

**EUGENIO MARIA DE HOSTOS  
CHARTER SCHOOL**

**Financial Statements  
as of June 30, 2014  
Together with  
Independent Auditor's Reports**

**Bonadio & Co., LLP**  
Certified Public Accountants

## **EUGENIO MARIA DE HOSTOS CHARTER SCHOOL**

### **TABLE OF CONTENTS**

**JUNE 30, 2014**

---

	<u>Page</u>
Independent Auditor's Report	i - ii
Statement of Financial Position	1
Statement of Activities and Change in Net Assets	2
Statement of Functional Expenses	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 11
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12 - 13
Independent Auditor's Report on Compliance for each Major Federal Program and on Internal Control over Compliance Required By OMB Circular A-133	14 - 15
Schedule of Expenditures of Federal Awards	16
Notes to Schedule of Expenditures of Federal Awards	17
Schedule of Findings and Questioned Costs	18

## INDEPENDENT AUDITOR'S REPORT

October 15, 2014

To the Board of Trustees of  
Eugenio Maria de Hostos Charter School:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Eugenio Maria de Hostos Charter School, (the School) (a New York not-for-profit corporation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School'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 School'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 Eugenio Maria de Hostos Charter School as of June 30, 2014, 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.

(Continued)

## **INDEPENDENT AUDITOR'S REPORT**

(Continued)

### **Report on Summarized Comparative Information**

We have previously audited the School's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 17, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Report on Supplemental Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the 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 15, 2014 on our consideration of the School'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

# EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

## STATEMENT OF FINANCIAL POSITION

JUNE 30, 2014

(With Comparative Totals for 2013)

---

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 351,185	\$ 500,959
Grants receivable	24,177	25,555
Other receivables, net of allowance for doubtful accounts of \$1,500 in 2014 and 2013	159,407	116,220
Investments	<u>554,230</u>	<u>626,741</u>
Total current assets	1,088,999	1,269,475
LAND, BUILDINGS, AND EQUIPMENT, net	956,990	948,996
LOAN ACQUISITION COSTS, net	<u>24,849</u>	<u>26,262</u>
	<u>\$ 2,070,838</u>	<u>\$ 2,244,733</u>
<b>LIABILITIES</b>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 20,764	\$ 19,681
Accounts payable	109,300	16,954
Accrued liabilities	394,612	307,083
Due to RCSD	<u>36,382</u>	<u>36,495</u>
Total current liabilities	561,058	380,213
LONG-TERM DEBT, net of current portion	<u>567,562</u>	<u>587,829</u>
Total liabilities	1,128,620	968,042
NET ASSETS	<u>942,218</u>	<u>1,276,691</u>
	<u>\$ 2,070,838</u>	<u>\$ 2,244,733</u>

The accompanying notes are an integral part of these statements.

# EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

## STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2014

(With Comparative Totals for 2013)

---

	<u>2014</u>	<u>2013</u>
REVENUES, GAINS, AND OTHER SUPPORT:		
Public school district -		
Resident student enrollment	\$ 4,733,095	\$ 4,737,478
Students with disabilities	57,846	59,419
Federal and state grants	265,834	304,053
Federal and state food service	329,328	300,972
Interest	660	922
Investment income, net	77,489	53,103
Other	<u>16,724</u>	<u>14,728</u>
Total revenues, gains, and other support	<u>5,480,976</u>	<u>5,470,675</u>
EXPENSES:		
Program -		
Regular education	4,649,074	4,368,010
Special education	<u>566,966</u>	<u>541,682</u>
Total program	<u>5,216,040</u>	<u>4,909,692</u>
Supporting services -		
Management and general	<u>599,409</u>	<u>557,390</u>
Total expenses	<u>5,815,449</u>	<u>5,467,082</u>
CHANGE IN NET ASSETS	(334,473)	3,593
NET ASSETS - beginning of year	<u>1,276,691</u>	<u>1,273,098</u>
NET ASSETS - end of year	<u>\$ 942,218</u>	<u>\$ 1,276,691</u>

The accompanying notes are an integral part of these statements.

## EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2014**  
(With Comparative Totals for 2013)

	Program Services				Supporting Services				Total	
	Regular <u>Education</u>	Special <u>Education</u>	Other <u>Education</u>	Total	Fundraising	Management and General	Total	2014	2013	
Personnel services costs:										
Administrative staff personnel	\$ 80,754	\$ -	\$ -	\$ 80,754	\$ -	\$ 218,825	\$ 218,825	\$ 299,579	\$ 288,359	
Instructional personnel	2,003,262	308,763	-	2,312,025	-	-	-	2,312,025	2,201,202	
Non-instructional personnel	-	-	-	-	-	12,634	12,634	12,634	14,342	
Total personnel services costs	2,084,016	308,763	-	2,392,779	-	231,459	231,459	2,624,238	2,503,903	
Fringe benefits and payroll taxes	632,731	93,744	-	726,475	-	70,273	70,273	796,748	721,963	
Retirement	286,220	42,406	-	328,626	-	-	-	328,626	235,461	
Legal services	-	-	-	-	-	261	261	261	290	
Accounting/audit services	-	-	-	-	-	16,850	16,850	16,850	16,575	
Other purchased/professional/consulting services	243,234	33,168	-	276,402	-	30,711	30,711	307,113	290,423	
Building and land rent/lease	229,874	31,346	-	261,220	-	29,024	29,024	290,244	290,243	
Repairs and maintenance	-	-	-	-	-	37,097	37,097	37,097	19,799	
Insurance	-	-	-	-	-	38,692	38,692	38,692	35,857	
Utilities	68,368	6,852	-	75,220	-	35,401	35,401	110,621	110,887	
Supplies/materials	42,665	3,199	-	45,864	-	-	-	45,864	25,579	
Equipment/furnishings	800	57	-	857	-	27,159	27,159	28,016	25,510	
Staff development	27,111	3,787	-	30,898	-	2,839	2,839	33,737	35,774	
Marketing/recruitment	-	-	-	-	-	1,386	1,386	1,386	1,271	
Technology	7,198	-	-	7,198	-	10,312	10,312	17,510	25,301	
Food service	439,045	-	-	439,045	-	-	-	439,045	426,200	
Student services	530,448	38,198	-	568,646	-	-	-	568,646	585,207	
Office expense	8,859	-	-	8,859	-	9,329	9,329	18,188	19,135	
Depreciation and amortization	42,437	5,446	-	47,883	-	336	336	48,219	40,258	
Other	6,068	-	-	6,068	-	58,280	58,280	64,348	57,446	
Total expenses	\$ 4,649,074	\$ 566,966	\$ -	\$ 5,216,040	\$ -	\$ 599,409	\$ 599,409	\$ 5,815,449	\$ 5,467,082	

The accompanying notes are an integral part of these statements.

# EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2014 (With Comparative Totals for 2013)

	<u>2014</u>	<u>2013</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Revenue from school districts	\$ 4,747,754	\$ 4,783,228
Grant revenues	267,212	303,538
Miscellaneous sources	367,412	369,725
Payments to charter school personnel for services rendered	(3,804,991)	(3,593,851)
Payments to vendors for goods and services rendered	<u>(1,782,477)</u>	<u>(1,879,257)</u>
Net cash flow from operating activities	<u>(205,090)</u>	<u>(16,617)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term debt	<u>(19,184)</u>	<u>(18,169)</u>
Net cash flow from financing activities	<u>(19,184)</u>	<u>(18,169)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(20,700)	(18,408)
Proceeds from sale of investments	150,000	-
Purchases of land, buildings, and equipment	<u>(54,800)</u>	<u>(77,803)</u>
Net cash flow from investing activities	<u>74,500</u>	<u>(96,211)</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>(149,774)</u>	<u>(130,997)</u>
CASH AND CASH EQUIVALENTS - beginning of year	<u>500,959</u>	<u>631,956</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 351,185</u>	<u>\$ 500,959</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (334,473)	\$ 3,593
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Gain on investments, net	(56,789)	(34,695)
Depreciation and amortization	48,219	40,258
(Increase) decrease in assets:		
Grants receivable	1,378	(515)
Other receivables	(43,187)	(13,669)
Prepaid expenses	-	3,630
Increase (decrease) in liabilities:		
Accounts payable	92,346	(77,505)
Accrued liabilities	87,529	25,791
Due to New York State	<u>(113)</u>	<u>36,495</u>
Net cash flow from operating activities	<u>\$ (205,090)</u>	<u>\$ (16,617)</u>

The accompanying notes are an integral part of these statements.

## **EUGENIO MARIA DE HOSTOS CHARTER SCHOOL**

### **NOTES TO FINANCIAL STATEMENTS** **JUNE 30, 2014**

---

#### **1. THE SCHOOL**

Eugenio Maria de Hostos Charter School (the School) is an independent public school established under the provisions of the New York State Charter School Act of 1998, enacted as Article 56 of the Education Law. The School's initial charter was sponsored by Ibero-American Action League, Inc. (IAAL). IAAL is a New York not-for-profit corporation with a mission to foster the well-being and socio-economic development of the Latino community of Rochester, New York and the surrounding area.

The School is designed to meet the cognitive and affective needs of a specific population of urban elementary students who reside in Rochester, New York. This population includes children of Latino descent and others for whom a strong academic program is most appropriate in order to prepare them to meet and exceed all New York State educational standards, as well as the New Standards of the America's Choice Design, the organizing framework for the School. The School also utilizes certain community organizations for the delivery of additional learning opportunities.

In its initial year of operation, the 2000-2001 school year, the School provided educational instruction to students in kindergarten through second grade. In each of the subsequent school years, the School added the next grade level until the School had grades kindergarten through six during the 2004-2005 school year. The School received an extension of its charter in 2010 that is effective through 2015. In conjunction with this extension, the School received approval to add grades seven and eight. The School added grade seven for the 2010-2011 school year and added grade eight in the 2011-2012 school year.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of Accounting**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

##### **Financial Reporting**

At June 30, 2014 and 2013, all of the School's net assets were unrestricted.

##### **Revenue Recognition**

The School records public school district revenue on a per student basis at rates established by New York State for the school district in which the student resides. Final determination of the revenue earned by the School is subject to review by the Rochester City School District. Provision is made in the financial statements for anticipated adjustments that may result from such reviews. Differences between amounts provided and final settlements are included in the statement of activities and change in net assets in the year of settlement.

Grant revenue is recognized as the related costs are incurred. Amounts received in advance of incurring the related costs, if any, are reported as deferred revenue.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Program Services**

Special education expenses represent the cost of educating students with individualized education programs or those receiving special education services in the classroom. Regular education expenses include the costs of all other educational activities.

### **Cash and Cash Equivalents**

Cash and cash equivalents include bank demand deposit and money market accounts. The bank accounts and insured money market accounts, at times, may exceed federally insured limits. The School has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk with respect to cash and cash equivalents.

### **Grants and Other Receivables**

The School records an allowance for uncollectible accounts based on historical collection experience and a review of specific amounts outstanding. Accounts are written off against the allowance when uncollectibility becomes known.

### **Investments**

Investments are recorded at fair value, based on quoted market prices.

Investment securities are exposed to various risks, such as interest rate, market, economic conditions, world affairs, and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in their values could occur in the near term and such changes could materially affect the net assets of the School.

### **Fair Value**

The School uses various valuation techniques in determining fair value. Generally accepted accounting principles establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the School. Unobservable inputs are inputs that reflect the School's assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. The input hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations are based on quoted prices in active markets for identical assets or liabilities that the School has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2 - Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 - Valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Land, Buildings, and Equipment**

Property and equipment is stated at cost or fair value at the date of donation. It is the School's policy to capitalize all additions greater than \$1,000 with a useful life in excess of one year. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 39½ years. Leasehold improvements are amortized over the shorter of the assets' estimated useful lives or the remaining lease term.

### **Loan Acquisition Costs**

Loan acquisition costs represent the costs associated with the issuance of the School's long-term debt. These costs are being amortized using the straight-line method over the term of the related debt. Amortization expense was approximately \$1,400 for the years ended June 30, 2014 and 2013.

### **Donated Services**

Volunteers have donated significant amounts of time in support of the School's activities. However, the value of these services is not reflected in the accompanying financial statements, as they do not meet the criteria for recognition as set forth under generally accepted accounting principles.

### **Income Taxes**

The School is exempt from income taxes as a corporation qualified under Section 501(c)(3) of the Internal Revenue Code. The School has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

For tax-exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize their tax-exempt status. As of June 30, 2014 and 2013, the School did not have a liability for unrecognized tax benefits. The School files informational returns in the U.S. federal jurisdiction. The School is generally no longer subject to U.S. federal tax examinations by tax authorities for fiscal years through 2010.

### **Comparative Information**

The financial statements include certain prior year summarized comparative information in total, but not by functional expense classification. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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.

### **3. NET ASSETS**

The School's Board of Trustees has designated certain unrestricted net assets for the following purposes at June 30:

	<u>2014</u>	<u>2013</u>
Campus development	\$ 503,265	\$ 503,265
Program and curriculum enhancement	220,000	220,000
Library	<u>25,000</u>	<u>25,000</u>
	<u>\$ 748,265</u>	<u>\$ 748,265</u>

### **4. CONCENTRATIONS**

The School's primary source of funding is obtained from the New York State Department of Education and is reported as public school district revenue in the accompanying statements of activities and change in net assets. This funding is received on a per pupil basis and was approximately 87% and 88% of the School's total revenue for the years ended June 30, 2014 and 2013, respectively.

### **5. INVESTMENTS**

#### **Composition**

Investments consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Money market funds	\$ 2,144	\$ 27,028
Equity mutual funds	22,509	147,658
Balanced mutual funds	198,286	168,513
Fixed income mutual funds	<u>331,291</u>	<u>283,542</u>
	<u>\$ 554,230</u>	<u>\$ 626,741</u>

#### **Net Investment Income**

Net investment income consisted of the following for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 20,700	\$ 18,408
Unrealized gains, net	<u>56,789</u>	<u>34,695</u>
	<u>\$ 77,489</u>	<u>\$ 53,103</u>

## 5. INVESTMENTS (Continued)

### Fair Value

The School's investments are measured at fair value on a recurring basis at June 30, 2014 utilizing the following input levels:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 2,144	\$ -	\$ -	\$ 2,144
Equity mutual funds	22,509	-	-	22,509
Balanced mutual funds	198,286	-	-	198,286
Fixed income mutual funds	<u>331,291</u>	<u>-</u>	<u>-</u>	<u>331,291</u>
	<u>\$ 554,230</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 554,230</u>

The School's investments are measured at fair value on a recurring basis at June 30, 2013 utilizing the following input levels:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 27,028	\$ -	\$ -	\$ 27,028
Equity mutual funds	147,658	-	-	147,658
Balanced mutual funds	168,513	-	-	168,513
Fixed income mutual funds	<u>283,542</u>	<u>-</u>	<u>-</u>	<u>283,542</u>
	<u>\$ 626,741</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 626,741</u>

## 6. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 87,000	\$ 87,000
Buildings and improvements	889,883	835,083
Leasehold improvements	564,286	564,286
Computers	235,773	235,773
Equipment	201,122	201,122
Construction-in-process	<u>29,542</u>	<u>29,542</u>
	2,007,606	1,952,806
Less: Accumulated depreciation and amortization	(1,050,616)	(1,003,810)
	<u>\$ 956,990</u>	<u>\$ 948,996</u>

Depreciation expense was \$46,806 and \$38,845 for the years ended June 30, 2014 and 2013, respectively.

## **7. LONG-TERM DEBT**

The School has a mortgage payable to a bank that requires monthly payments of \$4,316, including interest at 5.37%, through February 2022. In April 2023, all outstanding principal and interest is due.

Principal repayments under the terms of this agreement are as follows for the years ending June 30:

2015	\$ 20,764
2016	21,907
2017	23,113
2018	24,385
2019	25,727
Thereafter	<u>472,430</u>
	<u>\$ 588,326</u>

## **8. LINE OF CREDIT**

During the year ended June 30, 2014, the School entered into a line of credit agreement with a bank that provides for borrowings up to \$200,000 that is renewable on an annual basis. Amounts borrowed bear interest at the prime rate (3.25% June 30, 2014) plus 1.5% and are collateralized by a general lien on substantially all of the School's assets. There were no amounts outstanding at June 30, 2014.

There was no interest paid on the line-of-credit in 2014.

## **9. RETIREMENT PLANS**

### **New York State Teachers' Retirement System**

The School participates in the New York State Teachers' Retirement System (the System). Eligible full-time employees automatically begin participation upon hire. The School made contributions for eligible full-time employees at rates of 16.25% and 11.84% of compensation for the years ended June 30, 2014 and 2013, respectively. Contributions are used by the System to purchase fully-vested individual retirement annuity contracts. The School recognized pension expense for required contributions to the System of \$305,489 and \$213,596 during the years ended June 30, 2014 and 2013, respectively.

### **Retirement Savings Plan**

The School sponsors a tax sheltered annuity 403(b) retirement plan (the Plan) for all salaried, full-time employees who are not participants in the New York State Teachers' Retirement System. These employees are eligible to participate upon hiring and are immediately vested in the School's contributions. The School makes contributions of 4.5% of the employees' annual salary. The School's recognized expense for contributions to the Plan of \$23,137 and \$21,865, during the years ended June 30, 2014 and 2013, respectively.

## **10. AFFILIATE TRANSACTIONS**

### **Facility Lease**

The School leases certain school facilities from Ibero-American Development Corporation (Development) through August 2015. Development is a subsidiary of IAAL and has common management and Board of Directors' members. Under the terms of the agreement with Development, the School rents the facility at a monthly rate of \$24,187 through August 2015. Rent expense recognized under the terms of this agreement was \$290,244 for the years ended June 30, 2014 and 2013.

Future minimum payments under the terms of this agreement are as follows for the years ending June 30:

2015	\$ 290,244
2016	<u>48,374</u>
<u>\$ 338,618</u>	

### **Extended Day Program**

IAAL provided certain personnel services to the School for the School's Extended Day Program through September 2012 at which time the employees providing these services under IAAL became employees of the School. There was no cost to the school for services in 2014. The cost to the School for the services provided by IAAL for the year ended, June 30, 2013 was \$36,395.

## **11. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through October 15, 2014, which is the date the financial statements were available to be issued.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

October 15, 2014

To the Board of Trustees of  
Eugenio Maria de Hostos Charter School:

We have audited in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Eugenio Maria de Hostos Charter School (the School), which comprise the statement of financial position as of June 30, 2014 and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 15, 2014.

**Internal Control Over Financial Reporting**

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

171 Sully's Trail, Suite 201  
Pittsford, New York 14534  
p (585) 381-1000  
f (585) 381-3131

[www.bonadio.com](http://www.bonadio.com)

(Continued)

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

(Continued)

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

October 15, 2014

To the Board of Trustees of  
Eugenio Maria de Hostos Charter School:

**Report on Compliance for Each Major Federal Program**

We have audited Eugenio Maria de Hostos Charter School's (the School's) 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 School's major federal programs for the year ended June 30, 2014. The School's major federal programs are identified in the summary of auditor's 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the School'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; 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 School'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 of the School's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the School 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.

(Continued)

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

(Continued)

**Report on Internal Control Over Compliance**

Management of the School 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 School'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 School'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.

## **EUGENIO MARIA DE HOSTOS CHARTER SCHOOL**

### **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014**

---

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract/ Grantor Number</u>	<u>Expenditures</u>
<b>U.S. Department of Education:</b>			
Passed through the New York State Education Department -			
Title I Grants to Local Educational Agencies	84.010	0021134055	\$ 227,458
Improving Teacher Quality State Grants (Title II)	84.367	0147134055	14,308
<b>U.S. Department of Agriculture:</b>			
Passed through the New York State Education Department -			
Child Nutrition Cluster -			
National School Lunch Program	10.555	N/A	229,466
School Breakfast Program	10.553	N/A	<u>91,274</u>
Total Child Nutrition Cluster			<u>320,740</u>
			<u><u>\$ 562,506</u></u>

The accompanying notes are an integral part of these statements.

## **EUGENIO MARIA DE HOSTOS CHARTER SCHOOL**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014**

---

#### **1. GENERAL**

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of Eugenio Maria de Hostos Charter School. The schedule includes expenditures of federal awards received directly from federal agencies, as well as federal awards passed through other organizations.

#### **2. BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards has been prepared in conformity with accounting principles generally accepted in the United States using the accrual basis of accounting.

## **EUGENIO MARIA DE HOSTOS CHARTER SCHOOL**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2014**

---

#### **A. SUMMARY OF AUDITOR'S RESULTS**

1. The Independent Auditor's Report expresses an unmodified opinion on the financial statements of Eugenio Maria de Hostos Charter School (the School).
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the School, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies related to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance.
5. The independent auditor's report on compliance for the School's major federal award programs expresses an unmodified opinion.
6. There were no audit findings required to be reported relative to the major federal award programs for the School.
7. The programs tested as major programs were:
  - CFDA No. 84.010 - Title I Grants to Local Educational Agencies
  - CFDA No. 10.555 - National School Lunch Program
  - CFDA No. 10.553 - School Breakfast Program
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The School was not determined to be a low-risk auditee.

#### **B. FINDINGS - FINANCIAL STATEMENT AUDIT**

None

#### **C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT**

None

#### **D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

None