

BRAZO DE ORO CHILDREN'S FOUNDATION
(COMPONENT UNIT OF MARIANA BRACETTI ACADEMY
CHARTER SCHOOL)
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

BRAZO DE ORO CHILDREN'S FOUNDATION
(COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
YEAR ENDED JUNE 30, 2013

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Zelenkofske Axelrod LLC

INDEPENDENT AUDITOR'S REPORT

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

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, 2013, 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 of 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 reasonable basis for our audit opinion.

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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, 2013, 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.



ZELENKOFKSKE AXELROD LLC

Jamison, Pennsylvania
December 18, 2013

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

Assets

Current Assets	
Cash - Unrestricted	\$ 12,042
Cash - Restricted	<u>6,422,632</u>
Total Current Assets	<u>6,434,674</u>
Property	
Land	344,068
Construction In Progress	14,884,687
Building and Improvements	<u>3,100,587</u>
Total Property	<u>18,329,342</u>
Other Assets	
Issue Costs	<u>789,392</u>
Total Assets	<u>\$ 25,553,408</u>

Liabilities and Net Assets

Current Liabilities	
Accounts Payable	\$ 1,693,085
Current Portion of Long Term Debt	255,000
Due to Charter School	<u>655,466</u>
Total Current Liabilities	<u>2,603,551</u>
Long-Term Debt	
Long-Term Debt	24,485,000
Less: Original Issue Discount	<u>(646,119)</u>
Total Long-Term Debt	<u>23,838,881</u>
Total Liabilities	<u>26,442,432</u>
Unrestricted Net Assets	<u>(889,024)</u>
Total Liabilities and Net Assets	<u>\$ 25,553,408</u>

The accompanying notes are integral part of the financial statements.

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Revenue	
Rental Income	\$ 1,770,356
Interest Income	<u>89,502</u>
Total Revenue	1,859,858
Expenses	
Depreciation and Amortization	49,500
Insurance	7,427
Interest	1,791,964
Miscellaneous	5,632
Professional Fees	<u>30,106</u>
Total Expenses	<u>1,884,629</u>
Changes in Net Assets	(24,771)
Unrestricted Net Assets, Beginning of Year	<u>(864,253)</u>
Unrestricted Net Assets, End of Year	<u>\$ (889,024)</u>

The accompanying notes are integral part of the financial statements.

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
STATEMENT OF CASH FLOWS
JUNE 30, 2013

Cash Flows From Operating Activities	
Change in Net Assets	\$ (24,771)
Adjustments to Reconcile Change in Net Assets to Net Cash	
Provided by Operating Activities:	
Bond Issue Costs Amortization	27,220
Original Issue Discount Amortization	22,280
Increase (Decrease) in Liabilities	
Accounts Payable	1,250,283
Due to Charter School	<u>25,824</u>
Total Adjustments	<u>1,276,107</u>
Net Cash Provided by Operating Activities	<u>1,300,836</u>
Cash Flows From Investing Activities	
Purchase of Fixed Assets	<u>(12,587,366)</u>
Net Cash Used in Investing Activities	<u>(12,587,366)</u>
Net Decrease in Cash	(11,286,530)
Cash, Beginning of Year	<u>17,721,204</u>
Cash, Ending of Year	<u>\$ 6,434,674</u>
Supplemental Disclosure of Cash Flow Information	
Cash paid for interest	<u>\$ 1,791,964</u>

The accompanying notes are integral part of the financial statements.

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

The Organization operates as a non-profit organization established under the laws of the Commonwealth of Pennsylvania.

The Organization was organized as a non-profit corporation in the year 2011 to support the Mariana Bracetti Academy Charter School (the School) located in Philadelphia, Pennsylvania, as well as supporting other charitable and community activities. It is a component unit of Mariana Bracetti Academy Charter School.

Basis of Accounting

The Organization maintains its records on the accrual basis for both financial statement and tax return purposes and, accordingly, reflects all significant receivables, payables, and other liabilities.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, the Organization 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. The Organization has no permanently or temporarily restricted net assets as of the year ended June 30, 2013.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Cash and Cash Equivalents

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

Cash – Restricted

Cast restricted represents unspent proceeds from the 2011 bond issue. Such cash is held in the Trustees accounts to be used for construction and debt service related to the new building. See Note 3.

Depreciation and Amortization

Building and improvements are carried at cost less accumulated depreciation. Depreciation is provided using the straight-line method. Generally, buildings have a life of forty years. Leasehold improvements are carried at cost less accumulated amortization. Amortization is provided using the straight-line method, generally, between five to forty.

The accompanying notes are integral part of the financial statements.

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation and Amortization (Continued)

years. Depreciation and amortization expenses for the year ended June 30, 2013 were \$0 due to the assets capitalized not being placed into service until June 30, 2013.

Income Taxes

The Company is a non-profit organization as described in section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

NOTE 2: PROPERTY

Property consisted of the following at June 30, 2013:

	<u>2013</u>
Buildings and Improvements	\$ 3,100,587
Less Accumulated Depreciation	<u> -</u>
Total Depreciable Property	3,100,587
Construction In Progress	14,884,687
Land	<u> 344,068</u>
Total Property	<u>\$ 18,329,342</u>

NOTE 3: LONG TERM DEBT

In 2011, the Organization borrowed \$24,740,000 for improvements and purchase of a new building. The bond is payable in semi-annual payments of principal and interest totaling approximately \$2,040,000 per year bearing interest ranging from 1.5 – 7.5%. The balance payable on the bond was \$24,740,000 at June 30, 2013. The bond matures in June 2024.

Following are principal maturities on long-term debt for each of the next five years and thereafter as of June 30, 2013:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 255,000
2015	275,000
2016	290,000
2017	310,000
2018	330,000
Thereafter	<u>23,280,000</u>
	<u>\$ 24,740,000</u>

Interest expense, net of interest capitalized on construction in process of \$0, amounted to \$1,791,964 for the year ended June 30, 2013. Brazo de Oro has specific financial debt covenants regarding their long term debt. At June 30, 2013, all covenants were met.

The accompanying notes are integral part of the financial statements.

BRAZO DE ORO CHILDREN'S FOUNDATION
(A COMPONENT UNIT OF MARIANA BRACETTI ACADEMY CHARTER SCHOOL)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

NOTE 4: RELATED PARTY TRANSACTIONS

The Foundation leases 100% of its rental facility to the School under a long-term operating lease. Rent under the lease and for the year ended June 30, 2013, was \$1,770,356. Approximate future minimum rentals are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2014	\$ 2,038,995
2015	3,042,433
2016	2,039,776
2017	2,041,026
2018	2,041,026
2019-2023	10,209,385
2024-2028	10,205,807
2029-2033	10,200,055
2034-2038	10,205,819
2039-2042	<u>10,187,819</u>
Total	<u>\$ 62,212,141</u>

In addition, the School advances payments covering operating expenses of the Foundation. As of June 30, 2013, the Foundation owes the School \$655,466 for such advances.

NOTE 5: CONCENTRATION OF CREDIT RISK

The Organization maintains an account at an institution that is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The amount of deposits in excess of the FDIC limit totaled \$6,769,975 as of June 30, 2013.

NOTE 6: MANAGEMENT PLANS

The School, along with the Organization, borrowed approximately 24.4 million in December 2011 and is presently in the process of renovating the former Northeast Catholic High School building located on Torresdale Avenue just east of Kensington Avenue. The School expects to occupy the building by September 1, 2013 for the 2013 – 2014 School year. In addition, the School will pay the Organization monthly rent which will fund the debt service payments and get Brazo de Oro out of its deficit in future years.

NOTE 7: SUBSEQUENT EVENTS

Subsequent events have been evaluated for Brazo de Oro Children's Foundation through the date of the report, December 18, 2013. The financial statements of Brazo de Oro Children's Foundation for the year ended June 30, 2013 were issued as of December 18, 2013.

The accompanying notes are integral part of the financial statements.