

Amistad America, Inc.

**Financial Statements and
State Financial Assistance in Accordance with
the State Single Audit Act
and Independent Auditor's Reports**

March 31, 2011

Amistad America, Inc.

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Independent Auditor's Report

To the Board of Directors
Amistad America, Inc.

We have audited the accompanying statement of financial position of Amistad America, Inc. (a nonprofit organization) as of March 31, 2011, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Amistad America, Inc. as of March 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2014, on our consideration of Amistad America, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State Single Audit Act 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 standard 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.

CohnReznick LLP

Farmington, Connecticut
August 8, 2014

Amistad America, Inc.

Statement of Financial Position
March 31, 2011

Assets

| | |
|---|---------------------|
| Current assets: | |
| Cash | \$ 584 |
| Grants receivable | 141,322 |
| | <hr/> |
| Total current assets | 141,906 |
| Property and equipment, net of accumulated depreciation | 1,332,128 |
| | <hr/> |
| Total assets | <u>\$ 1,474,034</u> |

Liabilities and Net Assets

| | |
|---------------------------------------|---------------------|
| Current liabilities: | |
| Cash overdraft | \$ 4,798 |
| Line of credit | 440,083 |
| Note payable | 150,000 |
| Accounts payable and accrued expenses | 599,677 |
| Accrued interest | 103,588 |
| Accrued payroll and related taxes | 126,153 |
| Deferred income | 11,000 |
| Other loans payable | 102,361 |
| | <hr/> |
| Total current liabilities | 1,537,660 |
| Commitments and contingencies | |
| Net assets: | |
| Unrestricted | (112,779) |
| Permanently restricted | 49,153 |
| | <hr/> |
| Total net assets | (63,626) |
| | <hr/> |
| Total liabilities and net assets | <u>\$ 1,474,034</u> |

See Notes to Financial Statements.

Amistad America, Inc.

**Statement of Activities and Changes in Net Assets
Year Ended March 31, 2011**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|-------------------------|-----------------------------------|-----------------------------------|------------------------|
| Revenues: | | | | |
| Grants - State of Connecticut | \$ 500,711 | \$ - | \$ - | \$ 500,711 |
| Grants and contributions - other | 111,930 | - | - | 111,930 |
| Program income | 2,775 | - | - | 2,775 |
| Other income | 115,063 | - | - | 115,063 |
| Releases from restrictions | <u>69,137</u> | <u>(69,137)</u> | <u>-</u> | <u>-</u> |
| Total revenues | <u>799,616</u> | <u>(69,137)</u> | <u>-</u> | <u>730,479</u> |
| Expenses: | | | | |
| Program expenses | 630,295 | - | - | 630,295 |
| General and administrative | 250,288 | - | - | 250,288 |
| Fundraising | <u>54,928</u> | <u>-</u> | <u>-</u> | <u>54,928</u> |
| Total expenses | <u>935,511</u> | <u>-</u> | <u>-</u> | <u>935,511</u> |
| Change in net assets | (135,895) | (69,137) | - | (205,032) |
| Net assets, April 1, 2010 | <u>23,116</u> | <u>69,137</u> | <u>49,153</u> | <u>141,406</u> |
| Net assets, March 31, 2011 | <u>\$ (112,779)</u> | <u>\$ -</u> | <u>\$ 49,153</u> | <u>\$ (63,626)</u> |

See Notes to Financial Statements.

Amistad America, Inc.

**Statement of Functional Expenses
Year Ended March 31, 2011**

| | <u>Program</u> | <u>General and Administrative</u> | <u>Fundraising</u> | <u>Total</u> |
|-------------------------------|-------------------|---------------------------------------|--------------------|-------------------|
| Salaries | \$ 142,513 | \$ 104,954 | \$ 39,144 | \$ 286,611 |
| Employee benefits | 6,299 | 4,639 | 1,730 | 12,668 |
| Payroll taxes | 16,504 | 12,154 | 4,533 | 33,191 |
| Contract services | 2,632 | - | - | 2,632 |
| Insurance | 41,341 | 361 | - | 41,702 |
| Telephone | 2,260 | 1,664 | 621 | 4,545 |
| Travel | 23,724 | 4,573 | 6,518 | 34,815 |
| Printing, publishing, mailing | - | 508 | 13 | 521 |
| Professional fees | 100,971 | 47,619 | - | 148,590 |
| Vessel operating expenses | 65,815 | - | - | 65,815 |
| Occupancy | - | 22,542 | - | 22,542 |
| Other expenses | - | 27,310 | - | 27,310 |
| Bank and finance charges | 3,137 | 1,696 | 116 | 4,949 |
| Interest expense | 59,637 | 1,863 | 621 | 62,121 |
| Event expenses | - | - | 1,632 | 1,632 |
| Depreciation | 165,462 | 20,405 | - | 185,867 |
| | <u>\$ 630,295</u> | <u>\$ 250,288</u> | <u>\$ 54,928</u> | <u>\$ 935,511</u> |

See Notes to Financial Statements.

Amistad America, Inc.

**Statement of Cash Flows
Year Ended March 31, 2011**

| | |
|--|-------------------------|
| Operating activities: | |
| Change in net assets | \$ (205,032) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | |
| Depreciation | 185,867 |
| Changes in operating assets and liabilities: | |
| Grants receivable | 3,572 |
| Prepaid and other assets | 10,791 |
| Accounts payable and accrued expenses | (5,990) |
| Accrued interest | 43,573 |
| Accrued payroll and related taxes | (21,811) |
| Deferred income | <u>(28,222)</u> |
| Net cash used in operating activities | <u>(17,252)</u> |
| Financing activities: | |
| Cash overdraft | 2,200 |
| Proceeds from line of credit | 7,254 |
| Payments on line of credit | (17,828) |
| Proceeds from loans from related parties | <u>26,087</u> |
| Net cash provided by financing activities | <u>17,713</u> |
| Net increase in cash | 461 |
| Cash, beginning of year | <u>123</u> |
| Cash, end of year | <u><u>\$ 584</u></u> |
| Supplemental disclosure of cash flow information: | |
| Cash paid during the year for interest | <u><u>\$ 17,825</u></u> |

See Notes to Financial Statements.

Amistad America, Inc.

Notes to Financial Statements March 31, 2011

Note 1 - Nature of activities

Amistad America, Inc. (the "Organization") was incorporated under the laws of the State of Connecticut on February 6, 1996 as a non-stock, not-for-profit corporation. The intent of its organizers, who include several organizations and interested individuals, was to form a partnership to build a reproduction of the freedom vessel Amistad, with the mission to advance knowledge of the historic events known as the "Amistad Incident of 1839" and of the struggle of human rights in general, through the ownership, education programming, and operation of the vessel.

Note 2 - Summary of significant accounting policies

The significant accounting policies followed by the Organization are described below to enhance the usefulness of the financial statements to the reader.

Basis of presentation

The Organization reports information regarding its financial position and activities according to the following net asset categories:

Unrestricted net assets - Unrestricted net assets represent available resources other than donor-restricted contributions. Included in unrestricted net assets are funds that may be earmarked for specific purposes.

Temporarily restricted net assets - Temporarily restricted net assets represent contributions that are restricted either as to purpose or as to time of expenditure.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Cash contributions - The Organization reports contributions received or pledged as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor, but whose restrictions are met in the same period, are reported as increases to unrestricted net assets. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Donated property and services - Donated services are recognized as contributions in accordance with accounting principles generally accepted in the United States of America if the services create or enhance non-financial assets or require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization. While many individuals volunteer their time and perform a variety of tasks that assist the Organization, no amounts have been recognized in the accompanying financial statements for such services because the criteria for recognition of such volunteer efforts have not been met. Services rendered for which the Organization was billed and then subsequently forgiven are recognized as income and expense in the year the services were rendered. Included in miscellaneous income is \$95,001 of payables subsequently forgiven.

Amistad America, Inc.

Notes to Financial Statements March 31, 2011

The Organization records the estimated fair value of the donated materials, equipment and usage of assets to both revenues and expenses in the period in which the donation is received.

Recognition of grant support

The Organization recognizes grants to the extent that eligible grant costs are incurred. Receivables are established upon notification of the award letter based on award amount. Grant advances which exceed eligible costs incurred within the fiscal period are included in the temporarily restricted net asset class.

Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of funds to the grantor. The Organization has not been informed by any agencies of any funds which are required to be returned.

Cash equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at March 31, 2011.

Receivables

Receivables are stated at unpaid balances, less an allowance for doubtful accounts. The allowance is based on management's past experience. The Organization's policy is to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Property and equipment

Property and equipment are stated at cost or, in the case of donated property, at the fair market value at the date of gift, less accumulated depreciation, computed on a straight-line basis over the asset's estimated useful life as provided below. Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Furniture, equipment and building improvements that cost \$5,000 or more are capitalized.

| | |
|-------------------------|-------------|
| Estimated useful lives: | |
| Vessel | 20 years |
| Furniture and fixtures | 7 years |
| Vehicle | 5 years |
| Software | 3 - 5 years |
| Equipment | 5 - 7 years |

The vessel is subject to a lien by the State of Connecticut.

Amistad America, Inc.

Notes to Financial Statements March 31, 2011

Impairment of long-lived assets

Management reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of an asset may not be recoverable, a write down to fair value is recorded. Fair values are determined based on the discounted cash flows, quoted market values, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified. There were no impairment losses for 2011.

Tax status

The Organization was a private not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code (the "Code") and was recognized by the Internal Revenue Service (the "IRS") as an organization generally exempt from income taxes on related income pursuant to Section 501(a) of the Code. The Organization's exempt status was revoked for failure to file tax returns for three consecutive years. The revocation was effective August 15, 2012 with an IRS posting date of March 11, 2013, the posting date is the last date that donors could rely on the exempt status for making charitable contributions. The Organization is working with the IRS to have its exempt status reinstated.

The Organization has no unrecognized tax benefits at March 31, 2011. The Organization's Federal information returns prior to 2009 are closed and management is working with the IRS to have its exempt status reinstated.

If the Organization were to incur unrelated business income taxes, it would recognize interest and penalties associated with any tax matters as part of the income tax provision and include accrued interest and penalties with the related tax liability in the statement of financial position.

Refundable advances

The Organization records grant awards and port visit deposits as refundable advances until the related services are performed, at which time they are recognized as revenue.

Amistad America, Inc.

**Notes to Financial Statements
March 31, 2011**

Functional expense allocation

Expenses are charged directly to educational programs, management and general, and development and fundraising based on specific identification to the extent practicable. Expenses related to more than one function have been allocated based on time records for specific programs, with the balance allocated based on management's assessment. Management and general expenses include those expenses that are not directly identifiable with a specific function, but provide for the overall support and direction of the Organization.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of credit risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and receivables. The Organization maintains its cash in bank accounts which, at times, may exceed Federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

Subsequent events

Management has reviewed subsequent events through August 8, 2014, which is the date the financial statements were available to be issued.

Note 3 - Grants receivable

Grants receivable consisted of \$141,322 due from the State of Connecticut at March 31, 2011.

Funds expended under the State of Connecticut, Department of Economic and Community Development, Commission on Culture and Tourism Grants:

| | |
|--|-------------------|
| 2011 Grant allocation | \$ 378,667 |
| State of Connecticut Construction Bond funds | <u>122,044</u> |
| Grant income recognized in 2011 | <u>\$ 500,711</u> |
| Total expended in 2011 | <u>\$ 500,711</u> |

Amistad America, Inc.

**Notes to Financial Statements
March 31, 2011**

Note 4 - Property and equipment

Property and equipment at March 31, 2011 are as follows:

| | |
|-------------------------------|---------------------|
| Vessel | \$ 2,765,455 |
| Furniture and fixtures | 8,339 |
| Archives | 5,850 |
| Vehicle | 31,842 |
| Software | 45,159 |
| Equipment | <u>385,698</u> |
| Total property and equipment | 3,242,343 |
| | |
| Less accumulated depreciation | <u>(1,910,215)</u> |
| | |
| Net property and equipment | <u>\$ 1,332,128</u> |

Note 5 - Note payable

Note payable to the Greater New Haven Community Loan Fund, originally due March 31, 2010, bears interest at 6.5%. Interest only is due monthly, late charges are assessed at the lender's option. At March 31, 2011, the Organization was not in compliance with various financial covenants and had not brought the late fees current and was not current on the interest payments. The loan was subsequently modified on January 12, 2012 providing for monthly payments of principal and interest of \$1,268 with the outstanding balance due February 2014.

\$ 150,000

Note 6 - Lines of credit

Line of credit payable to Bank of America, due June 22, 2009. Interest is payable monthly at 5.25% at March 31, 2011. The loan was collateralized by various office equipment. At March 31, 2011, the Organization was not in compliance with various financial covenants and had not brought the late fees current. No subsequent modifications to the loan agreement have been executed. Included in the accrued interest is late fees of \$11,165 and accrued interest of \$25,086.

\$ 198,210

Amistad America, Inc.

**Notes to Financial Statements
March 31, 2011**

Line of credit payable to TD Bank is due on demand and renewable annually at the discretion of the bank. Interest is payable monthly at the bank's index rate plus 2%. The loan is collateralized by equipment, accounts receivable and other various assets. During 2010, the Organization was declared in default on the loan and the interest rate was increased to 18% as of November 9, 2009. The Organization renegotiated the terms on December 1, 2010 and the rate was reduced to 5.25% requiring 23 monthly payments of \$5,000 with the balance due December 1, 2012. The Organization subsequently defaulted on the revised agreement.

\$ 241,873

Total current portion

\$ 440,083

Note 7 - Special borrowing arrangements

From time-to-time the Organization receives cash advances or short-term loans from Amistad Committee, board members and employees for the purpose of funding operations. The advances are non interest bearing and repayable from mutually agreeable terms. These advances totaling \$102,361 at March 31, 2011 are included in other loans payable in the statement of financial position.

Note 8 - Temporarily restricted net assets

On April 7, 1998, the Organization was awarded a grant by the State of Connecticut, Department of Economic and Community Development for construction of the vessel Amistad. The hull of the vessel Amistad was launched on March 25, 2000; final construction was completed and the vessel had its maiden voyage in June 2000. Title to the vessel passed to the Organization on July 1, 2000 after the vessel passed the United States Coast Guard inspection.

Under the terms of the construction grant, the Organization is required to comply with various ongoing terms and conditions and one-tenth of the grant is released from temporarily restricted net assets each year. For the year ended March 31, 2011, temporarily restricted net assets released from restrictions attributed to the construction grant was \$69,137. The State of Connecticut, Department of Economic and Community Development issued a notice of release of the mortgage lien on the vessel on July 1, 2010; however, the lien release was never filed and remains in place.

Note 9 - Commitments and contingencies

The Organization receives a substantial amount of its support from Connecticut State grants. The support from these governmental agencies approximated 69% of total revenue and support for the year ended March 31, 2011. If any significant reduction in the level of this support were to occur, there could be a significant effect on the ability of the Organization to maintain its programs and activities at their current levels.

Amistad America, Inc.

**Notes to Financial Statements
March 31, 2011**

Grants require the fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill the conditions can result in the return of funds to grantors causing unexpended refundable grants.

Subsequent to March 31, 2011 several claims for payment were filed seeking payment of outstanding invoices and loan balances; to the extent the liability pertains to the year ended March 31, 2011 or prior the liability is included in these financial statements.

Note 10 - Endowment

On October 1, 2007, the State of Connecticut adopted the Uniform Prudent Management of Investment Funds Act ("UPMIFA"), which governs the investment and management of donor-restricted endowment funds by not-for-profit organizations. In addition, the Financial Accounting Standards Board ("FASB") provided guidance on the net asset classification of endowment funds that are subject to UPMIFA. This guidance, Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 958-205, *Reporting Endowment Funds*, has been adopted by the Organization in regards to the net assets recorded for the Organization's Endowment. The required disclosures are as follows:

Endowment Net Asset Composition by Type of Fund as of:

| | March 31, 2011 | | | Total |
|----------------------------------|---------------------|-------------------------------|-------------------------------|------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | |
| Donor-restricted endowment funds | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 49,153</u> | <u>\$ 49,153</u> |

Change in Endowment Net Assets for the Year Ended:

| | March 31, 2011 | | | Total |
|---|---------------------|-------------------------------|-------------------------------|------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | |
| Endowment net assets, April 1, 2010 | \$ - | \$ - | \$ 49,153 | \$ 49,153 |
| Investment income | - | - | - | - |
| Contributions | - | - | - | - |
| Appropriation of endowment assets for expenditure | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Endowment net assets, March 31, 2011 | <u>\$ -</u> | <u>\$ -</u> | <u>\$49,153</u> | <u>\$ 49,153</u> |

Amistad America, Inc.

Notes to Financial Statements March 31, 2011

Interpretation of relevant law

The Board of Directors of the Organization have interpreted the State of Connecticut Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as Board designated unrestricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. the duration and preservation of the fund
2. the purposes of the Organization and the donor-restricted endowment fund
3. general economic conditions
4. the possible effect of inflation and deflation
5. the expected total return from income and the appreciation of investments
6. other resources of the Organization
7. the investment policies of the Organization

Investment strategy

The Organization follows a total return approach to investing. This investment approach strives to balance income and potential for capital appreciation so that both components can contribute to the long-term total return of the Organization's investment portfolio. The Organization's investment policy and guidelines and spending guidelines are designed to operate in concert in order to provide a significant and stable flow of funds over the short-term to provide resources to meet current needs and, at the same time, maintain the purchasing power of the funds over the long-term, so that the Organization will be able to provide adequate resources to future generations to meet new and emerging needs. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Amistad America, Inc.

Notes to Financial Statements March 31, 2011

Spending policy

The Organization's spending policy determines the amount that will be available each year for grant making and for the support of the Organization's operating budget. Annual spending at the Organization has been limited to required distributions where gift instruments specifically provide for distributions of other amounts, all other annual appreciation is deemed distributed as a repayment of prior year's loans from the endowment fund to operations until such time as the endowment fund has been fully replenished. As of March 31, 2011, the endowment fund was deficient by \$49,153.

Note 11 - Use of permanently restricted net assets

Permanently restricted net assets represent endowments received by the Organization. It had been the policy of the Board of Directors to maintain an amount equal to the permanently restricted net assets in investments. In prior years, investments amounting to approximately \$49,153 have been liquidated to fund the Organization's operating needs. It is management's intention to restore the investment account to an amount equal to permanently restricted net assets. As of March 31, 2011, the endowment fund was deficient by \$49,153.

Note 12 - Subsequent events

Subsequent to the year ended March 31, 2011, the Organization continued to incur annual losses which have restricted the Organization's ability to meet expenses as they come due and to repay outstanding loans as they become due.

The Organization entered into a management contract with Ocean's Classroom Foundation Inc. ("OCF"), in November 2012. OCF is deemed to be a related party prior to July 1, 2013 as the Executive Director of Amistad America, Inc. was also the Executive Director of OCF as of January 1, 2012. On July 1, 2013, Greg Belanger resigned as the Executive Director of Amistad America, Inc. Under the contract, OCF pays all vessel operating expenses and separately bills for major overhauls and repairs; Amistad America, Inc. is required to make monthly payments of \$5,000 and 50% of any net profits derived from program activities managed by OCF. The contract expired on June 30, 2014 and has subsequently been extended through August 31, 2014.

Amistad America, Inc.

**Schedule of Expenditures of State Financial Assistance
March 31, 2011**

| <u>State Grantor/Pass Through Grantor/Program Title</u> | <u>State Grant Program Core-CT Number</u> | <u>Expenditures</u> |
|---|---|---------------------|
| Department of Economic and Community Development: Commission on Culture & Tourism | | |
| Mandated Legislative Programs - 2011 | 11000-CAT45200-17071 | \$ 378,667 |
| State Bond Funds Construction Grant | 12052-CAT45241-43189 | <u>122,044</u> |
| Total State Financial Assistance | | <u>\$ 500,711</u> |

See Notes to Schedule of Expenditures of State Financial Assistance.

Amistad America, Inc.

**Notes to Schedule of Expenditures of State Financial Assistance
March 31, 2011**

The accompanying schedule of expenditures of state financial assistance includes the state grant activity of Amistad America, Inc. under programs of the State of Connecticut for the fiscal year ended March 31, 2011. Various departments and agencies of the State of Connecticut have provided financial assistance through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs including operations.

Summary of significant accounting policies

The accounting policies of Amistad America, Inc. conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

The information in the schedule of expenditures of state financial assistance is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

Basis of accounting

The expenditures reported on the schedule of expenditures of state financial assistance are reported on the accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, certain grants are not dependent on expenditure activity and, accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the schedule of expenditures of state financial assistance.

Amistad America, Inc.

**Schedule of Findings and Questioned Costs
March 31, 2011**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's opinion issued

Unqualified Opinion

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted?

 yes X no

State Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported

Type of auditor's opinion issued on compliance for major programs

Qualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act?

 X yes no

- The following schedule reflects the major programs included in the audit:

| <u>State Grantor and Program</u> | <u>State Core-CT Number</u> | <u>Expenditures</u> |
|--|-----------------------------|---------------------|
| Department of Economic and Community Development Commission on Culture and Tourism: | | |
| Mandated Legislative Programs - 2011 | 11000-CAT45200-17071 | \$ 378,667 |
| State Bond Funds Construction Grant | 12052-CAT45241-43189 | <u>122,044</u> |
| | | <u>\$ 500,711</u> |
| Dollar threshold used to distinguish between type A and type B programs | | <u>\$ 100,000</u> |

Amistad America, Inc.

**Schedule of Findings and Questioned Costs
March 31, 2011**

II. Financial Statement Findings:

Finding 2011-1 (repeat of Finding 2010-1 from the prior year audit)

Criteria: The Organization should be able to produce financial statements and related footnotes in accordance with accounting principles generally accepted in the United States of America.

Condition: The Organization does not have staff with the required experience and training to select and apply appropriate accounting principles required for the preparation or review of financial statements and related footnotes prepared in accordance with accounting principles generally accepted in the United States of America.

Questioned Costs: There are no questioned costs related to this finding.

Context: Monthly and year-end close procedures were not designed or implemented to maintain the general ledger on a full accrual basis.

Effect: Material misstatements to the financial statements will not be prevented, detected or corrected by the Organization's controls. Accordingly, the financial statement for the year ended March 31, 2011 required material adjustments as part of the audit process.

Cause: The Organization does not have sufficient resources to attract and retain a sufficient complement of accounting staff.

Recommendation: We recommend that the Organization continue to work with the recently engaged fee accountant not only on the review of years 2010 - 2013 but also on an on-going current basis.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the auditor's findings and is preparing a corrective action plan.

Amistad America, Inc.

**Schedule of Findings and Questioned Costs
March 31, 2011**

Finding 2011-2 (repeat of Finding #2010-02 from the prior year audit)

Criteria: The Organization's accounting policies require that all disbursements are to be supported by appropriate documentation.

Condition: The auditor noted that invoices were not always obtained contemporaneously for expenses and reimbursements; accordingly, disbursements were supported by written explanations instead of invoices. Likewise, approval for payment and employee wage rates was often done verbally or through email. The cash flow deficiencies that the Organization experienced further complicated this matter as partial payments were often made on balances owed and payments were made on short notice based on a verbal or email request for payment. The auditor found paid bills in the open invoice files that had been paid through partial payments on the account and the invoice was never moved to the paid invoice file when it was ultimately paid in full. The review of expense classifications is also not consistently documented.

Questioned Costs: No questioned costs were identified as expenses paid by State funds were supported by invoices or payroll records as appropriate.

Context: Expenses paid by state funds were supported by invoices or payroll records as appropriate.

Effect: Delay in the audit process.

Cause: The Organization does not have sufficient resources to attract and retain a sufficient complement of accounting staff.

Recommendation: We recommend that the Organization continue to work with the recently engaged fee accountant not only on the review of years 2010 – 2013 but also on an on-going current basis, including implementation of revised accounting policies and procedures that address the documentation of approvals within a small organization.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the auditor's findings and is preparing a corrective action plan.

Finding 2011-3 (repeat of Finding #2010-03 from the prior year audit)

Criteria: Internal controls should be in place to ensure that all journal entries are appropriate and authorized before they are posted.

Condition: The finance assistant posts journal entries without review or written approval by another responsible person.

Questioned Costs: There are no questioned costs related to this finding.

Amistad America, Inc.

**Schedule of Findings and Questioned Costs
March 31, 2011**

Context: The Organization uses QuickBooks for its accounting records; this software allows for historical data to be changed.

Effect: Without strong internal controls over the month-end/year-end close procedures and documented support for journal entries, errors can occur and not be detected.

Cause: The Organization does not have sufficient resources to attract and retain a sufficient complement of accounting staff.

Recommendation: We recommend that the Organization continue to work with the recently engaged fee accountant not only on the review of years 2010 – 2013 but also on an on-going current basis, including implementation of revised accounting policies and procedures that address the documentation of approvals within a small organization.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the auditor's findings and is preparing a corrective action plan.

Finding 2011-4 (repeat of Finding #2010-04 from the prior year audit)

Criteria: Year-end close procedures should ensure that all transactions are properly recorded and that all account balances are properly stated.

Condition: Material adjustments were identified and recorded during the year-end audit.

Questioned Costs: There are no questioned costs related to this finding.

Context: The books and records have not been audited since March 31, 2008; material adjustments related to accrual basis cut-off of revenue recognition of certain grants, contribution income, depreciation and expense cut-off.

Effect: Internally prepared financial statements were materially misstated.

Cause: The Organization does not have sufficient resources to attract and retain a sufficient complement of accounting staff.

Recommendation: We recommend that the Organization continue to work with the recently engaged fee accountant not only on the review of years 2010 – 2013 but also on an on-going current basis, including implementation of revised accounting policies and procedures.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the auditor's findings and is preparing a corrective action plan.

Amistad America, Inc.

**Schedule of Findings and Questioned Costs
March 31, 2011**

Finding 2011-5 (repeat of Finding #2010-5 from the prior year audit)

Criteria: Organizations exempt from tax under Code Section 501(c)(3) are required to file Form 990 annually.

Condition: Form 990 for the year ended March 31, 2011 has not been filed.

Questioned Costs: There are no questioned costs related to this finding.

Context: Form 990 has not been filed for the year ended March 31, 2011 as of the date of our report.

Effect: The Organization's exempt status was subsequently revoked effective August 15, 2012 with a posting date of March 11, 2013.

Cause: The Organization did not have sufficient resources to attract and retain a sufficient complement of accounting staff and to retain appropriate services.

Recommendation: We recommend that the Organization implement revised accounting policies and procedures to ensure necessary filings are made timely.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the auditor's findings. Delinquent tax filings are in process based on the final audit. Management is preparing a corrective action plan.

Amistad America, Inc.

**Schedule of Findings and Questioned Costs
March 31, 2011**

III. State Financial Assistance Findings and Questioned Costs:

- Findings 2011-6, 2011-7 and 2011-8 relate to the State Financial Assistance Programs.

Finding 2011-6 (repeat of Finding #2010-6 from the prior year audit)

Grantor: Department of Economic and Community Development, Commission on Culture and Tourism

State Program Name: Mandated Legislative Programs - 2011

State Grant Program Core-CT Number: 11000-CAT45200-17071

Criteria: The annual report to the State of Connecticut should be supported by the underlying records of the Organization.

Condition: The annual report to the State of Connecticut requires a cash basis report on the expenditure of grant funds. The current structure of the general ledger system does not allow for a separate tracking of the expense categories of the cash as it is disbursed because the general ledger is maintained on an accrual basis. To bridge this reporting gap, management separately totaled the cash disbursements by line item to prepare the annual report. This work was not documented in a sufficient manner to audit efficiently. The reports will be redone by management to reconcile to the audited expense categories.

Questioned Costs: There were no questioned costs for this finding.

Context: The Organization used the grant funds as a working capital loan to fund reimbursable expenses for other grants. Accordingly, the initial expenses paid by the grant were later reimbursed and the expenditure of the reimbursed funds were ultimately funded by the State Mandate Grant.

Effect: Incorrect categories of expenditures of state funds were included in the March 31, 2011 report; however, the amount of total state expenditures is correct.

Cause: Policies and procedures do not adequately address the preparation of reports and the retention of work papers that clearly link the reports to the underlying books and records of the Organization.

Recommendation: Accounting policies and procedures should address reporting requirements for all funding sources including the procedures for documenting and submitting requisitions and a systematic method of filing each claim with its supporting documentation.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the auditor's findings and is preparing a corrective action plan.

Amistad America, Inc.

**Schedule of Findings and Questioned Costs
March 31, 2011**

Finding 2011-7 (repeat of Finding #2010-7 from the prior year audit)

Grantor: Department of Economic and Community Development, Commission on Culture and Tourism

State Program Name: Mandated Legislative Programs - 2011

State Grant Program Core-CT Number: 11000-CAT45200-17071

State Program Name: State Bond Funds Construction Grant

State Grant Program Core-CT Number: 12052-CAT45241-43189

Criteria: The Organization is required to submit audited financial statements annually to the State of Connecticut Office of Policy and Management in accordance with the State Single Audit Act.

Condition: The Organization requested and was granted extensions through March 2013 for the filing of the audit reports for fiscal years ended March 31, 2009, 2010, 2011 and 2012; however, auditors were not engaged due to cash flow deficiencies.

Questioned Costs: There were no questioned costs related to this finding.

Context: Cash flow deficiencies beginning in 2009 lead to lay-offs of staff resulting in inconsistent bookkeeping and minimal year-end reconciliation work performed to close out each year. In 2013, an outside accounting firm ("fee accountant") was engaged to update the internal work paper reconciliations in preparation for an independent audit.

Effect: The Organization is not in compliance with the State Single Audit requirements.

Cause: Inadequate resources to procure both bookkeeping services on a continuing basis and annual audit services hindered the Organization from timely compliance.

Recommendation: We recommend the continued use of the fee accountant to review the books and records monthly and assist management with the preparation of reporting to grantors.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the auditor's findings and is preparing a corrective action plan.

Amistad America, Inc.

**Schedule of Findings and Questioned Costs
March 31, 2011**

Finding 2011-8

Grantor: Department of Economic and Community Development, Commission on Culture and Tourism

State Program Name: State Bond Funds Construction Grant

State Grant Program Core-CT Number: 12052-CAT45241-43189

Criteria: Supporting documentation for amounts submitted as claims for reimbursement must be maintained by the Organization in a manner that allows for a timely response to inquiries.

Condition: The Organization moved its physical location three times in the past five years, resulting in misfiled documents and documents filed off site. Upon commencement of the audit the client could not readily provide requested documents upon request. This required management to spend weeks sorting through documents to assemble requested items.

Questioned Costs: There were no questioned costs related to this finding.

Context: The Construction Bond Funds were paid on a reimbursement basis which required extensive supporting documentation to be provided to the State with each requisition. The Organization did not have a system in place to retain copies of everything sent to the state.

Effect: Delay in the audit process.

Cause: Policies and procedures do not adequately address the retention of documents in a manner that allows for better access.

Recommendation: Accounting policies and procedures should address reporting requirements for all funding sources including the procedures for documenting and submitting requisitions and a systematic method of filing each claim with its supporting documentation.

Views of Responsible Officials and Planned Corrective Actions: Management concurs with the auditor's findings and is preparing a corrective action plan.

Summary of prior year findings:

The 2010 findings are repeated in the current findings.

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

To the Board of Directors
Amistad America, Inc.

We have audited the financial statements of Amistad America, Inc. as of and for the year ended March 31, 2011, and have issued our report thereon dated August 8, 2014. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Amistad America, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Amistad America, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Amistad America, Inc.'s internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (Findings 2011-1, 2011-2, 2011-3, 2011-4 and 2011-5)

A significant deficiency is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Amistad America, Inc.'s financial statements are free of 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*.

We noted certain matters that we reported to management of Amistad America, Inc. in a separate letter dated August 8, 2014.

Amistad America, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Amistad America, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, board of directors, the Office of Policy and Management, and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Farmington, Connecticut
August 8, 2014

Independent Auditor's Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major State Program and
Report on Internal Control over Compliance in Accordance
with the State Single Audit Act

To the Board of Directors
Amistad America, Inc.

Compliance

We have audited Amistad America, Inc.'s compliance with the types of compliance requirements described in the Office of Policy and Management *Compliance Supplement* that could have a direct and material effect on each of Amistad America, Inc.'s major state programs for the year ended March 31, 2011. The major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of Amistad America, Inc.'s management. Our responsibility is to express an opinion on Amistad America, Inc.'s compliance based on our audit.

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 State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act 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 state program occurred. An audit includes examining, on a test basis, evidence about Amistad America, Inc.'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. Our audit does not provide a legal determination of Amistad America, Inc.'s compliance with those requirements.

As described in Findings 2011-6, 2011-7 and 2011-8 in the accompanying schedule of findings and questioned costs, Amistad America, Inc. did not comply with the requirements regarding reporting that are applicable to the Mandated Legislative Programs and State Bond Funds Construction Grant. Compliance with such requirements is necessary, in our opinion, for Amistad America, Inc. to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Amistad America, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended March 31, 2011.

Internal Control over Compliance

Management of Amistad America, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered Amistad America, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the State Single Audit Act, 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 Amistad America, Inc.'s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency 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 state 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 state program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-6, 2011-7 and 2011-8 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state 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.

Amistad America, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Amistad America, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, board of directors, the Office of Policy and Management, and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Farmington, Connecticut
August 8, 2014