction projects. Upon completion of the projects, the amounts will be amortized using the straight-line method over periods of 15 or 30 years, based on the estimated useful lives of the related construction improvements. Amortization revenue recognized during the year ended June 30, 2023 for these prepayments was \$311,111. The remaining balance of prepayments by the School, considered prepaid rent on the Statement of Financial Position, at June 30, 2023 was \$8,105,556.

Note 11 – Subsequent Events

The Foundation has evaluated subsequent events through December 19, 2023, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.