

SOUTH BUFFALO CHARTER SCHOOL
SINGLE AUDIT REPORTING PACKAGE
JUNE 30, 2014

Table of Contents

June 30, 2014

Financial Statements

Independent Auditors' Report

Consolidated Financial Statements

Notes to Consolidated Financial Statements

Additional Information

Consolidated Schedule of Expenses

Consolidating Balance Sheets

Consolidating Statements of Activities

Schedule of Expenditures of Federal Awards and Related Notes

Reports on Federal Award Programs

Independent Auditors' 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*

Independent Auditors' Report on Compliance for Each Major Federal Program and
on Internal Control over Compliance Required by OMB Circular A-133

Schedule of Findings and Questioned Costs

Summary Schedule of Prior Audit Findings

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
South Buffalo Charter School

We have audited the accompanying consolidated balance sheets of South Buffalo Charter School and Affiliate (the Organization) as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years 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 consolidated 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated 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 auditors' 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2014 and 2013, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Additional Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying additional information as listed in the table of contents and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements.

The accompanying additional information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2014 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 the Organization's internal control over financial reporting and compliance.



October 9, 2014

SOUTH BUFFALO CHARTER SCHOOL

Consolidated Balance Sheets

June 30,	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,458,282	\$ 9,938,470
Grants and other receivables (Note 2)	108,657	309,556
Prepaid expenses	765,488	266,569
	<u>4,332,427</u>	<u>10,514,595</u>
Property and equipment, net (Note 3)	23,847,721	6,563,419
	<u>\$ 28,180,148</u>	<u>\$ 17,078,014</u>
Liabilities and Net Assets		
Current Liabilities:		
Short-term borrowings (Note 5)	\$ 8,906,736	\$ -
Accounts payable and accrued expenses	3,082,179	2,121,370
	<u>11,988,915</u>	<u>2,121,370</u>
Net assets:		
Unrestricted	16,191,233	14,956,644
	<u>\$ 28,180,148</u>	<u>\$ 17,078,014</u>

See accompanying notes.

SOUTH BUFFALO CHARTER SCHOOL

Consolidated Statements of Activities

For the years ended June 30,	2014	2013
Changes in unrestricted net assets:		
Support and revenue:		
Public school districts:		
Revenue-resident student enrollment	\$ 8,123,015	\$ 7,952,798
Revenue-students with disabilities	417,674	440,186
Federal grants	515,173	597,346
Investment income	3,885	9,260
Other income	4,739	48,746
Total unrestricted support and revenue	9,064,486	9,048,336
Expenses:		
Program expenses:		
Regular education	4,442,223	4,402,642
Special education	907,418	877,319
Other programs	1,486,991	1,496,789
Total program expenses	6,836,632	6,776,750
Supporting services:		
Management and general	993,265	1,017,871
Total expenses	7,829,897	7,794,621
Change in net assets	1,234,589	1,253,715
Net assets - beginning	14,956,644	13,702,929
Net assets - ending	\$ 16,191,233	\$ 14,956,644

See accompanying notes.

SOUTH BUFFALO CHARTER SCHOOL

Consolidated Statements of Cash Flows

For the years ended June 30,	2014	2013
Operating activities:		
Change in net assets	\$ 1,234,589	\$ 1,253,715
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	242,533	235,308
Changes in operating assets and liabilities:		
Grants and other receivables	200,899	(212,009)
Prepaid expenses	(498,919)	(162,283)
Accounts payable and accrued expenses	805,685	342,678
Net operating activities	1,984,787	1,457,409
Investing activities:		
Property and equipment expenditures	(17,371,711)	(1,709,751)
Investing activities:		
Proceeds from short-term borrowings	8,906,736	-
Net change in cash	(6,480,188)	(252,342)
Cash - beginning	9,938,470	10,190,812
Cash - ending	\$ 3,458,282	\$ 9,938,470

See accompanying notes.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies:

Organization and Purpose:

The consolidated financial statements of South Buffalo Charter School (the Organization) include the accounts of South Buffalo Charter School (the School) and 154 South Ogden, LLC (the LLC).

The School operates a charter school in the City of Buffalo (the City) pursuant to its Charter Agreement with the Education Department of the State of New York. The School has been chartered through 2015, at which time it must apply to renew its charter for another five year term. The School currently offers classes from kindergarten through grade 8.

The School seeks to provide equitable opportunities for all students to acquire an education that links character education with rigorous academics, technology, and careers to produce students who are prepared for success in the 21st century. Students enrolled reside primarily in the City of Buffalo School District.

The School is the single member of the LLC, a limited liability company formed in 2012 to acquire land and construct a state of the art educational facility. All significant intercompany transactions and balances have been eliminated.

Subsequent Events:

Management has evaluated events and transactions for potential recognition or disclosure through October 9, 2014, the date the financial statements were available to be issued.

Cash and Cash Equivalents:

The School includes all highly liquid investments with original maturities of 90 days or less in cash and cash equivalents.

Cash in financial institutions potentially subjects the School to concentrations of credit risk, since it may exceed insured limits at various times throughout the year.

Receivables:

Receivables are stated at the amounts management expects to collect from outstanding balances. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to bad debts expense and a credit to accounts receivable. An allowance for doubtful accounts is considered unnecessary by management because all significant amounts deemed uncollectible are written off each year.

Property and Equipment:

Property and equipment is stated at cost net of accumulated depreciation. Depreciation is provided using the straight-line method over estimated useful asset lives. Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

Enrollment Fees:

The School is reimbursed by each student's resident school district annually, based on the product of the State approved operating expense of that district and the full time equivalent enrollment of the students in the School residing in the district. The School's enrollment fees are received primarily from the Board of Education for the City of Buffalo School District.

Grants:

The School is the recipient of awards and reimbursements from federal, state and local sources. The awards and reimbursements are subject to various compliance and financial audits by the funding sources. Management believes no significant adjustments to recognized amounts are necessary.

Transportation:

The City of Buffalo School District provides the School with certain transportation services without cost. The value of these services has not been recorded in these financial statements.

Income Taxes:

The School is a 501(c)(3) organization exempt from taxation under Section 501(a) of the Internal Revenue Code. The School believes it is no longer subject to examination by Federal and State authorities for years prior to 2011.

154 South Ogden, LLC maintained its status as a single member LLC through June 30, 2014. Effective July 1, 2014, the LLC elected to be taxed as a corporation.

Use of Estimates:

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

Cost Allocation:

The School's costs of providing its various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

2. Grants and Other Receivables:

	2014	2013
Grants	\$ 103,142	\$ 265,575
Public school districts	5,515	-
Other	-	43,981
	<u>\$ 108,657</u>	<u>\$ 309,556</u>

3. Property and Equipment:

	2014	2013
Land	\$ 538,624	\$ 538,624
Buildings and improvements	4,501,481	4,496,500
Furniture and equipment	1,748,611	1,679,587
Construction in progress	19,392,743	1,939,913
	<u>26,181,459</u>	<u>8,654,624</u>
Less accumulated depreciation	2,333,738	2,091,205
	<u>\$ 23,847,721</u>	<u>\$ 6,563,419</u>

Construction in progress at June 30, 2014 and 2013 includes costs incurred in connection with the School's \$21 million expansion project, most of which was completed by August 2014. The School financed the project primarily with unrestricted net assets and bank term loans.

Interest totaling \$57,000 was capitalized and included in construction in progress for the year ended June 30, 2014.

4. Short-Term Borrowings:

During 2014, the LLC obtained a bank construction bridge loan with interest payable at 4.88% to provide short-term financing for the School's expansion project. The loan is secured by essentially all assets of the Organization and will be converted to a permanent mortgage loan during a defined period after the completion of the expansion project. At June 30, 2014, \$8,906,736 was outstanding.

The LLC also obtained a \$500,000 demand line of credit from a financial institution in 2014, with interest payable at prime plus 0.5% and secured by essentially all of the LLC's assets. There was no balance outstanding at June 30, 2014.

5. Retirement Plans:

The School maintains a 403 (b) profit sharing plan covering essentially all full-time employees (as defined). The plan requires certain minimum employer contributions based on salaries and employee deferrals. Expenses related to this plan for the years ended June 30, 2014 and 2013 were \$21,115 and \$17,503.

The School participates in the New York State Teachers' Retirement System (TRS) which is a cost-sharing multiple employer public employee retirement system. TRS offers a wide range of plans and benefits for the School's collectively bargained teacher group which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

TRS is administered by the New York State Teachers' Retirement Board and provides benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. TRS issues a publicly available financial report that contains financial statements and required supplementary information. The report may be obtained from the New York State Teachers' Retirement System at www.nystrs.org.

No employee contribution is required for those whose service began prior to July 1976. TRS requires employee contributions of 3% of salary for the first 10 years of service for those employees who joined from July 1976 through December 2009. Participants whose service began on or after January 1, 2010 through March 31, 2012 are required to contribute 3.5% of compensation throughout their active membership in TRS. Participants whose service began on or after April 1, 2012 are required to contribute a percentage ranging from 3% to 6% each year, based on their level of compensation. Pursuant to Article 11 of Education Law, an actuarially determined contribution rate is established annually by the New York State Teachers' Retirement Board. The rate is 16.25% of the annual covered payroll for the year ended June 30, 2014, and 11.84% for the year ended June 30, 2013.

The required contributions for the years ended June 30, 2014 and 2013 were \$557,925 and \$440,383.

6. Contingencies:

The School is subject to claims and lawsuits that arise in the ordinary course of business. In the opinion of management, these claims and lawsuits will not have a material adverse effect upon the financial position of the School.

7. Cash Flows Information:

Noncash investing and financing activities excluded from the statements of cash flows include accounts payable incurred for building additions of \$893,792 and \$738,668 at June 30, 2014 and 2013.

SOUTH BUFFALO CHARTER SCHOOL

Additional Information
Consolidated Schedule of Expenses

For the year ended June 30, 2014 (with summarized comparative totals for 2013)

	2014				2013	
	Regular Education	Special Education	Other Programs	Management and General	Total	Total
Salaries	\$ 2,661,301	\$ 343,678	\$ 934,099	\$ 467,050	\$ 4,406,128	\$ 4,323,962
Employee benefits and taxes	1,037,826	134,024	364,270	182,135	1,718,255	1,729,562
Contracted services-other	-	387,910	-	24,760	412,670	388,617
Equipment rental	3,616	467	-	1,904	5,987	6,562
Insurance	-	-	-	85,223	85,223	75,528
Maintenance and repairs	21,969	2,837	7,711	3,856	36,373	33,780
Occupancy	92,155	11,901	32,346	16,172	152,574	164,813
Other expenses	27,287	-	9,578	8,312	45,177	29,888
Printing and copying	19,181	2,477	6,732	3,367	31,757	28,610
Professional fees	-	-	-	111,591	111,591	195,018
Public relations	-	-	-	55,579	55,579	14,947
Staff development	51,256	-	17,991	15,614	84,861	154,413
Supplies and materials	202,067	4,334	-	-	206,401	164,010
Telephone	32,029	4,136	11,242	5,621	53,028	54,577
Textbooks/programs	75,186	8,378	22,481	-	106,045	111,984
Transportation	-	-	75,715	-	75,715	83,042
	4,223,873	900,142	1,482,165	981,184	7,587,364	7,559,313
Depreciation	218,350	7,276	4,826	12,081	242,533	235,308
Total	\$ 4,442,223	\$ 907,418	\$ 1,486,991	\$ 993,265	\$ 7,829,897	\$ 7,794,621

SOUTH BUFFALO CHARTER SCHOOL

Additional Information
Consolidating Balance Sheets

For the years ended June 30,

2014

	School	LLC	Eliminations	Consolidated Totals
Assets				
Current Assets:				
Cash and cash equivalents	\$ 3,238,482	\$ 219,800	\$ -	\$ 3,458,282
Grants and other receivables	108,657	-	-	108,657
Prepaid expenses	241,659	523,829	-	765,488
	3,588,798	743,629	-	4,332,427
Property and equipment, net	3,916,354	19,931,367	-	23,847,721
Due from affiliate	10,041,184	-	(10,041,184)	-
	\$ 17,546,336	\$ 20,674,996	\$ (10,041,184)	\$ 28,180,148
Liabilities and Net Assets				
Current Liabilities:				
Short-term borrowings	\$ -	\$ 8,906,736	\$ -	\$ 8,906,736
Accounts payable and accrued expenses	1,325,789	1,756,390	-	3,082,179
	1,325,789	10,663,126	-	11,988,915
Due to affiliate	-	10,041,184	(10,041,184)	-
Net assets:				
Unrestricted	16,220,547	(29,314)	-	16,191,233
	\$ 17,546,336	\$ 20,674,996	\$ (10,041,184)	\$ 28,180,148

2013

School	LLC	Eliminations	Consolidated Totals
\$ 9,937,595	\$ 875	\$ -	\$ 9,938,470
309,556	-	-	309,556
266,569	-	-	266,569
10,513,720	875	-	10,514,595
4,084,882	2,478,537	-	6,563,419
1,531,992	-	(1,531,992)	-
\$ 16,130,594	\$ 2,479,412	\$ (1,531,992)	\$ 17,078,014
\$ -	\$ -	\$ -	\$ -
1,149,506	971,864	-	2,121,370
1,149,506	971,864	-	2,121,370
-	1,531,992	(1,531,992)	-
14,981,088	(24,444)	-	14,956,644
\$ 16,130,594	\$ 2,479,412	\$ (1,531,992)	\$ 17,078,014

2013			
School	LLC	Eliminations	Consolidated Totals
\$ 7,952,798	\$ -	\$ -	\$ 7,952,798
440,186	-	-	440,186
597,346	-	-	597,346
9,260	-	-	9,260
48,746	-	-	48,746
9,048,336	-	-	9,048,336
4,402,642	-	-	4,402,642
877,319	-	-	877,319
1,496,789	-	-	1,496,789
6,776,750			6,776,750
993,427	24,444	-	1,017,871
7,770,177	24,444	-	7,794,621
1,278,159	(24,444)	-	1,253,715
13,702,929	-	-	13,702,929
\$ 14,981,088	\$ (24,444)	\$ -	\$ 14,956,644

SOUTH BUFFALO CHARTER SCHOOL

Additional Information
Consolidating Statements of Activities

For the years ended June 30,

2014

	School	LLC	Eliminations	Consolidated Totals
Changes in unrestricted net assets:				
Support and revenue:				
Public school districts:				
Revenue-resident student enrollment	\$ 8,123,015	\$ -	\$ -	\$ 8,123,015
Revenue-students with disabilities	417,674	-	-	417,674
Federal grants	515,173	-	-	515,173
Investment income	3,885	-	-	3,885
Other income	4,739	-	-	4,739
Total unrestricted support and revenue	9,064,486	-	-	9,064,486
Expenses:				
Program expenses:				
Regular education	4,442,223	-	-	4,442,223
Special education	907,418	-	-	907,418
Other programs	1,486,991	-	-	1,486,991
Total program expenses	6,836,632			6,836,632
Supporting services:				
Management and general	988,395	4,870	-	993,265
Total expenses	7,825,027	4,870	-	7,829,897
Change in net assets	1,239,459	(4,870)	-	1,234,589
Net assets - beginning	14,981,088	(24,444)	-	14,956,644
Net assets - ending	\$ 16,220,547	\$ (29,314)	\$ -	\$ 16,191,233

SOUTH BUFFALO CHARTER SCHOOL

Additional Information
Schedule of Expenditures of Federal Awards

For the year ended June 30, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grantor Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>			
Passed through New York State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	0021-14-4035	\$ 400,018
Improving Teacher Quality State Grants	84.367	0147-14-4035	33,472
ARRA - State Fiscal Stabilization Fund (SFSF) -			
Race-to-the-Top Incentive Grants, Recovery Act	84.395	5500-14-4035	25,652
English Language Acquisition State Grants	84.365	0293-13-0863	938
			<u>460,080</u>
Passed through Center for Educational Innovation - Public Education Association			
Teacher Incentive Fund	84.374	N/A	<u>55,093</u>
Total Expenditures of Federal Awards			\$ 515,173

Notes to Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies:

Basis of Accounting

Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs administered by South Buffalo Charter School and Affiliates (the Organization), an entity as defined in Note 1 to the Organization's financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through from other governmental agencies, are included on the schedule of expenditures of federal awards.

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable programs and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program, which are periodically reconciled with the Organization's financial reporting system. The federal expenditures are recorded on the accrual basis.

INDEPENDENT AUDITORS' 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*

The Board of Trustees
South Buffalo Charter School

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 consolidated financial statements of South Buffalo Charter School and Affiliate (the Organization), which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 9, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 the Organization's consolidated 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Symon & McCormick, LLC

October 9, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Board of Trustees
South Buffalo Charter School

Report on Compliance for Each Major Federal Program

We have audited South Buffalo Charter School and Affiliate's (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2014. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Lyndon & McCormick, LLP". The signature is written in a cursive, flowing style.

October 9, 2014