

**EUGENIO MARIA DE HOSTOS
CHARTER SCHOOL**

**Financial Statements as of
June 30, 2021
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

October 22, 2021

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, 2021, 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.

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 of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITOR'S REPORT

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eugenio Maria de Hostos Charter School as of June 30, 2021, 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.

Report on Summarized Comparative Information

We have previously audited the School's 2020 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 30, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2021 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 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 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.

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 Title 2 U.S. Code of Federal Regulations (CFR) 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.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2021

(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 2,609,645	\$ 2,140,419
Grants and contracts receivable	554,182	316,203
Accounts receivable, net of allowance for doubtful accounts of \$3,060 in 2021 and 2020	-	134,875
Prepaid expenses	19,714	19,714
Investments	<u>2,055,741</u>	<u>2,032,589</u>
Total current assets	5,239,282	4,643,800
DESIGNATED CASH	75,000	75,000
LAND, BUILDINGS, AND EQUIPMENT, net	<u>4,633,126</u>	<u>5,013,787</u>
	<u>\$ 9,947,408</u>	<u>\$ 9,732,587</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 89,072	\$ 86,622
Accounts payable	109,039	88,980
Due to Rochester City School District	148,051	47,295
Accrued liabilities	934,101	801,756
Deferred revenue	<u>40,555</u>	<u>123,951</u>
Total current liabilities	1,320,818	1,148,604
LONG-TERM DEBT, net of current portion	2,256,641	2,320,171
PPP LOAN PAYABLE	<u>-</u>	<u>1,892,420</u>
Total liabilities	3,577,459	5,361,195
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>6,369,949</u>	<u>4,371,392</u>
	<u>\$ 9,947,408</u>	<u>\$ 9,732,587</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, 2021

(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
REVENUES, GAINS, AND OTHER SUPPORT:		
Public school district -		
Resident student enrollment	\$ 12,807,158	\$ 12,251,121
Students with disabilities	393,151	367,801
Federal and state grants	1,898,162	1,465,209
Federal and state food service	242,790	542,384
Forgiveness of PPP loan payable	1,892,420	-
Interest	1,197	1,323
Investment income, net	23,165	24,129
Other	83,115	30,992
	<u>17,341,158</u>	<u>14,682,959</u>
Total revenues, gains, and other support		
EXPENSES:		
Program -		
Regular education	11,448,470	11,559,645
Special education	775,338	1,144,742
	<u>12,223,808</u>	<u>12,704,387</u>
Total program		
Supporting services -		
Management and general	3,118,793	2,790,536
	<u>15,342,601</u>	<u>15,494,923</u>
Total expenses		
CHANGE IN NET ASSETS	1,998,557	(811,964)
NET ASSETS - beginning of year	<u>4,371,392</u>	<u>5,183,356</u>
NET ASSETS - end of year	<u>\$ 6,369,949</u>	<u>\$ 4,371,392</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, 2021 (With Comparative Totals for 2020)

	Program Services				Supporting Services			Total	
	Regular Education	Special Education	Other Education	Total	Fundraising	Management and General	Total	2021	2020
Personnel services costs:									
Administrative staff personnel	\$ 292,040	\$ -	\$ -	\$ 292,040	\$ -	\$ 1,352,266	\$ 1,352,266	\$ 1,644,306	\$ 1,541,665
Instructional personnel	6,665,736	497,614	-	7,163,350	-	-	-	7,163,350	7,282,834
Non-instructional personnel	-	-	-	-	-	212,453	212,453	212,453	55,221
Total personnel services costs	6,957,776	497,614	-	7,455,390	-	1,564,719	1,564,719	9,020,109	8,879,720
Fringe benefits and payroll taxes	1,734,690	124,064	-	1,858,754	-	390,111	390,111	2,248,865	1,881,846
Retirement	648,429	48,580	-	697,009	-	30,828	30,828	727,837	667,251
Legal services	-	-	-	-	-	18,227	18,227	18,227	6,002
Accounting/audit services	-	-	-	-	-	23,840	23,840	23,840	60,311
Other purchased/professional/consulting services	502,103	-	-	502,103	-	55,789	55,789	557,892	623,277
Repairs and maintenance	270,760	36,922	-	307,682	-	34,187	34,187	341,869	271,131
Insurance	59,793	8,154	-	67,947	-	7,550	7,550	75,497	59,898
Utilities	133,201	18,164	-	151,365	-	75,569	75,569	226,934	217,868
Supplies/materials	67,538	5,083	-	72,621	-	-	-	72,621	166,244
Equipment/furnishings	26,794	1,011	-	27,805	-	91,278	91,278	119,083	170,346
Staff development	14,766	298	-	15,064	-	936	936	16,000	105,262
Marketing/recruitment	-	-	-	-	-	65,007	65,007	65,007	69,980
Technology	300,969	-	-	300,969	-	187,710	187,710	488,679	378,963
Food service	156,157	-	-	156,157	-	-	-	156,157	625,683
Student services	5,181	427	-	5,608	-	-	-	5,608	159,083
Office expense	13,096	-	-	13,096	-	9,101	9,101	22,197	24,982
Depreciation and amortization	504,149	35,021	-	539,170	-	95,653	95,653	634,823	568,402
Other	53,068	-	-	53,068	-	468,288	468,288	521,356	558,674
Total expenses	\$ 11,448,470	\$ 775,338	\$ -	\$ 12,223,808	\$ -	\$ 3,118,793	\$ 3,118,793	\$ 15,342,601	\$ 15,494,923

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, 2021 (With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Revenue from school districts	\$ 13,287,889	\$ 12,659,000
Grant revenues	1,819,577	1,998,586
Miscellaneous sources	107,477	56,444
Payments to charter school personnel for services rendered	(7,323,045)	(7,248,849)
Payments to vendors for goods and services rendered	<u>(7,084,278)</u>	<u>(7,477,729)</u>
Net cash flow from operating activities	<u>807,620</u>	<u>(12,548)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	-	750,000
Repayment of long-term debt	(81,540)	(65,300)
Proceeds from issuance of PPP loan payable	<u>-</u>	<u>1,892,420</u>
Net cash flow from financing activities	<u>(81,540)</u>	<u>2,577,120</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Reinvestment of interest and dividends	(23,152)	(24,091)
Proceeds from sale of investments	-	260,941
Purchases of land, buildings, and equipment	<u>(233,702)</u>	<u>(1,613,873)</u>
Net cash flow from investing activities	<u>(256,854)</u>	<u>(1,377,023)</u>
CHANGE IN CASH AND DESIGNATED CASH	469,226	1,187,549
CASH AND DESIGNATED CASH - beginning of year	<u>2,215,419</u>	<u>1,027,870</u>
CASH AND DESIGNATED CASH - end of year	<u>\$ 2,684,645</u>	<u>\$ 2,215,419</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,998,557	\$ (811,964)
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation	614,363	548,371
Amortization of debt issuance costs	20,460	19,581
Gain on forgiveness of PPP loan payable	(1,892,420)	-
(Increase) decrease in assets:		
Grants receivable	(237,979)	(95,305)
Accounts receivable	134,875	(96,668)
Due to Rochester City School District	100,756	184,041
Prepaid expenses	-	15,000
Increase (decrease) in liabilities:		
Accounts payable	20,059	(155,110)
Accrued liabilities	132,345	293,208
Deferred revenue	<u>(83,396)</u>	<u>86,298</u>
Net cash flow from operating activities	<u>\$ 807,620</u>	<u>\$ (12,548)</u>

The accompanying notes are an integral part of these statements.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2021

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. 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 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.

Change in Accounting Principle

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-19, *Revenue from Contracts with Customers (Topic 606)*, and has subsequently issued supplemental and/or clarifying ASUs (collectively "ASC 606"). ASC 606 outlines a five-step framework that supersedes the principles for recognizing revenue and eliminates industry-specific guidance. The core principle of the guidance in ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, ASC 606 revises current disclosure requirements to help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The School adopted ASC 606 as of July 1, 2020, utilizing the modified retrospective method of transition and there was no effect on total net assets or the change in net assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2021 and 2020, 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 student's 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.

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 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 cash equivalents.

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, 2021 and 2020 to satisfy this requirement.

Grants and Other Receivables

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Generally accepted accounting principles establish 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 market 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.
- 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements as of and for the year ended June 30, 2020, from which the summarized information was derived.

Estimates

The preparation of financial statements in accordance 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. LIQUIDITY

The School had financial assets available to meet cash needs for general expenditures in the subsequent year as follows at June 30:

	<u>2021</u>	<u>2020</u>
Cash	\$ 2,609,645	\$ 2,140,419
Grants and contract receivables	554,182	316,203
Accounts receivable, net allowance for doubtful accounts	-	134,875
Investments	<u>2,055,741</u>	<u>2,032,589</u>
	5,219,568	4,624,086
Less: Board designated net assets	<u>(1,500,000)</u>	<u>(1,500,000)</u>
	<u>\$ 3,719,568</u>	<u>\$ 3,124,086</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 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 which it could draw on.

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>2021</u>	<u>2020</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% and 86% of the School's total revenue for the years ended June 30, 2021 and 2020, respectively.

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>2021</u>	<u>2020</u>
Cash	\$ 2,609,645	\$ 2,140,419
Designated cash	<u>75,000</u>	<u>75,000</u>
	<u>\$ 2,684,645</u>	<u>\$ 2,215,419</u>

7. INVESTMENTS

The School's investments consisted of the following and were measured at fair value on a recurring basis using Level 1 inputs at June 30.

	<u>2021</u>	<u>2020</u>
Money market funds	\$ 532,696	\$ 2,032,589
Fixed income mutual funds	<u>1,523,045</u>	<u>-</u>
	<u>\$ 2,055,741</u>	<u>\$ 2,032,589</u>

8. LAND, BUILDINGS, AND EQUIPMENT

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

	<u>2021</u>	<u>2020</u>
Land	\$ 237,000	\$ 237,000
Buildings and improvements	4,597,447	4,374,620
Leasehold improvements	2,178,160	2,178,160
Computers	287,409	276,534
Equipment	<u>206,685</u>	<u>206,685</u>
	7,506,701	7,272,999
Less: Accumulated depreciation and amortization	<u>(2,873,575)</u>	<u>(2,259,212)</u>
	<u>\$ 4,633,126</u>	<u>\$ 5,013,787</u>

Depreciation expense was \$614,363 and \$548,371 for the years ended June 30, 2021 and 2020, 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, 2021) and are collateralized by a general lien on substantially all of the School's assets. There were no amounts outstanding at June 30, 2021 and 2020.

10. LONG-TERM DEBT

Composition

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

	<u>2021</u>	<u>2020</u>
Mortgage payable to a bank requiring monthly payments of \$4,316, including interest at 5.37%, through 2032, collateralized by the related building.	\$ 420,646	\$ 448,695
Mortgage payable to a corporation requiring monthly payments of \$8,834, including interest at 6.00%, through 2022, collateralized by the related building.	1,235,292	1,265,155
Note payable to a bank requiring monthly payments of \$4,316, including interest at 5.37%, through 2039, collateralized by the related building.	<u>713,106</u>	<u>736,734</u>
	2,369,044	2,450,584
Less: Current portion	(89,072)	(86,622)
Less: Unamortized debt issuance costs	<u>(23,331)</u>	<u>(43,791)</u>
	<u>\$ 2,256,641</u>	<u>\$ 2,320,171</u>

Subsequent to year-end, the School entered into a mortgage payable with a bank for \$1,500,000 and used the proceeds to pay off the mortgage payable to a corporation. This obligation requires monthly payments of \$9,620, including interest at 4.66%, through September 1, 2041.

Principal Repayments

Principal repayments under the terms of these agreements, including the effect of the mortgage entered into subsequent to June 30, 2021, are as follows for the years ending June 30:

2022	\$ 89,072
2023	105,421
2024	110,591
2025	116,296
2026	122,154
Thereafter	<u>2,090,218</u>
	<u>\$ 2,633,752</u>

10. LONG-TERM DEBT (Continued)

Interest

Interest expense incurred and paid under the terms of these agreements were \$134,588 and \$117,671 during the years ended June 30, 2021 and 2020, respectively, and is included in other expenses in the accompanying financial statements. Amortization of the debt issuance costs were \$20,460 and \$19,581 during the years ended June 30, 2021 and 2020 respectively, and is 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:

2022	\$	19,581
2023		<u>3,750</u>
	\$	<u>23,331</u>

Covenant Compliance

The School's mortgage payable to a corporation contains various document submission and restrictive financial covenants. The School was in compliance with the debt service coverage ratio at June 30, 2021. The school was not in compliance with the debt service coverage ratio at June 30, 2020, but did obtain a waiver for this instance of noncompliance at June 30, 2020. The School was in compliance with all other covenants at June 30, 2021 and 2020.

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 includes provisions whereby the loan balance could 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 has recorded \$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 \$103,096 and \$226,820 during the years ended June 30, 2021 and 2020, respectively.

12. RETIREMENT PLANS (Continued)

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, 2021 and 2020 was 9.53% and 8.86% of the annual covered payroll, respectively. The School's required contribution was \$624,741 and \$440,431 for the years ended June 30, 2021 and 2020, respectively.

13. AFFILIATE TRANSACTIONS

In July 2018, the School entered into an agreement with Ibero in which Ibero provides family assistance services as a component of a grant agreement between the School and New York State. The School paid approximately \$155,000 to Ibero for these services during the years ended June 30, 2021 and 2020.

14. COMMITMENTS

In June 2019, the School entered into a non-cancellable lease agreement to lease additional program space in Rochester, New York to accommodate the anticipated increase in enrollment. This lease was effective July 2019 and expires in June 2024. The School can renew the lease for up to three additional terms of five years each. The School is required to make monthly base rental payments of approximately \$20,000 over the term of the lease.

15. COVID-19

General

The United States is presently in the midst of a national health emergency related to a virus, commonly known as Novel Coronavirus (COVID-19). The overall short and long-term consequences of COVID-19 on a national, regional, and local level are unknown. However, the on-going impact of COVID-19 could have a material adverse impact on the School's financial position.

15. COVID-19 (Continued)

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 year ended June 30, 2021, the School received funds totaling approximately \$403,000 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 October 22, 2021, which is the date the financial statements were available to be issued.

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

October 22, 2021

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, 2021 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, and have issued our report thereon dated October 22, 2021.

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. 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 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*.

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 FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

October 22, 2021

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) (a New York not-for-profit corporation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended June 30, 2021. The School's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the School's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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). Those standards and the Uniform Guidance 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 of its major federal program for the year ended June 30, 2021.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

(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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 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 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, 2021**

<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	C-403008	84.287	\$ 562,014
COVID-19 - Education Stabilization Fund	5890214055	84.425D	<u>403,064</u>
Total U.S. Department of Education			<u>965,078</u>
U.S. Department of Agriculture:			
Passed through New York State Department of Education - Child Nutrition Cluster:			
School Breakfast Program	N/A	10.553	77,679
National School Lunch Program	N/A	10.555	<u>157,619</u>
Total Child Nutrition Cluster			<u>235,298</u>
Passed through New York State Department of Health - Child and Adult Care Food Program (CACFP)	N/A	10.558	<u>11,588</u>
Total U.S. Department of Agriculture			<u>246,886</u>
			<u>\$ 1,211,964</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, 2021**

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, 2021. 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

This Schedule has been prepared in conformity with accounting principles generally accepted in the United States of America and in accordance with 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).

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, 2021**

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. No significant deficiencies or material weaknesses 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 program 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 the School's major federal award program expresses an unmodified opinion on the major federal program.
6. There were no audit findings required to be reported in accordance with Section 200.516(a) of the Uniform Guidance.
7. The program tested as a major program was:
 - Assistance Listing No. 84.425 – Education Stabilization Fund Under The Coronavirus Aid, Relief, and Economic Security Act
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.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM

None.