

**EUGENIO MARIA DE HOSTOS
CHARTER SCHOOL**

**Financial Statements as of
June 30, 2020
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 30, 2020

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, 2020, 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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(Continued)

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, 2020, 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 2019 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 24, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 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 30, 2020 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.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 2,140,419	\$ 952,870
Grants and contracts receivable	316,203	220,898
Accounts receivable, net of allowance for doubtful accounts of \$3,060 in 2020 and 2019	134,875	38,207
Due from Rochester City School District	-	136,746
Prepaid expenses	19,714	34,714
Investments	<u>2,032,589</u>	<u>2,269,439</u>
Total current assets	4,643,800	3,652,874
DESIGNATED CASH	75,000	75,000
LAND, BUILDINGS, AND EQUIPMENT, net	<u>5,013,787</u>	<u>3,948,285</u>
	<u>\$ 9,732,587</u>	<u>\$ 7,676,159</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 86,622	\$ 54,692
Accounts payable	88,980	244,090
Due to Rochester City School District	47,295	-
Accrued liabilities	801,756	496,056
Deferred revenue	<u>123,951</u>	<u>37,653</u>
Total current liabilities	1,148,604	832,491
LONG-TERM DEBT, net of current portion	2,320,171	1,660,312
PPP LOAN PAYABLE	<u>1,892,420</u>	<u>-</u>
Total liabilities	5,361,195	2,492,803
NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>4,371,392</u>	<u>5,183,356</u>
	<u>\$ 9,732,587</u>	<u>\$ 7,676,159</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, 2020

(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
REVENUES, GAINS, AND OTHER SUPPORT:		
Public school district -		
Resident student enrollment	\$ 12,251,121	\$ 10,913,931
Students with disabilities	367,801	314,751
Federal and state grants	1,465,209	1,673,758
Federal and state food service	542,384	802,366
Interest	1,323	2,505
Investment income, net	111	19,947
Other grants	-	11,179
Other	<u>55,010</u>	<u>55,010</u>
Total revenues, gains, and other support	<u>14,682,959</u>	<u>13,793,447</u>
EXPENSES:		
Program -		
Regular education	11,559,645	9,697,368
Special education	<u>1,144,742</u>	<u>877,724</u>
Total program	12,704,387	10,575,092
Supporting services -		
Management and general	<u>2,790,536</u>	<u>1,742,500</u>
Total expenses	<u>15,494,923</u>	<u>12,317,592</u>
CHANGE IN NET ASSETS	(811,964)	1,475,855
NET ASSETS - beginning of year	<u>5,183,356</u>	<u>3,707,501</u>
NET ASSETS - end of year	<u>\$ 4,371,392</u>	<u>\$ 5,183,356</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, 2020 (With Comparative Totals for 2019)

	Program Services				Supporting Services			Total	
	Regular Education	Special Education	Other Education	Total	Fundraising	Management and General	Total	2020	2019
Personnel services costs:									
Administrative staff personnel	\$ 271,715	\$ -	\$ -	\$ 271,715	\$ -	\$ 1,269,950	\$ 1,269,950	\$ 1,541,665	\$ 897,168
Instructional personnel	6,500,281	782,553	-	7,282,834	-	-	-	7,282,834	5,457,630
Non-instructional personnel	-	-	-	-	-	55,221	55,221	55,221	52,275
Total personnel services costs	6,771,996	782,553	-	7,554,549	-	1,325,171	1,325,171	8,879,720	6,407,073
Fringe benefits and payroll taxes	1,435,164	165,844	-	1,601,008	-	280,838	280,838	1,881,846	1,388,166
Retirement	580,714	70,591	-	651,305	-	15,946	15,946	667,251	422,189
Legal services	-	-	-	-	-	6,002	6,002	6,002	20,221
Accounting/audit services	-	-	-	-	-	60,311	60,311	60,311	31,910
Other purchased/professional/consulting services	561,685	-	-	561,685	-	61,592	61,592	623,277	1,269,121
Repairs and maintenance	214,736	29,282	-	244,018	-	27,113	27,113	271,131	189,407
Insurance	47,439	6,469	-	53,908	-	5,990	5,990	59,898	50,896
Utilities	127,880	17,438	-	145,318	-	72,550	72,550	217,868	186,454
Supplies/materials	154,607	11,637	-	166,244	-	-	-	166,244	131,269
Equipment/furnishings	58,166	2,339	-	60,505	-	109,841	109,841	170,346	123,286
Staff development	100,078	1,925	-	102,003	-	3,259	3,259	105,262	50,369
Marketing/recruitment	-	-	-	-	-	69,980	69,980	69,980	10,018
Technology	255,978	-	-	255,978	-	122,985	122,985	378,963	263,412
Food service	625,683	-	-	625,683	-	-	-	625,683	653,444
Student services	151,334	7,749	-	159,083	-	-	-	159,083	525,766
Office expense	14,576	-	-	14,576	-	10,406	10,406	24,982	55,068
Depreciation and amortization	427,045	48,915	-	475,960	-	79,500	79,500	555,460	280,470
Other	32,564	-	-	32,564	-	539,052	539,052	571,616	259,053
Total expenses	\$ 11,559,645	\$ 1,144,742	\$ -	\$ 12,704,387	\$ -	\$ 2,790,536	\$ 2,790,536	\$ 15,494,923	\$ 12,317,592

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, 2020 (With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Revenue from school districts	\$ 12,659,000	\$ 11,116,418
Grant revenues	1,998,586	2,778,904
Miscellaneous sources	56,444	77,462
Payments to charter school personnel for services rendered	(7,248,849)	(5,492,066)
Payments to vendors for goods and services rendered	<u>(7,477,729)</u>	<u>(6,720,637)</u>
Net cash flow from operating activities	<u>(12,548)</u>	<u>1,760,081</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	750,000	-
Repayment of long-term debt	(65,300)	(53,996)
Proceeds from issuance of PPP loan payable	<u>1,892,420</u>	<u>-</u>
Net cash flow from financing activities	<u>2,577,120</u>	<u>(53,996)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Sale of investments	236,850	(1,620,023)
Purchases of land, buildings, and equipment	<u>(1,613,873)</u>	<u>(804,615)</u>
Net cash flow from investing activities	<u>(1,377,023)</u>	<u>(2,424,638)</u>
CHANGE IN CASH AND DESIGNATED CASH	1,187,549	(718,553)
CASH AND DESIGNATED CASH - beginning of year	<u>1,027,870</u>	<u>1,746,423</u>
CASH AND DESIGNATED CASH - end of year	<u>\$ 2,215,419</u>	<u>\$ 1,027,870</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (811,964)	\$ 1,475,855
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation	548,371	288,470
Amortization of loan acquisition costs	7,089	17,962
(Increase) decrease in assets:		
Grants receivable	(95,305)	293,565
Accounts receivable	(96,668)	21,373
Due to/from Rochester City School District	184,041	(133,637)
Prepaid expenses	15,000	(16,082)
Increase (decrease) in liabilities:		
Accounts payable	(155,110)	(260,695)
Accrued liabilities	305,700	75,234
Deferred revenue	<u>86,298</u>	<u>(1,964)</u>
Net cash flow from operating activities	<u>\$ (12,548)</u>	<u>\$ 1,760,081</u>

The accompanying notes are an integral part of these statements.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

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. 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 nine in the 2016-2017 school year, grade ten in the 2017-2018 school year, grade eleven in the 2018-2019 school year, and 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 June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The objective of this standard was to provide a more robust framework on accounting for various types of assistance received and to clarify how contributions will be treated based on barriers that may have to be overcome by the School to be entitled to the assets as well as consideration of the right of return. The effects of this ASU have been included in these financial statements. The School adopted ASU 2018-08 on July 1, 2019, using a modified prospective application. There was no effect on total net assets or changes in net assets.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash*. This standard requires entities to include restricted cash and equivalents with cash and cash equivalents when reconciling the beginning and end of year total amounts presented in the statement of cash flows. The School adopted ASU 2016-18 as of July 1, 2019, using a modified prospective application. Accordingly, to implement the new standard, in the 2019 statement of cash flows, the School increased cash and designated cash – beginning of year by \$75,000.

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 any time at the Board's discretion.

At June 30, 2020 and 2019, all of the School's net assets were without donor restrictions.

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 from the Rochester City School District (RCSD) is subject to review by 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.

Cash and Designated Cash

Cash and designated cash 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.

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, 2020 and 2019 to satisfy this requirement.

Grants and Other Receivables

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

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

Investments

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value

Generally accepted accounting standards 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.

The asset's or liability's 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

Property 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.

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 spent in the various functions. Depreciation, insurance, repairs and maintenance, and utilities are allocated based on square footage occupied by each program or supporting function. Expenses not mentioned above are directly charged to the appropriate function on a transactional basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Program Services

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

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 for the year ended June 30, 2019, 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

At June 30, the School had financial assets available to meet cash needs for general expenditures in the subsequent year of:

	<u>2020</u>	<u>2019</u>
Cash	\$ 2,140,419	\$ 952,870
Grants and contract receivables	316,203	220,898
Accounts receivable	134,875	38,207
Due from Rochester City School District	-	136,746
Investments	<u>2,032,589</u>	<u>2,269,439</u>
	4,624,086	3,618,160
Less: Board designated net assets	<u>(1,500,000)</u>	<u>(1,500,000)</u>
	<u>\$ 3,124,086</u>	<u>\$ 2,118,160</u>

The School is substantially supported by student enrollment 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.

3. LIQUIDITY (Continued)

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. CASH AND DESIGNATED CASH

The following is a summary of cash and designated cash reported in the statement of financial position that sum to the total amounts shown in the statement of cash flows at June 30:

	<u>2020</u>	<u>2019</u>
Cash	\$ 2,140,419	\$ 952,870
Designated cash	<u>75,000</u>	<u>75,000</u>
	<u>\$ 2,215,419</u>	<u>\$ 1,027,870</u>

5. NET ASSETS

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

	<u>2020</u>	<u>2019</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>

6. 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 86% and 83% of the School's total revenue for the years ended June 30, 2020 and 2019, respectively.

7. INVESTMENTS

The School's investments are measured at fair value on a recurring basis using Level 1 inputs and consisted of money market funds at June 30, 2020 and 2019.

The following are measured at fair value on a recurring basis at June 30, 2020:

<u>Description</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Money market funds	<u>\$ 2,032,589</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,032,589</u>

The following are measured at fair value on a recurring basis at June 30, 2019:

<u>Description</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>	<u>Total</u>
Money market funds	<u>\$ 2,269,439</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,269,439</u>

8. LAND, BUILDINGS, AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Land	\$ 237,000	\$ 237,000
Buildings and improvements	4,374,620	4,374,620
Leasehold improvements	2,178,160	564,286
Computers	276,534	276,534
Equipment	<u>206,685</u>	<u>206,685</u>
	7,272,999	5,659,125
Less: Accumulated depreciation and amortization	<u>(2,259,212)</u>	<u>(1,710,840)</u>
	<u>\$ 5,013,787</u>	<u>\$ 3,948,285</u>

Depreciation expense was \$548,371 and \$280,470 for the years ended June 30, 2020 and 2019, respectively.

9. LONG-TERM DEBT

Composition

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

	<u>2020</u>	<u>2019</u>
Mortgage payable to a bank requiring monthly payments of \$4,316, including interest at 5.37%, through 2032, collateralized by the related building.	\$ 448,695	\$ 475,196
Mortgage payable to a corporation requiring monthly payments of \$8,834, including interest at 6.00%, through 2022, collateralized by the related building.	1,265,155	1,290,688
Note payable to a bank requiring monthly payments of \$4,316, including interest at 5.37%, through 2039, collateralized by the related building.	<u>736,734</u>	<u>-</u>
	2,450,584	1,765,884
Less: Current portion	(86,622)	(54,692)
Less: Unamortized debt issuance costs	<u>(43,791)</u>	<u>(50,880)</u>
	<u>\$ 2,320,171</u>	<u>\$ 1,660,312</u>

Principal Repayments

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

2021	\$ 86,622
2022	1,291,916
2023	62,904
2024	64,645
2025	70,067
Thereafter	<u>874,430</u>
	<u>\$ 2,450,584</u>

Interest

Interest paid under the terms of these agreements was approximately \$117,671 and \$112,634 during the years ended June 30, 2020 and 2019, respectively, and is included in other expenses in the accompanying financial statements. Amortization of the debt issuance costs were \$7,089 and \$17,962 during the years ended June 30, 2020 and 2019 respectively, and is also included in other expenses in the accompanying financial statements.

9. LONG-TERM DEBT (Continued)

Debt Issuance Costs

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

2021	\$	17,962
2022		14,956
2023		<u>10,873</u>
	\$	<u>43,791</u>

Covenant Compliance

The School's mortgage payable to a corporation contains various document submission and restrictive financial covenants. 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, 2020 and 2019.

10. PAYCHECK PROTECTION PROGRAM LOAN PAYABLE

In April 2020, the School entered into an arrangement with a bank under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act) under which the School received \$1,892,420. Amounts borrowed under this agreement bear interest at 1.00%.

The PPP loan agreement includes provisions whereby the loan balance can 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. Forgiveness will be determined by the bank and approved by the U.S. Small Business Administration. The final outcome of whether this arrangement will be forgiven has not been determined as of the date these financial statements were available to be issued.

To the extent that the loan amount or a portion of the loan amount is not forgiven under the PPP, the School must make equal monthly payments of principal and interest. At the time that these financial statements were available to be issued, it is unknown as to when these payments may begin, if required. However, under the provisions of the PPP any required payments would not begin until the year ending June 30, 2022. As a result, the amount outstanding under the PPP has been reflected as a long-term liability at June 30, 2020. The School's management does anticipate that the entirety of this loan will be forgiven during the year ending June 30, 2021.

11. 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, 2020) and are collateralized by a general lien on substantially all of the School's assets. There were no amounts outstanding at June 30, 2020 and 2019.

There was no interest paid on the line of credit during the years ended June 30, 2020 and 2019.

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. 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 \$226,820 and \$111,788 during the years ended June 30, 2020 and 2019, respectively.

New York State Teachers' Retirement System

The School participates in the New York State Teachers' Retirement System (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 requirement 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, 2020 and 2019 was 8.86% and 10.62% of the annual covered payroll, respectively. The School's required contribution was \$440,431 and \$310,402 for the years ended June 30, 2020 and 2019, respectively.

13. AFFILIATE TRANSACTIONS

Ibero-American Action League, Inc.

The School entered into an agreement with IAAL, effective July 1, 2018, in which IAAL provides family service assistance services as a component of a grant agreement between the School and New York State. The School paid approximately \$155,000 and \$138,000 to IAAL for these services during the years ended June 30, 2020 and 2019 respectively.

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 is effective July 1, 2019 and expires in June 2024. The School can renew the lease for up to three additional terms of five years each. The School will be required to make monthly base rental payments of approximately \$20,000 over the term of the lease.

15. SUBSEQUENT EVENTS

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 consequences of COVID-19 on a national, regional, and local level are unknown, but it has the potential to result in a significant economic impact. The impact of this situation on the School and its future results and financial position is not presently determinable.

Subsequent events have been evaluated through October 30, 2020, 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 30, 2020

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, 2020 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 30, 2019.

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
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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 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.