

**EUGENIO MARIA DE HOSTOS
CHARTER SCHOOL**

**Financial Statements as of
June 30, 2015
Together with
Independent Auditor's Reports**

Bonadio & Co., LLP
Certified Public Accountants

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

October 29, 2015

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, 2015, 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 qualified audit opinion.

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(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

Basis for Qualified Opinion

As more fully described in Note 9 to the financial statements, the School is not able to obtain or determine its net pension asset (liability) or the required disclosures under the New York State Teachers' Retirement System, a defined benefit pension plan, in accordance with accounting principles generally accepted in the United States, which require the cost of employees' pensions to be recognized over the employees' respective service periods. In addition, accounting principles generally accepted in the United States require an asset to be recorded when the fair value of plan assets exceeds the accumulated benefit obligation and a liability to be recognized when the accumulated benefit obligation exceeds the fair value of plan assets. Quantification of the effects of that departure on the financial statements is not practicable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, 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, 2015, 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.

Report on Summarized Comparative Information

We have previously audited the School's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 15, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 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 29, 2015 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2015

(With Comparative Totals for 2014)

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,571,812	\$ 351,185
Grants receivable	44,672	24,177
Other receivables, net of allowance for doubtful accounts of \$1,500 in 2015 and 2014	70,452	159,407
Investments	<u>561,797</u>	<u>554,230</u>
Total current assets	2,248,733	1,088,999
LAND, BUILDINGS, AND EQUIPMENT, net	1,010,686	956,990
LOAN ACQUISITION COSTS, net	<u>23,435</u>	<u>24,849</u>
	<u>\$ 3,282,854</u>	<u>\$ 2,070,838</u>
LIABILITIES		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 21,907	\$ 20,764
Accounts payable	117,250	109,300
Accrued liabilities	473,576	394,612
Deferred revenue	929,882	-
Due to Rochester City School District	<u>21,593</u>	<u>36,382</u>
Total current liabilities	1,564,208	561,058
LONG-TERM DEBT, net of current portion	<u>546,165</u>	<u>567,562</u>
Total liabilities	2,110,373	1,128,620
NET ASSETS	<u>1,172,481</u>	<u>942,218</u>
	<u>\$ 3,282,854</u>	<u>\$ 2,070,838</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, 2015

(With Comparative Totals for 2014)

	<u>2015</u>	<u>2014</u>
REVENUES, GAINS, AND OTHER SUPPORT:		
Public school district -		
Resident student enrollment	\$ 4,967,381	\$ 4,733,095
Students with disabilities	69,046	57,846
Federal and state grants	359,344	265,834
Federal and state food service	358,950	329,328
Interest	734	660
Investment income, net	7,567	77,489
Other grants	142,280	-
Other	<u>26,501</u>	<u>16,724</u>
Total revenues, gains, and other support	<u>5,931,803</u>	<u>5,480,976</u>
EXPENSES:		
Program -		
Regular education	4,539,905	4,649,074
Special education	<u>554,097</u>	<u>566,966</u>
Total program	5,094,002	5,216,040
Supporting services -		
Management and general	<u>607,538</u>	<u>599,409</u>
Total expenses	<u>5,701,540</u>	<u>5,815,449</u>
CHANGE IN NET ASSETS	230,263	(334,473)
NET ASSETS - beginning of year	<u>942,218</u>	<u>1,276,691</u>
NET ASSETS - end of year	<u>\$ 1,172,481</u>	<u>\$ 942,218</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, 2015**

(With Comparative Totals for 2014)

	Program Services				Supporting Services			Total	
	Regular Education	Special Education	Other Education	Total	Fundraising	Management and General	Total	2015	2014
Personnel services costs:									
Administrative staff personnel	\$ 84,838	\$ -	\$ -	\$ 84,838	\$ -	\$ 232,902	\$ 232,902	\$ 317,740	\$ 299,579
Instructional personnel	2,077,963	315,969	-	2,393,932	-	-	-	2,393,932	2,312,025
Non-instructional personnel	-	-	-	-	-	11,315	11,315	11,315	12,634
Total personnel services costs	2,162,801	315,969	-	2,478,770	-	244,217	244,217	2,722,987	2,624,238
Fringe benefits and payroll taxes	530,075	77,440	-	607,515	-	59,855	59,855	667,370	796,748
Retirement	310,936	46,313	-	357,249	-	6,074	6,074	363,323	328,626
Legal services	-	-	-	-	-	3,273	3,273	3,273	261
Accounting/audit services	-	-	-	-	-	27,725	27,725	27,725	16,850
Other purchased/professional/consulting services	229,732	31,327	-	261,059	-	29,007	29,007	290,066	307,113
Building and land rent/lease	229,874	31,346	-	261,220	-	29,024	29,024	290,244	290,244
Repairs and maintenance	-	-	-	-	-	20,506	20,506	20,506	37,097
Insurance	-	-	-	-	-	30,957	30,957	30,957	38,692
Utilities	63,595	6,852	-	70,447	-	32,907	32,907	103,354	110,621
Supplies/materials	40,534	3,051	-	43,585	-	-	-	43,585	45,864
Equipment/furnishings	9,398	21	-	9,419	-	28,280	28,280	37,699	28,016
Staff development	18,533	2,566	-	21,099	-	1,983	1,983	23,082	33,737
Marketing/recruitment	-	-	-	-	-	4,530	4,530	4,530	1,386
Technology	29,151	-	-	29,151	-	20,811	20,811	49,962	17,510
Food service	365,328	-	-	365,328	-	-	-	365,328	439,045
Student services	484,819	34,391	-	519,210	-	-	-	519,210	568,646
Office expense	9,022	-	-	9,022	-	9,726	9,726	18,748	18,188
Depreciation and amortization	38,155	4,821	-	42,976	-	289	289	43,265	48,219
Other	17,952	-	-	17,952	-	58,374	58,374	76,326	64,348
Total expenses	\$ 4,539,905	\$ 554,097	\$ -	\$ 5,094,002	\$ -	\$ 607,538	\$ 607,538	\$ 5,701,540	\$ 5,815,449

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, 2015

(With Comparative Totals for 2014)

	<u>2015</u>	<u>2014</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Revenue from school districts	\$ 5,021,638	\$ 4,747,754
Grant revenues	481,129	267,212
Miscellaneous sources	482,707	367,412
Payments to charter school personnel for services rendered	(3,674,716)	(3,804,991)
Payments to vendors for goods and services rendered	<u>(952,201)</u>	<u>(1,782,477)</u>
Net cash flow from operating activities	<u>1,358,557</u>	<u>(205,090)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	<u>(20,254)</u>	<u>(19,184)</u>
Net cash flow from financing activities	<u>(20,254)</u>	<u>(19,184)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of investments	(22,129)	(20,700)
Proceeds from sale of investments	-	150,000
Purchases of land, buildings, and equipment	<u>(95,547)</u>	<u>(54,800)</u>
Net cash flow from investing activities	<u>(117,676)</u>	<u>74,500</u>
CHANGE IN CASH AND CASH EQUIVALENTS	1,220,627	(149,774)
CASH AND CASH EQUIVALENTS - beginning of year	<u>351,185</u>	<u>500,959</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 1,571,812</u>	<u>\$ 351,185</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 230,263	\$ (334,473)
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
(Gain) loss on investments, net	14,562	(56,789)
Depreciation and amortization	43,265	48,219
(Increase) decrease in assets:		
Grants receivable	(20,495)	1,378
Other receivables	88,955	(43,187)
Increase (decrease) in liabilities:		
Accounts payable	7,950	92,346
Accrued liabilities	78,964	87,529
Deferred revenue	929,882	-
Due to Rochester City School District	<u>(14,789)</u>	<u>(113)</u>
Net cash flow from operating activities	<u>\$ 1,358,557</u>	<u>\$ (205,090)</u>

The accompanying notes are an integral part of these statements.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

1. THE SCHOOL

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

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

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

In January 2015, the School received a report from the Charter Schools Institute recommending that the State University of New York (SUNY) Trustees approve the School's Application for Charter Renewal (the Application) for an additional five years through 2020 with the authority to increase student levels for its existing grades and to provide instruction through grade twelve. Under the terms of the Application, the School would add grade nine in the 2016-2017 school year and an additional grade in each year through the 2019-2020 school year. The School has not yet received notification of approval of its Application.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

With the exception of recording the funded status of a pension plan that the School's employees participate in, the accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

Financial Reporting

At June 30, 2015 and 2014, all of the School's net assets were unrestricted.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The School records public school district revenue on a per student basis at rates established by New York State for the school district in which the student resides. Final determination of the revenue earned by the School is subject to review by the Rochester City School District (RCSD). 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 statements of activities and change in net assets in the year of settlement.

Program Services

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

Cash and Cash Equivalents

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

Grants and Other Receivables

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

Grant revenue and public school district revenue is recognized as the related costs are incurred. Amounts received in advance of incurring the related costs are reported as deferred revenue.

Investments

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

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

Fair Value

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

- Level 1 - Valuations are based on quoted prices in active markets for identical assets or liabilities that the School has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value (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.

Land, Buildings, and Equipment

Property and equipment is stated at cost or fair value at the date of donation. For the year ended June 30, 2014, the School capitalized all additions greater than \$1,000 with a useful life in excess of one year. In 2015, the School increased its threshold for capitalization to \$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.

Loan Acquisition Costs

Loan acquisition costs represent the costs associated with the issuance of the School's long-term debt. These costs are being amortized using the straight-line method over the term of the related debt. Amortization expense was approximately \$1,400 for the years ended June 30, 2015 and 2014.

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.

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, 2014, 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>2015</u>	<u>2014</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 85% and 87% of the School's total revenue for the years ended June 30, 2015 and 2014, respectively.

5. INVESTMENTS

Composition

Investments consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Money market funds	\$ 2,176	\$ 2,144
Equity mutual funds	24,143	22,509
Balanced mutual funds	200,152	198,286
Fixed income mutual funds	<u>335,326</u>	<u>331,291</u>
	<u>\$ 561,797</u>	<u>\$ 554,230</u>

Net Investment Income

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

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 22,129	\$ 20,700
Unrealized gains (loss), net	<u>(14,562)</u>	<u>56,789</u>
	<u>\$ 7,567</u>	<u>\$ 77,489</u>

5. INVESTMENTS (Continued)

Fair Value

The School's investments are measured at fair value on a recurring basis at June 30, 2015 utilizing the following input levels:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 2,176	\$ -	\$ -	\$ 2,176
Equity mutual funds	24,143	-	-	24,143
Balanced mutual funds	200,152	-	-	200,152
Fixed income mutual funds	<u>335,326</u>	<u>-</u>	<u>-</u>	<u>335,326</u>
	<u>\$ 561,797</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 561,797</u>

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

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

6. LAND, BUILDINGS, AND EQUIPMENT

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

	<u>2015</u>	<u>2014</u>
Land	\$ 87,000	\$ 87,000
Buildings and improvements	968,601	889,883
Leasehold improvements	564,286	564,286
Computers	235,773	235,773
Equipment	201,122	201,122
Construction-in-process	<u>46,372</u>	<u>29,542</u>
	2,103,154	2,007,606
Less: Accumulated depreciation and amortization	<u>(1,092,468)</u>	<u>(1,050,616)</u>
	<u>\$ 1,010,686</u>	<u>\$ 956,990</u>

Depreciation expense was \$41,851 and \$46,806 for the years ended June 30, 2015 and 2014, respectively.

7. LONG-TERM DEBT

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

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

2016	\$	21,907
2017		23,113
2018		24,385
2019		25,727
2020		27,143
Thereafter		<u>445,797</u>
	\$	<u>568,072</u>

Interest expense and the amount paid was \$31,534 and \$32,644 for the years ended June 30, 2015 and 2014, respectively.

8. 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 (3.25% at June 30, 2015) plus 1.5% and are collateralized by a general lien on substantially all of the School's assets. There were no amounts outstanding at June 30, 2015 and 2014.

There was no interest paid on the line of credit during the year ended June 30, 2015.

9. 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. 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's recognized expense for contributions to the Plan of \$24,060 and \$23,137, during the years ended June 30, 2015 and 2014, respectively.

New York State Teachers' Retirement System

The School participates in the New York State Teachers' Retirement System (TRS). This is a cost-sharing multiple-employer retirement system. Accounting principles generally accepted in the United States require the School to record its funded status in the plan and to make certain disclosures related to the plan, its assets, and the components and expense and the funded status at year-end. TRS performs an actuarial calculation of the funded status for the prior year on an annual basis. Therefore, at June 30, 2015 the only available information for the plan is as of June 30, 2014. The School has determined based on the period of time that has elapsed, and the potential significant change in the funded status year over year, that it is not useful to record the prior year funded status in the current year and that it is impracticable to obtain an actuarial valuation as of June 30, 2015.

9. RETIREMENT PLANS (Continued)

New York State Teachers' Retirement System (Continued)

The School made contributions for eligible full-time employees at rates of 17.53% and 16.25% of compensation for the years ended June 30, 2015 and 2014, 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 \$339,263 and \$305,489 during the years ended June 30, 2015 and 2014, respectively.

The following information is meant to provide additional information on TRS, as well as provide information on the plan as of June 30, 2014.

The following information has been derived from the New York State Teachers' Retirement System reporting as of June 30, 2014, the most current date for which an actuarial report is available.

The School's net pension asset as of June 30, 2014 was \$1,416,252. Had the School's net pension asset been recorded at June 30, 2014, the following line items would have been impacted accordingly:

	<u>As reported</u>	<u>Net pension asset</u>	<u>As reported with the net pension asset at 6/30/2014</u>
Other assets	<u>\$ -</u>	<u>\$ 1,416,252</u>	<u>\$ 1,416,252</u>
Total assets	<u>\$ 2,070,838</u>	<u>\$ 1,416,252</u>	<u>\$ 3,487,090</u>
Net assets	<u>\$ 942,218</u>	<u>\$ 1,416,252</u>	<u>\$ 2,358,470</u>

The total pension asset as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension asset to the measurement date. The actuarial valuations used the following actuarial assumptions reported by TRS to the School were as follows:

Measurement date	June 30, 2014
Actuarial valuation date	June 30, 2013
Interest rate	8%
Discount rate	8%
Long term rate of return on pension plan investments	8%
Salary scale	4.01% - 10.91%
Decrement tables	July 1, 2005 - June 30, 2010
System's experience inflation rate	3%

10. AFFILIATE TRANSACTIONS

Facility Lease

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

11. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 29, 2015, which is the date the financial statements were available to be issued.

In September 2015, the School submitted a proposal to the RCSD to purchase and renovate a building and surrounding property in the City of Rochester at a total cost of \$1,500,000. This purchase would be funded by a \$1,500,000 mortgage. The renovations would be funded from the increase in revenue generated from additional students (see Note 1) and the establishment of a facilities improvement fund. The School's proposal has not been accepted by the RCSD as of the audit report date. If the proposal is accepted, the School would house grades Kindergarten through six in the new building and grades seven through twelve in its Joseph Avenue building.

**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 29, 2015

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, 2015 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 29, 2015, which was qualified due to the School not being able to obtain its net pension asset (liability) at June 30, 2015 in accordance with accounting principles generally accepted in the United States.

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.

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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)

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

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

October 29, 2015

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, 2015. 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 each of 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, 2015.

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

(Continued)

Report on Internal Control Over Compliance

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

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

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

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

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Contract/ Grantor Number	<u>Expenditures</u>
U.S. Department of Agriculture:			
Passed through the New York State Education Department -			
Child Nutrition Cluster -			
National School Lunch Program	10.555	N/A	\$ 254,200
School Breakfast Program	10.553	N/A	<u>104,750</u>
Total Child Nutrition Cluster			358,950
U.S. Department of Education:			
Passed through the New York State Education Department -			
Title I Grants to Local Educational Agencies	84.010	0021134055	216,085
Improving Teacher Quality State Grants (Title II)	84.367	0147134055	<u>14,158</u>
			<u>\$ 589,193</u>

The accompanying notes are an integral part of these statements.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2015

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, 2015

A. SUMMARY OF AUDITOR'S RESULTS

1. The Independent Auditor's Report expresses a qualified 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 and on Internal Control Over Compliance Required by OMB Circular A-133.
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:

Child Nutrition Cluster:
 - CFDA No. 10.555 - National School Lunch Program
 - CFDA No. 10.553 - School Breakfast Program
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The School was 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

October 14, 2015

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

We have audited the financial statements of Eugenio Maria de Hostos Charter School (the School) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 4, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2015. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We did not note any particularly sensitive accounting estimates made by management in connection with our audit.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no audit adjustments recorded in connection with the current year audit.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We will request certain representations from management that will be included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

The School has engaged the services of another accounting firm to assist in the monthly closing process and to assist the School's Finance department in the consistent application of generally accepted accounting principles. We have maintained regular discussions with the consulting accountant from this firm.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

* * * *

This information is intended solely for the use of management, the Finance Committee, and Board of Trustees of Eugenio Maria de Hostos Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Romantic & Co., LLP