

**EUGENIO MARIA DE HOSTOS
CHARTER SCHOOL**

**Financial Statements as of
June 30, 2022
Together with
Independent Auditor's Report
and Single Audit Reports**

Bonadio & Co., LLP
Certified Public Accountants

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

March 28, 2023

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

Report on the Financial Statements

Opinion

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, 2022, 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 financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the School as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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INDEPENDENT AUDITOR'S REPORT

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the School's 2021 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 22, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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INDEPENDENT AUDITOR'S REPORT

(Continued)

Supplementary 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 of America. 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 March 28, 2023 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, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the School's 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, 2022

(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 4,217,269	\$ 2,609,645
Grants and contracts receivable	603,868	554,182
Prepaid expenses	191,890	19,714
Investments	<u>2,685,698</u>	<u>2,055,741</u>
Total current assets	7,698,725	5,239,282
DESIGNATED CASH	75,000	75,000
LAND, BUILDINGS, AND EQUIPMENT, net	<u>4,776,621</u>	<u>4,633,126</u>
	<u>\$ 12,550,346</u>	<u>\$ 9,947,408</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 75,572	\$ 89,072
Accounts payable	24,815	109,039
Due to Rochester City School District	123,450	148,051
Accrued liabilities	1,051,398	934,101
Deferred revenue	<u>1,433,489</u>	<u>40,555</u>
Total current liabilities	2,708,724	1,320,818
LONG-TERM DEBT, net of current portion	<u>2,039,238</u>	<u>2,256,641</u>
Total liabilities	4,747,962	3,577,459
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>7,802,384</u>	<u>6,369,949</u>
	<u>\$ 12,550,346</u>	<u>\$ 9,947,408</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, 2022

(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
REVENUES, GAINS, AND OTHER SUPPORT:		
Public school district -		
Resident student enrollment	\$ 13,263,077	\$ 12,807,158
Students with disabilities	450,471	393,151
Federal and state grants	3,518,464	1,898,162
Federal and state food service	815,182	242,790
Forgiveness of PPP loan payable	-	1,892,420
Interest	2,131	1,197
Investment income (loss), net	(86,653)	23,165
Other	<u>395,702</u>	<u>83,115</u>
Total revenues, gains, and other support	<u>18,358,374</u>	<u>17,341,158</u>
EXPENSES:		
Program -		
Regular education	12,521,025	11,448,470
Special education	<u>986,424</u>	<u>775,338</u>
Total program	13,507,449	12,223,808
Supporting services -		
Management and general	<u>3,418,490</u>	<u>3,118,793</u>
Total expenses	<u>16,925,939</u>	<u>15,342,601</u>
CHANGE IN NET ASSETS	1,432,435	1,998,557
NET ASSETS - beginning of year	<u>6,369,949</u>	<u>4,371,392</u>
NET ASSETS - end of year	<u>\$ 7,802,384</u>	<u>\$ 6,369,949</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, 2022

(With Comparative Totals for 2021)

	Program Services				Supporting Services			Total	
	Regular Education	Special Education	Other Education	Total	Fundraising	Management and General	Total	2022	2021
Personnel services costs:									
Administrative staff personnel	\$ 168,415	\$ -	\$ -	\$ 168,415	\$ -	\$ 2,026,445	\$ 2,026,445	\$ 2,194,860	\$ 1,644,306
Instructional personnel	6,531,517	527,190	-	7,058,707	-	-	-	7,058,707	7,163,350
Non-instructional personnel	-	-	-	-	-	57,812	57,812	57,812	212,453
Total personnel services costs	6,699,932	527,190	-	7,227,122	-	2,084,257	2,084,257	9,311,379	9,020,109
Fringe benefits and payroll taxes	1,790,861	140,915	-	1,931,776	-	557,112	557,112	2,488,888	2,248,865
Retirement	527,184	41,474	-	568,658	-	163,965	163,965	732,623	727,837
Legal services	-	-	-	-	-	13,654	13,654	13,654	18,227
Accounting/audit services	-	-	-	-	-	27,210	27,210	27,210	23,840
Other purchased/professional/consulting services	678,433	-	-	678,433	-	75,381	75,381	753,814	557,892
Repairs and maintenance	366,838	8,337	-	375,175	-	41,686	41,686	416,861	341,869
Insurance	54,055	1,229	-	55,284	-	6,143	6,143	61,427	75,497
Utilities	188,091	4,275	-	192,366	-	21,374	21,374	213,740	226,934
Supplies/materials	163,438	3,715	-	167,153	-	18,573	18,573	185,726	72,621
Equipment/furnishings	90,578	2,059	-	92,637	-	10,293	10,293	102,930	119,083
Staff development	21,807	1,716	-	23,523	-	6,784	6,784	30,307	16,000
Marketing/recruitment	-	-	-	-	-	58,402	58,402	58,402	65,007
Technology	535,918	178,639	-	714,557	-	-	-	714,557	488,679
Food service	372,397	-	-	372,397	-	-	-	372,397	156,157
Student services	40,986	-	-	40,986	-	-	-	40,986	5,608
Office expense	-	-	-	-	-	29,834	29,834	29,834	22,197
Depreciation and amortization	467,227	37,577	-	504,804	-	148,558	148,558	653,362	614,363
Other	523,280	39,298	-	562,578	-	155,264	155,264	717,842	541,816
	<u>\$ 12,521,025</u>	<u>\$ 986,424</u>	<u>\$ -</u>	<u>\$ 13,507,449</u>	<u>\$ -</u>	<u>\$ 3,418,490</u>	<u>\$ 3,418,490</u>	<u>\$ 16,925,939</u>	<u>\$ 15,342,601</u>

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, 2022 (With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Revenue from school districts	\$ 13,666,253	\$ 13,287,889
Grant revenues	5,676,894	1,819,577
Miscellaneous sources	311,180	107,477
Payments to charter school personnel for services rendered	(7,109,825)	(7,323,045)
Payments to vendors for goods and services rendered	<u>(9,168,656)</u>	<u>(7,084,278)</u>
Net cash flow from operating activities	<u>3,375,846</u>	<u>807,620</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	1,500,000	-
Debt issuance costs	(38,103)	-
Repayment of long-term debt	<u>(1,716,652)</u>	<u>(81,540)</u>
Net cash flow from financing activities	<u>(254,755)</u>	<u>(81,540)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of investments	(716,610)	(23,152)
Purchases of land, buildings, and equipment	<u>(796,857)</u>	<u>(233,702)</u>
Net cash flow from investing activities	<u>(1,513,467)</u>	<u>(256,854)</u>
CHANGE IN CASH AND DESIGNATED CASH	1,607,624	469,226
CASH AND DESIGNATED CASH - beginning of year	<u>2,684,645</u>	<u>2,215,419</u>
CASH AND DESIGNATED CASH - end of year	<u>\$ 4,292,269</u>	<u>\$ 2,684,645</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,432,435	\$ 1,998,557
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Loss on investments, net	86,653	-
Depreciation and amortization	653,362	614,363
Amortization of debt issuance costs	23,852	20,460
Gain on forgiveness of PPP loan payable	-	(1,892,420)
(Increase) decrease in assets:		
Grants and contracts receivable	(49,686)	(237,979)
Accounts receivable	-	134,875
Prepaid expenses	(172,176)	-
Increase (decrease) in liabilities:		
Accounts payable	(84,224)	20,059
Due to Rochester City School District	(24,601)	100,756
Accrued liabilities	117,297	132,345
Deferred revenue	<u>1,392,934</u>	<u>(83,396)</u>
Net cash flow from operating activities	<u>\$ 3,375,846</u>	<u>\$ 807,620</u>

The accompanying notes are an integral part of these statements.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

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. (Ibero). Ibero 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.

In its initial year of operation, the 2000-2001 school year, the School provided educational instruction to students in kindergarten through second grade. In June 2020, the School received a renewal of its charter for an additional five years through 2025. This extension provided the School with the authority to increase student levels for its existing grades and to provide instruction through grade twelve. Under the terms of the charter, the School added grade twelve in the 2019-2020 school year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Financial Reporting

Net assets without donor restrictions include operating resources that are available for use without any donor-imposed restrictions. Board designated net assets are net assets without donor restrictions set aside by the School's Board of Trustees for use at the Board's discretion.

At June 30, 2022 and 2021, all of the School's net assets were without donor restrictions.

Revenue Recognition

Revenue from contracts with students is recognized in the fiscal year in which the academic programs are delivered. The School records per pupil tuition revenue on a per student basis at the students' resident district's allocated rate which is established by New York State (the State). The rate is prorated based on the student's full time equivalent during the academic year. The School recognizes tuition revenue in the period in which it satisfies its performance obligation by providing services to its students.

The School's performance obligation relative to per pupil tuition is to provide instruction for its students over the academic year. These obligations are satisfied over the academic year as these services are provided by the School and received by the student.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Payments for per pupil tuition are recognized at the amounts to which the School expects to be entitled, and this transaction price is allocated to the service. Each academic year, the performance obligation is satisfied as the benefit of the services are consumed.

Per pupil tuition is charged to the student's resident district on a bimonthly basis with six payments made during the academic year. The School expects to collect all payments due from the students' resident districts and, therefore, the School has not established an allowance for doubtful accounts.

Cash and Designated Cash

Cash and designated cash include bank demand deposit and money market accounts. The amount in the bank 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 designated cash.

In accordance with New York State Department of Education (NYSED) regulations, the School is required to maintain funds to pay for expenses associated with the potential termination of the School or non-renewal of the School's charter. The School had designated cash totaling \$75,000 at June 30, 2022 and 2021 to satisfy this requirement.

Grants and Contracts Receivable

Grant revenue is recognized as the related costs are incurred. Grants subject to conditions are not recorded as income until those conditions have been met. Amounts received in advance of incurring the related costs are reported as deferred revenue.

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 Measurement

GAAP establishes a framework for measuring fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement (Continued)

- 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.

Fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The methods described above may produce a fair value calculation that may not be indicative of net realized value or reflective of future fair values. Furthermore, while the School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost or fair value at the date of donation. It is the School's policy to capitalize all additions greater than \$5,000 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.

The School assesses its long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable. This is accomplished by comparing the expected undiscounted future cash flows of the long-lived assets with the respective carrying amount as of the date of assessment. If the expected undiscounted future cash flows exceed the respective carrying amount as of the date of assessment, the long-lived assets are considered not to be impaired. If the expected undiscounted future cash flows are less than the carrying value, an impairment loss is recognized and measured as the difference between the carrying value and the fair value of the long-lived assets. No impairment of long-lived assets was recognized during the years ended June 30, 2022 and 2021.

Debt Issuance Costs

Debt issuance costs represent costs incurred to obtain long-term debt. These costs are amortized as interest expense on a straight-line basis over the term of the related debt.

Expense Allocations

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions. Personnel services costs and fringe benefits and payroll taxes are directly charged whenever possible and practicable and otherwise are allocated based on time and effort. Depreciation, insurance, repairs and maintenance, and utilities are allocated based on square footage occupied. Expenses not mentioned above are directly charged to the appropriate function on a transactional basis.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 GAAP.

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.

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 accordance with GAAP. Accordingly, such information should be read in conjunction with the School's financial statements as of and for the year ended June 30, 2021, from which the summarized information was derived.

Estimates

The preparation of financial statements in accordance with GAAP 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. LIQUIDITY

The School had financial assets available to meet cash needs for general expenditures one year from the statement of financial position date as follows at June 30:

	<u>2022</u>	<u>2021</u>
Cash	\$ 4,217,269	\$ 2,609,645
Grants and contract receivables	603,868	554,182
Investments	<u>2,685,698</u>	<u>2,055,741</u>
	7,506,835	5,219,568
Less: Board designated net assets	<u>(1,500,000)</u>	<u>(1,500,000)</u>
	<u>\$ 6,006,835</u>	<u>\$ 3,719,568</u>

The School is substantially supported by student enrollment revenue and federal and state grants that are without contractual or donor restrictions. As part of the School's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Amounts not available for expenditure include amounts set aside for long-term purposes as designated by the Board of Trustees.

The School maintains cash and investments that are readily available for general expenditures. Additionally, the School's ability to meet its cash needs is further dependent, in part, on timely collection of its accounts receivable and grants and contracts receivable. The School's accounts receivable and grants and contracts receivable are due primarily from government funders, such as New York State and various New York central school districts. The School employs procedures specifically designed to collect from these payers as quickly as possible. In the event of unanticipated liquidity needs, the School maintains a line of credit in the amount of \$200,000 that it could utilize.

4. NET ASSETS

The School's Board of Trustees has designated certain net assets without donor restrictions for the following purposes at June 30:

	<u>2022</u>	<u>2021</u>
Campus development	\$ 1,000,000	\$ 1,000,000
Renewal transformation	<u>500,000</u>	<u>500,000</u>
	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>

5. 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 76% of the School's total revenue for both of the years ended June 30, 2022 and 2021.

6. CASH AND DESIGNATED CASH

Cash and designated cash, as reported in the statements of cash flows, consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Cash	\$ 4,217,269	\$ 2,609,645
Designated cash	<u>75,000</u>	<u>75,000</u>
	<u>\$ 4,292,269</u>	<u>\$ 2,684,645</u>

7. INVESTMENTS

The School's investments consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Cash	\$ 2,215,740	\$ 532,696
Fixed income mutual funds	<u>469,958</u>	<u>1,523,045</u>
	<u>\$ 2,685,698</u>	<u>\$ 2,055,741</u>

The School's fixed income mutual funds were measured at fair value on a recurring basis using Level 1 inputs at June 30, 2022 and 2021.

8. LAND, BUILDINGS, AND EQUIPMENT

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

	<u>2022</u>	<u>2021</u>
Land	\$ 237,000	\$ 237,000
Buildings and improvements	5,394,305	4,597,447
Leasehold improvements	2,178,160	2,178,160
Computers	287,409	287,409
Equipment	<u>206,685</u>	<u>206,685</u>
	8,303,559	7,506,701
Less: Accumulated depreciation and amortization	<u>(3,526,938)</u>	<u>(2,873,575)</u>
	<u>\$ 4,776,621</u>	<u>\$ 4,633,126</u>

Depreciation expense was \$653,358 and \$614,363 for the years ended June 30, 2022 and 2021, respectively.

9. LINE OF CREDIT

The School has 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 plus 1.5% (4.75% at June 30, 2022) and are collateralized by a general lien on substantially all of the School's assets. There were no amounts outstanding at June 30, 2022 and 2021.

10. LONG-TERM DEBT

Composition

Long-term debt consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Note payable to a bank requiring monthly payments of \$9,395, including interest at 4.32%, through September 2031, collateralized by the related building.	\$ 1,464,068	\$ -
Note payable to a bank requiring monthly payments of \$4,858, including interest at 4.71%, through 2029, collateralized by the related building.	688,324	713,106
Mortgage payable to a bank repaid during the year ended June 30, 2022.	-	420,646
Mortgage payable to a corporation repaid during the year ended June 30, 2022.	<u>-</u>	<u>1,235,292</u>
	2,152,392	2,369,044
Less: Current portion	(75,572)	(89,072)
Less: Unamortized debt issuance costs	<u>(37,582)</u>	<u>(23,331)</u>
	<u>\$ 2,039,238</u>	<u>\$ 2,256,641</u>

10. LONG-TERM DEBT (Continued)

Principal Repayments

Principal repayments under the terms of these agreements are as follows for the years ending June 30:

2023	\$	75,572
2024		78,802
2025		82,689
2026		86,503
2027		90,492
Thereafter		<u>1,738,334</u>
	\$	<u>2,152,392</u>

Interest

Interest expense incurred and paid under the terms of these agreements were \$107,560 and \$134,588 during the years ended June 30, 2022 and 2021, respectively, and is included in other expenses in the accompanying financial statements. Amortization of debt issuance costs were \$23,852 and \$20,460 during the years ended June 30, 2022 and 2021 respectively, and are also included in other expenses in the accompanying financial statements.

Debt Issuance Costs

Estimated future amortization expense of the debt issuance costs is as follows for the years ending June 30:

2023	\$	10,118
2024		10,118
2025		8,453
2026		7,620
2027		<u>1,273</u>
	\$	<u>37,582</u>

11. PAYCHECK PROTECTION PROGRAM LOAN PAYABLE

In April 2020, the School entered into a Paycheck Protection Program (PPP) loan agreement with a bank under which the School received \$1,892,420. This arrangement included provisions whereby the loan balance would be fully or partially forgiven based on the School's use of the funds, maintenance of its personnel complement, and compliance with certain reporting elements to the bank in accordance with the requirements of the PPP.

During the year ended June 30, 2021, the School received forgiveness of this loan, as acknowledged by the U.S. Small Business Administration and recognized \$1,892,420 as forgiveness of PPP loan payable in the accompanying statement of activities and change in net assets.

12. RETIREMENT PLANS

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 (TRS). 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 salaries. The School recognized expense for contributions to the Plan of \$75,468 and \$103,096 during the years ended June 30, 2022 and 2021, respectively.

New York State Teachers' Retirement System

The School participates in the TRS, a cost sharing multiple employer, defined benefit pension plan. TRS offers a wide range of plans and benefits 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 retirement, disability, withdrawal, and death 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 for the System.

TRS requires employee contributions of 3% of their annual salary for the first 10 years of service for those employees who joined the plan between July 1976 and December 2009. Participants hired between January 1, 2010 and March 31, 2012 are required to contribute 3.5% of their annual salary, and participants hired after April 1, 2012 are required to contribute between 3% and 6% of the annual salary, depending on their reportable salary. Participants hired after January 1, 2010 are required to contribute throughout the active membership in TRS. No employee contribution is required for those hired prior to July 1976. Pursuant to Article 11 of the Education Law, an actuarially determined contribution rate is established annually by the New York State Teachers' Retirement Board. The rate for the years ended June 30, 2022 and 2021 was 9.80% and 9.53% of the annual covered payroll, respectively. The School's required contributions were \$650,935 and \$624,741 for the years ended June 30, 2022 and 2021, respectively.

13. AFFILIATE TRANSACTIONS

The School enters into annual agreements with Ibero in which Ibero provides family service assistance services as a component of a grant agreement between the School and New York State. The School paid recognized expense of approximately \$100,000 and \$155,000 to Ibero for these services during the years ended June 30, 2022 and 2021, respectively. At June 30, 2022 and 2021, the School had amounts due to Ibero of \$6,028 and \$16,666, respectively, related to these services.

14. COMMITMENTS

In June 2019, the School entered into a non-cancellable lease agreement in Rochester, New York to accommodate the School's grades 9 through 12. This lease was effective July 2019 and expires in June 2024. The School has the option to renew the lease for up to three additional terms of five years each. Future minimum lease payments under the terms of this agreement are as follows for the years ending June 30:

2023	\$ 249,492
2024	<u>286,584</u>
	<u>\$ 566,076</u>

Total rent expense under this agreement for the years ended June 30, 2022 and 2021 was approximately \$362,000 and \$241,000, respectively.

15. COVID-19

Elementary and Secondary School Emergency Relief Fund

The Elementary and Secondary School Emergency Relief Fund (ESSER) was established and funded by a number of federal stimulus legislations. ESSER grants were awarded to help schools safely reopen and to sustain their safe operations as the schools addressed the COVID-19 impact on their students.

During the years ended June 30, 2022 and 2021, the School received funds totaling approximately \$1,420,000 and \$403,000, respectively, which has been recorded as a component of federal and state grants on the accompanying statement of activities and change in net assets.

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 28, 2023, 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**

March 28, 2023

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 of America 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) (a New York not-for-profit corporation), which comprise the statement of financial position as of June 30, 2022 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 March 28, 2023.

Report on 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) as a basis for designing 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.

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(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)

Report on 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 financial statements. 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*.

Organization's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the School's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

March 28, 2023

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Eugenio Maria de Hostos Charter School's (the School) compliance with the types of compliance requirements identified as subject to audit in the OMB *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, 2022. 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.

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, 2022.

Basis for Opinion on Each Major Federal Program

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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the School's federal programs.

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

(Continued)

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

(Continued)

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the Uniform Guidance. 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, 2022

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Contract Numbers</u>	<u>Assistance Listing Number</u>	<u>Total</u>
U.S. Department of Education:			
Passed through New York State Department of Education - Twenty-First Century Community Learning Centers	0187-22-7035	84.287	<u>\$ 791,974</u>
Education Stabilization Fund - COVID-19 - Elementary and Secondary School Emergency Relief (ESSER) Fund	5880-21-4055	84.425U	849,988
COVID-19 - Elementary and Secondary School Emergency Relief (ESSER) Fund	5218-21-4055	84.425W	4,050
COVID-19 - Elementary and Secondary School Emergency Relief (ESSER) Fund	5891-21-4055	84.425D	<u>565,714</u>
Total Education Stabilization Fund			1,419,752
Title I Grants to Local Education Agencies (LEA)	0021-22-4055	84.010	510,130
Supporting Effective Instruction State Grant Title II	0147-21-4055	84.367	59,544
Student Support and Academic Enrichment Grant Title IV	0204-21-4055	84.424	32,326
English Language Acquisition State Grants Title III	0293-21-4055	84.365	<u>9,952</u>
Total U.S. Department of Education			<u>2,823,678</u>
U.S. Department of Agriculture:			
Passed through New York State Department of Education - Child Nutrition Cluster:			
School Breakfast Program	N/A	10.553	<u>210,776</u>
National School Lunch Program	N/A	10.555	432,654
National School Lunch Program	N/A	10.555	<u>136,429</u>
Total National School Lunch Program			<u>569,083</u>
Total Child Nutrition Cluster			<u>779,859</u>
Passed through New York State Department of Health - Child and Adult Care Food Program (CACFP)	N/A	10.558	<u>35,625</u>
Total U.S. Department of Agriculture			<u>815,484</u>
Federal Communications Commission:			
COVID-19 - Emergency Connectivity Fund Program	N/A	32.009	<u>346,000</u>
Total Federal Communications Commission			<u>346,000</u>
			<u>\$ 3,985,162</u>

The accompanying notes are an integral part of this schedule.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2022

1. GENERAL

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal award programs of Eugenio Maria de Hostos Charter School (the School) for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to, and does not, present the financial position, activity, and change in net assets of the School.

2. BASIS OF ACCOUNTING

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. INDIRECT COST RATE

The School has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2022

A. SUMMARY OF AUDITOR'S RESULTS

1. The Independent Auditor's Report expresses an unmodified opinion on whether the financial statements of Eugenio Maria de Hostos Charter School (the School) are presented in accordance with accounting principles generally accepted in the United States of America.
2. One material weakness in internal control related to the audit of the School's 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 or material weaknesses 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 and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The Independent Auditor's Report on Compliance for Each Major Program expresses an unmodified opinion.
6. There were no audit findings required to be reported in accordance with Section 200.516(a) of the Uniform Guidance.
7. The programs tested as major programs were:
 - U.S. Department of Education:
 - ALN 84.425D Elementary and Secondary School Emergency Relief (ESSER) Fund
 - ALN 84.425U Elementary and Secondary School Emergency Relief (ARP ESSER) Fund
 - ALN 84.425W Elementary and Secondary School Emergency Relief (ARP ESSER) Fund
8. The threshold for distinguishing between Types A and B programs was \$750,000.
9. The School was determined to be a low-risk auditee.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2022**

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2022-001

Condition

As part of the June 30, 2022 audit process, there were a significant number of general ledger accounts that were not reconciled until months after the end of the fiscal year.

Criteria

The School's financial statements, including interim internal financial reporting, should be prepared on a timely basis.

Cause

The School experienced turnover in its CFO position.

Effect

The lack of timely financial reporting does not provide the Board of Trustees and management with the requisite information to properly govern and manage the School.

Recommendation

We recommend the School reengage its previous consultants to assist the School's Finance Manager with the monthly general ledger closing process.

Views of Responsible Officials and Planned Corrective Actions

Management agrees with this recommendation and has reengaged the previous consultants to assist in the monthly general ledger closing process.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM

None.

**D. SCHEDULE OF THE STATUS OF PRIOR YEAR AUDIT FINDINGS, QUESTIONED COSTS,
AND RECOMMENDATIONS**

None.

Corrective Action Plan

March 28, 2023

Eugenio Maria de Hostos Charter School respectfully submits the following corrective action plan for the year ending June 30, 2022.

Name and address of independent public accounting firm:

Bonadio & Co., LLP
171 Sully's Trail
Pittsford, NY 14534

Audit Period: July 1, 2021 – June 30, 2022

Finding – Financial Statement Audit

Material Weakness

Finding: 2022-001:

As part of the June 30, 2022 audit process, there were a significant number of general ledger accounts that were not reconciled until months after the end of the fiscal year.

Recommendation: The auditors recommended that the School reengage our previous consultants to assist the School's Finance Manager with the monthly general ledger closing process.

Action Taken: Management agrees with their recommendation and has reengaged our previous consultants to assist in the monthly general ledger closing process. Sandra Chevalier-Blackman, CEO, will assume responsibility for the implementation by June 30, 2022.

If the US Department of Education has questions regarding this plan, please call Sandra Chevalier-Blackman at (585) 544-6170.

Sincerely yours,



Sandra Chevalier-Blackman
CEO