

**EUGENIO MARIA DE HOSTOS
CHARTER SCHOOL**

**Financial Statements
as of June 30, 2013
Together with
Independent Auditor's Reports**

Bonadio & Co., LLP
Certified Public Accountants

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

TABLE OF CONTENTS JUNE 30, 2013

	<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; Report on Internal Control over Compliance	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 17, 2013

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, 2013, 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, 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.

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

ROCHESTER • BUFFALO
ALBANY • SYRACUSE
NYC • PERRY
GENEVA • UTICA

www.bonadio.com

(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

Report on Summarized Comparative Information

We have previously audited the School's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 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 17, 2013 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.

Bonadio & Co., LLP

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013

(With Comparative Totals for 2012)

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 500,959	\$ 631,956
Grants receivable	25,555	25,040
Other receivables, net of allowance for doubtful accounts of \$1,500 in 2013 and 2012	116,220	102,551
Investments	626,741	573,638
Prepaid expenses	<u>-</u>	<u>3,630</u>
Total current assets	1,269,475	1,336,815
LAND, BUILDINGS, AND EQUIPMENT, net	948,996	910,038
LOAN ACQUISITION COSTS, net	<u>26,262</u>	<u>27,675</u>
	<u>\$ 2,244,733</u>	<u>\$ 2,274,528</u>
LIABILITIES		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 19,681	\$ 18,654
Accounts payable	16,954	94,459
Accrued liabilities	307,083	281,292
Due to New York State	<u>36,495</u>	<u>-</u>
Total current liabilities	380,213	394,405
LONG-TERM DEBT, net of current portion	<u>587,829</u>	<u>607,025</u>
Total liabilities	968,042	1,001,430
NET ASSETS	<u>1,276,691</u>	<u>1,273,098</u>
	<u>\$ 2,244,733</u>	<u>\$ 2,274,528</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, 2013 (With Comparative Totals for 2012)

	<u>2013</u>	<u>2012</u>
REVENUES, GAINS, AND OTHER SUPPORT:		
Public school district -		
Resident student enrollment	\$ 4,737,478	\$ 4,664,822
Students with disabilities	59,419	62,261
Federal and state grants	304,053	301,644
Cafeteria	300,972	249,450
Interest	922	1,942
Investment income, net	53,103	29,129
Other	<u>14,728</u>	<u>13,025</u>
Total revenues, gains, and other support	<u>5,470,675</u>	<u>5,322,273</u>
EXPENSES:		
Program -		
Regular education	4,368,010	4,287,403
Special education	<u>541,682</u>	<u>474,174</u>
Total program	4,909,692	4,761,577
Supporting services -		
Management and general	<u>557,390</u>	<u>515,107</u>
Total expenses	<u>5,467,082</u>	<u>5,276,684</u>
CHANGE IN NET ASSETS	3,593	45,589
NET ASSETS - beginning of year	<u>1,273,098</u>	<u>1,227,509</u>
NET ASSETS - end of year	<u>\$ 1,276,691</u>	<u>\$ 1,273,098</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, 2013

(With Comparative Totals for 2012)

	Program Services			Supporting Services			Total
	Regular Education	Special Education	Other Education	Fundraising	Management and General	Total	
Personnel services costs:							
Administrative staff personnel	\$ 79,098	\$ -	\$ -	\$ -	\$ 209,261	\$ 209,261	\$ 288,359
Instructional personnel	1,896,571	304,631	-	-	-	-	2,201,202
Non-instructional personnel	-	-	-	-	14,342	14,342	14,342
Total personnel services costs	1,975,669	304,631	-	-	223,603	223,603	2,503,903
Fringe benefits and payroll taxes	569,655	87,836	-	-	64,472	64,472	721,963
Retirement	204,005	31,456	-	-	-	-	235,461
Legal services	-	-	-	-	290	290	290
Accounting/audit services	-	-	-	-	16,575	16,575	16,575
Other purchased/professional/consulting services	230,015	31,366	-	-	29,042	29,042	290,423
Building and land rent/lease	229,873	31,346	-	-	29,024	29,024	290,243
Repairs and maintenance	-	-	-	-	19,799	19,799	19,799
Insurance	-	-	-	-	35,857	35,857	35,857
Utilities	68,967	6,852	-	-	35,068	35,068	110,887
Supplies/materials	23,802	1,777	-	-	-	-	25,579
Equipment/furnishings	1,268	26	-	-	24,216	24,216	25,510
Staff development	30,128	3,256	-	-	2,390	2,390	35,774
Marketing/recruitment	-	-	-	-	1,271	1,271	1,271
Technology	11,347	-	-	-	13,954	13,954	25,301
Food service	426,200	-	-	-	-	-	426,200
Student services	546,783	38,424	-	-	-	-	585,207
Office expense	9,304	-	-	-	9,831	9,831	19,135
Depreciation and amortization	35,211	4,712	-	-	335	335	40,258
Other	5,783	-	-	-	51,663	51,663	57,446
Total expenses	\$ 4,368,010	\$ 541,682	\$ -	\$ -	\$ 557,390	\$ 557,390	\$ 5,467,082
							\$ 5,276,684

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, 2013 (With Comparative Totals for 2012)

	<u>2013</u>	<u>2012</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Revenue from school districts	\$ 4,783,228	\$ 4,806,624
Grant revenues	303,538	358,209
Miscellaneous sources	369,725	293,546
Payments to vendors for goods and services rendered	(3,593,851)	(3,311,830)
Payments to charter school personnel for services rendered	<u>(1,879,257)</u>	<u>(1,785,342)</u>
Net cash flow from operating activities	<u>(16,617)</u>	<u>361,207</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Payment of loan acquisition costs	-	(28,264)
Proceeds from issuance of long-term debt	-	630,000
Repayment of long-term debt	<u>(18,169)</u>	<u>(4,321)</u>
Net cash flow from financing activities	<u>(18,169)</u>	<u>597,415</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of investments	(18,408)	(68,739)
Proceeds from sale of investments	-	50,000
Purchases of land, buildings, and equipment	<u>(77,803)</u>	<u>(898,762)</u>
Net cash flow from investing activities	<u>(96,211)</u>	<u>(917,501)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(130,997)	41,121
CASH AND CASH EQUIVALENTS - beginning of year	<u>631,956</u>	<u>590,835</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 500,959</u>	<u>\$ 631,956</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 3,593	\$ 45,589
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Recovery of doubtful accounts	-	(3,496)
Gain on investments, net	(34,695)	(10,390)
Depreciation and amortization	40,258	23,725
(Increase) decrease in assets:		
Grants receivable	(515)	52,719
Other receivables	(13,669)	83,037
Prepaid expenses	3,630	87,954
Increase (decrease) in liabilities:		
Accounts payable	(77,505)	26,358
Accrued liabilities	25,791	55,711
Due to New York State	<u>36,495</u>	<u>-</u>
Net cash flow from operating activities	<u>\$ (16,617)</u>	<u>\$ 361,207</u>

The accompanying notes are an integral part of these statements.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 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.

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.

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, 2013 and 2012, 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 New York State. 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.

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.

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.

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 and \$600 for the years ended June 30, 2013 and 2012, respectively.

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, 2013 and 2012, the School did not have a liability for unrecognized tax benefits. The School files informational tax 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 2009.

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, 2012, 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>2013</u>	<u>2012</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 88% and 89% of the School's total revenue for the years ended June 30, 2013 and 2012, respectively.

5. INVESTMENTS

Composition

Investments consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Money market funds	\$ 27,028	\$ 27,024
Equity mutual funds	147,658	123,434
Balanced mutual funds	168,513	148,048
Fixed income mutual funds	<u>283,542</u>	<u>275,132</u>
	<u>\$ 626,741</u>	<u>\$ 573,638</u>

Net Investment Income

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

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 18,408	\$ 18,739
Unrealized gains	<u>34,695</u>	<u>10,390</u>
	<u>\$ 53,103</u>	<u>\$ 29,129</u>

5. INVESTMENTS (Continued)

Fair Value

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>

The School's investments are measured at fair value on a recurring basis at June 30, 2012 utilizing the following input levels:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 27,024	\$ -	\$ -	\$ 27,024
Equity mutual funds	123,434	-	-	123,434
Balanced mutual funds	148,048	-	-	148,048
Fixed income mutual funds	<u>275,132</u>	<u>-</u>	<u>-</u>	<u>275,132</u>
	<u>\$ 573,638</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 573,638</u>

6. LAND, BUILDINGS, AND EQUIPMENT

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

	<u>2013</u>	<u>2012</u>
Land	\$ 87,000	\$ 87,000
Buildings and improvements	835,083	783,000
Leasehold improvements	564,286	558,086
Computers	235,773	235,773
Equipment	201,122	196,602
Construction-in-process	<u>29,542</u>	<u>14,542</u>
	1,952,806	1,875,003
Less: Accumulated depreciation and amortization	<u>(1,003,810)</u>	<u>(964,965)</u>
	<u>\$ 948,996</u>	<u>\$ 910,038</u>

Depreciation expense was \$38,845 and \$23,136 for the years ended June 30, 2013 and 2012, respectively.

7. LONG-TERM DEBT

In February 2012, the School entered into a \$630,000 mortgage note 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 these agreements are as follows for the years ending June 30:

2014	\$	19,681
2015		20,764
2016		21,907
2017		23,113
2018		24,385
Thereafter		<u>497,660</u>
	\$	<u>607,510</u>

8. 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 11.84% and 11.11% of compensation for the years ended June 30, 2013 and 2012, 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 \$213,597 and \$180,561 during the years ended June 30, 2013 and 2012, 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 contributions to the Plan for the years ended June 30, 2013 and 2012 were \$21,865 and \$20,160, respectively.

9. 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 and \$286,870 the years ended June 30, 2013 and 2012, respectively.

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

2014	\$ 290,244
2015	290,244
2016	<u>48,374</u>
	<u>\$ 628,862</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. The cost to the School for the services provided by IAAL was \$36,395 and \$273,036 during the years ended June 30, 2013 and 2012, respectively.

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 17, 2013, 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 17, 2013

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, 2013 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 17, 2013.

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

ROCHESTER • BUFFALO
ALBANY • SYRACUSE
NYC • PERRY
GENEVA • UTICA

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.

Bonadio & Co., LLP

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE**

October 17, 2013

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, 2013. 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, 2013.

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

ROCHESTER • BUFFALO
ALBANY • SYRACUSE
NYC • PERRY
GENEVA • UTICA

www.bonadio.com

(Continued)

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE**

(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.

Bonadio & Co., LLP

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract/ Grantor Number</u>	<u>Expenditures</u>
U.S. Department of Education:			
Passed through the New York State Education Department -			
Title I Grants to Local Educational Agencies	84.010	0021134055	\$ 239,544
Improving Teacher Quality State Grants (Title II)	84.367	0147134055	15,992
U.S. Department of Agriculture:			
Passed through the New York State Education Department -			
National School Lunch Program	10.555	None	154,505
After School Snack Program	10.555	None	43,428
School Breakfast Program	10.553	None	<u>84,312</u>
Total federal awards			<u>\$ 537,781</u>

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2013

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, 2013

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
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