

BRAZO DE ORO CHILDREN'S FOUNDATION

(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)

FINANCIAL STATEMENTS

JUNE 30, 2017

**BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
JUNE 30, 2017**

TABLE OF CONTENTS

<u>EXHIBIT</u>	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6-13

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Brazo de Oro Children's Foundation
Philadelphia, Pennsylvania

We have audited the accompanying financial statements of Brazo de Oro Children's Foundation (a nonprofit corporation and a component unit of Mariana Bracetti Academy Charter School), which comprise the statement of financial position as of June 30, 2017 and the related statements of activities 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. 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 Brazo de Oro Children's Foundation as of June 30, 2017, 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.

Emphasis of Matter

As discussed in Note 4 to the financial statements the Foundation was not in compliance with a financial covenant relating to the bonds payable as of June 30, 2017. Our opinion is not modified with respect to this matter.

A handwritten signature in blue ink that reads "Cantor Novak Berman & Plo, PC". The signature is written in a cursive, flowing style.

Certified Public Accountants

Newtown, Pennsylvania
December 22, 2017

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents \$ 91,353

TOTAL CURRENT ASSETS 91,353

PROPERTY, NET 20,067,999

OTHER ASSETS

Escrow deposits 2,503,025

Accrued rental asset 868,904

TOTAL ASSETS \$ 23,531,281

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Bonds payable, current portion \$ 330,000

TOTAL CURRENT LIABILITIES 330,000

LONG-TERM LIABILITIES

Bonds payable, net of current portion, unamortized
issuance costs and original issue discount of \$1,237,512 22,042,488

Due to related party 1,995,808

TOTAL LIABILITIES 24,038,296

TOTAL LIABILITIES 24,368,296

COMMITMENTS (Note 4)

NET ASSETS (DEFICIT)

Unrestricted (837,015)

TOTAL NET ASSETS (DEFICIT) (837,015)

TOTAL LIABILITIES AND NET ASSETS (DEFICIT) \$ 23,531,281

See accompanying notes to financial statements.

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>
REVENUES	
Rental income	\$ 2,333,905
Interest income	46,457
Other miscellaneous	<u>35,109</u>
TOTAL REVENUES	<u>2,415,471</u>
EXPENSES	
Depreciation	758,567
Insurance	63,211
Interest	1,781,110
Office	57
Professional fees	<u>10,000</u>
TOTAL EXPENSES	<u>2,612,945</u>
CHANGE IN NET ASSETS (DEFICIT)	(197,474)
NET ASSETS (DEFICIT), BEGINNING	<u>(639,541)</u>
NET ASSETS (DEFICIT), ENDING	<u>\$ (837,015)</u>

See accompanying notes to financial statements.

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017

CASH FLOW FROM OPERATING ACTIVITIES	
Change in net assets (deficit)	\$ (197,474)
Adjustment to reconcile changes in net assets to net cash provided by operating activities:	
Amortization of bond issuance costs	49,499
Depreciation	758,567
(Increase) decrease in	
Accrued rental asset	(88,810)
Increase (decrease) in	
Accounts payable and accrued expenses	(34,999)
Due to related party	<u>(81,462)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>405,321</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Escrow deposits	<u>(95,377)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(95,377)</u>
CASH FLOW FROM FINANCING ACTIVITIES	
Repayments of bonds payable	<u>(310,000)</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(310,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(56)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>91,409</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 91,353</u>
SUPPLEMENTARY DISCLOSURES	
Interest paid	<u>\$ 1,731,610</u>

See accompanying notes to financial statements.

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization and Business Activities

Brazo de Oro Children's Foundation (the "Foundation") is a non-profit 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, which 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, and was organized to provide one or more public educational facilities, including land, buildings and improvements, for the benefit of the School. The Foundation has no component units for which it is considered to be financially accountable.

Basis of Accounting

The financial statements of the Foundation have been prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

The financial statement presentation follows the recommendation of the Not-for-Profit Entities Topic of the Financial Accounting Standards Board's Accounting Standards Codification ("FASB ASC"). Under the Not-for-Profit Topic of FASB ASC, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of June 30, 2017, the Foundation's net assets were unrestricted.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of financial statement presentation, the Foundation considers all highly liquid instruments with a maturity of three months or less to be considered cash equivalents.

Building and Improvements

Property and improvements are stated at cost less accumulated depreciation. Expenditures for additions and betterments are capitalized and maintenance and repairs are charged to current operations as incurred. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts and the gain or loss on such dispositions is included in current operations. Depreciation is provided using the straight-line method over the estimated useful life of the respective assets, as follows, and land is not depreciated.

Building and improvements	30 years
---------------------------	----------

Accrued Rental Asset

The Foundation recognizes rental income in accordance with the FASB ASC Accounting for Leases Topic. Rental payments are recognized on a straight-line basis over the term of the lease. The difference between the actual rent received per the lease agreement and the straight-line amount is either an increase or decrease to "accrued rental asset" in the accompanying statement of financial position.

Bond Issuance Costs

Costs relating to the issuance of the bonds payable, as discussed in Note 4, are amortized over the terms of the bonds, using the straight-line method, which approximates the effective interest rate method. The unamortized portion is a reduction of the outstanding bond obligations. The unamortized portion as of June 30, 2017 was \$680,513. Amortization of bond issuance costs are included as interest expense. For the year ended June 30, 2017, the amount included as interest expense was \$27,220. Future amortizations of bond issuance costs amount to \$27,220 annually for 2018 through 2041 and \$27,232 in 2042.

Original Issue Discount

Costs relating to the original issue discount of the bonds payable, as discussed in Note 4, are amortized over the terms of the bonds, using the straight-line method, which approximates the effective interest rate method. The unamortized portion is a reduction of the outstanding bond obligations. The unamortized portion as of June 30, 2017 was \$556,999. Amortization of discount costs are included as interest expense. For the year ended June 30, 2017, the amount included as interest expenses was \$22,279. Future amortizations of original issue discount amount to \$22,280 annually for 2018 through 2041 and \$22,279 in 2042.

**BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Unrestricted Net Assets – The Foundation reports assets whose use is not restricted by donors as unrestricted net assets. Contributions are available for unrestricted use unless specifically restricted by the donor. Unrestricted net assets may be designated for specific purposes or locations by action of the Board of Directors.

Temporarily Restricted Net Assets – The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Permanently Restricted Net Assets – Permanently restricted net assets are those which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and the income only be utilized for purposes specified by the donor.

Tax Status and Uncertainty in Income Taxes

The Foundation is a Pennsylvania not-for-profit corporation. The Internal Revenue Service has issued a determination letter that the Foundation is a nonprofit organization, as defined under Section 501(c)(3) of the Internal Revenue Code. As such, the Foundation is generally exempt from income taxes. It is however, required to file Federal Form 990—Return of Organization Exempt from Income Tax. This is an informational return only. The Foundation would be taxed on unrelated business income which does not fall under the 501(c)(3) exemption. Management believes that the Foundation has received no unrelated business income and accordingly, there was no income tax on unrelated business income. Additionally, management believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Tax years which remain subject to examination as of June 30, 2017 are 2014 through 2016, generally for three years after they are filed.

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB ASC defines fair value, sets out a framework for measuring fair value, which refers to certain valuation concepts and requires certain disclosures about fair value measurements. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This topic establishes a hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. The hierarchy established prioritizes fair value measurements based on the types of inputs used in the valuation technique. The Foundation uses the following hierarchical disclosure framework:

Level 1 – Measurement based upon inputs such as quoted prices in active markets for identical assets and liabilities in an active market as of the reporting date;

Level 2 – Measurement based upon marketplace inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 – Measurement based on the Foundation's assumptions about a hypothetical marketplace because observable market inputs are not available as of the reporting date.

Accordingly, all short-term financial instruments are carried at cost on the Statement of Financial Position, which approximates fair value due to their short-term, highly liquid nature.

At June 30, 2017, the Foundation's investments, recorded as escrow deposits, as discussed in Note 2, consist of cash equivalents and mutual funds. The valuations of these investments according to the fair value hierarchy are all Level 1.

Adoption of New Accounting Standards

During the year ended June 30, 2017, the Foundation adopted and implemented FASB ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires that the Foundation change the presentation of debt issuance costs on the company's financial statements. Under the new method, which is effective for fiscal years beginning after December 15, 2015, debt issuance costs are presented as a reduction of long-term debt instead of being presented as an asset on the company's balance sheet.

Date of Management's Review

Management has evaluated material subsequent events through December 22, 2017, the date that these financial statements were available to be issued.

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 ESCROW DEPOSITS

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

A summary of the principal escrow accounts held by the Foundation, as of June 30, 2017 is as follows:

	<u>Amount</u>
Debt Service Reserve Fund	\$ 2,085,440
Repair and Replacement Fund	253,136
Debt Service Fund	156,568
Paid Settlement Fund	7,880
Revenue Fund	<u>1</u>
	<u>\$ 2,503,025</u>

The investments recorded as escrow deposits are presented in the financial statements at fair value using level 1 fair value measures (quoted prices in active markets). At June 30, 2017, these investments consisted of the following:

	<u>Amount</u>
Mutual Funds	\$ 2,043,075
Cash Equivalents:	
Money Market Funds	<u>459,950</u>
	<u>\$ 2,503,025</u>

Investment return on these investments consisted of interest in the amount of \$46,457, for the year ended June 30, 2017.

**BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 PROPERTY, NET

As of June 30, 2017, property consisted of the following:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Land	\$ 344,068	\$ -	\$ -	\$ 344,068
Building and improvements	22,756,990	-	-	22,756,990
	23,101,058	-	-	23,101,058
Less: accumulated depreciation	(2,274,492)	(758,567)	-	(3,033,059)
Total	<u>\$ 20,826,566</u>	<u>\$ (758,567)</u>	<u>\$ -</u>	<u>\$ 20,067,999</u>

Depreciation expense for the year ended June 30, 2017, was \$758,567. All property is pledged as collateral for the bonds payable, as discussed in Note 4.

NOTE 4 BONDS PAYABLE

In December 2011, the Foundation issued Series 2011 tax-exempt revenue bonds in the amount of \$24,740,000 to (a) improvements and the purchase of a new building located at 1840 Torresdale Avenue Philadelphia, PA (the "Property").

Interest is paid to bondholders on June 15 and December 15 of each year, commencing June 15, 2012. The interest rates on the bonds range from 6% - 8%, which approximates the effective interest rate. The bonds mature in the amounts of \$3,010,000, \$3,000,000, \$8,805,000 and \$9,925,000, on December 15, 2021, 2031, 2036 and 2041, respectively, with an optional and mandatory redemption of a portion of the bonds each December 15. The bonds are collateralized by the Property, as discussed in Note 3 and assignment of all leases and income on the Property and guaranteed by the School. As of June 30, 2017, the amount outstanding was \$23,610,000, less bond issuance costs and original issue discount of \$1,237,512. During the year ended June 30, 2017, \$310,000 of the bonds was redeemed.

There are certain covenants with respect to the bonds payable. Such covenants include reporting requirements, and financial covenants relating to unrestricted cash balances and debt service coverage. The Foundation was not in compliance with the debt service coverage ratio as of June 30, 2017. A waiver was not requested, but management has been in contact with, and is working with the bondholders' trustee regarding this issue. Management presented the bonds payable as long term because written notice of failure has not been received, and the Foundation and the School will follow the procedures outlined in the bond documents to remedy the noncompliance, as required.

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 BONDS PAYABLE (Continued)

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 330,000	\$ 1,711,026	\$ 2,041,026
2019	350,000	1,689,776	2,039,776
2020	375,000	1,667,120	2,042,120
2021	400,000	1,642,901	2,042,901
2022	425,000	1,617,120	2,042,120
2023 - 2027	2,635,000	7,572,459	10,207,459
2028 - 2032	3,770,000	6,431,237	10,201,237
2033 - 2037	5,400,000	4,804,569	10,204,569
2038 - 2041	9,925,000	2,303,703	12,228,703
	<u>\$ 23,610,000</u>	<u>\$ 29,439,911</u>	<u>\$ 53,049,911</u>

NOTE 5 RELATED PARTY TRANSACTIONS

The Foundation leases 100% of its rental facility to the School under a long-term operating lease ending December 15, 2041. Rent under the lease for the year ended June 30, 2017, was \$2,333,905, which includes \$2,041,026 of base rentals and amortized straight line rents of \$88,810. The lease agreement also includes a provision that minimum rentals may be increased as needed based on debt service requirements of the Foundation, an additional amount was paid in the amount of \$204,069. Future minimum rentals under this lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 2,041,026
2019	2,039,776
2020	2,042,120
2021	2,042,901
2022	2,042,120
Thereafter	42,841,968
	<u>\$ 53,049,911</u>

The Foundation and the School make and receive advances in the normal course of operations, which are non-interest bearing. The amount due to the School, as of June 30, 2017, was \$1,995,808.

**BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 CONCENTRATIONS

Concentration of Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to the Foundation. The Foundation maintained its cash in a bank insured by the Federal Deposit Insurance Corporation ("FDIC"). As of June 30, 2017, the combined total of all deposits were insured up to at least \$250,000. The Foundation maintains its cash balances which, at times during the year, may exceed the threshold for insurance by the FDIC. At June 30, 2017, there were no balances in excess of FDIC insured limits. The Foundation has not experienced any losses in such accounts.

Rental Income

For the year ended June 30, 2017, 100% of the Foundation's rental revenue was generated from the School through direct leased property.