

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

**Financial Statements
as of June 30, 2009
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

TABLE OF CONTENTS JUNE 30, 2009

	<u>Page</u>
Independent Auditors' Report	i - ii
Statement of Financial Position	1
Statement of Activities and Change in Net Assets	2
Statement of Functional Expenses	3
Statement of Cash Flows	4
Notes to Financial Statements	5 - 9
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	10 - 11
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	12 - 13
Schedule of Expenditures of Federal Awards	14
Notes to Schedule of Expenditures of Federal Awards	15
Schedule of Findings and Questioned Costs	16 - 17

INDEPENDENT AUDITORS' REPORT

October 20, 2009

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

We have audited the accompanying statement of financial position of Eugenio Maria de Hostos Charter School (a New York not-for-profit corporation) (the School) as of June 30, 2009, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the School's June 30, 2008 financial statements and in our report dated October 21, 2008, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 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 Eugenio Maria de Hostos Charter School, as of June 30, 2009 and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

171 Sully's Trail
Pittsford, NY 14534
p (585) 381-1000
f (585) 381-3131

ROCHESTER • BUFFALO
ALBANY • SYRACUSE
PERRY • GENEVA

www.bonadio.com

INDEPENDENT AUDITORS' REPORT
(Continued)

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2009, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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* and important in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Bonadio & Co., LLP

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2009

(With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,062,526	\$ 985,224
Grants receivable	75,973	72,810
Other receivables, net of allowance for doubtful accounts of \$2,571 in 2009 and \$10,000 in 2008	<u>88,255</u>	<u>49,614</u>
Total current assets	1,226,754	1,107,648
LAND, BUILDINGS, AND EQUIPMENT, net	<u>192,772</u>	<u>344,466</u>
	<u>\$ 1,419,526</u>	<u>\$ 1,452,114</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 39,194	\$ 83,715
Accrued liabilities	160,186	178,550
Due to New York State	<u>69,581</u>	<u>-</u>
Total liabilities	268,961	262,265
NET ASSETS	<u>1,150,565</u>	<u>1,189,849</u>
	<u>\$ 1,419,526</u>	<u>\$ 1,452,114</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, 2009 (With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
REVENUES, GAINS, AND OTHER SUPPORT:		
Public school district -		
Resident student enrollment	\$ 3,569,241	\$ 3,187,535
Students with disabilities	89,171	114,841
Federal and state grants	466,371	1,055,480
Cafeteria	191,292	206,103
Interest	9,808	23,920
Other	<u>36,075</u>	<u>8,938</u>
Total revenues, gains, and other support	<u>4,361,958</u>	<u>4,596,817</u>
EXPENSES:		
Program -		
Regular education	3,262,551	3,201,172
Special education	451,392	500,910
Other	<u>351,285</u>	<u>314,864</u>
Total program	4,065,228	4,016,946
Supporting services -		
Management and general	<u>336,014</u>	<u>307,097</u>
Total expenses	<u>4,401,242</u>	<u>4,324,043</u>
CHANGE IN NET ASSETS	(39,284)	272,774
NET ASSETS - beginning of year	<u>1,189,849</u>	<u>917,075</u>
NET ASSETS - end of year	<u>\$ 1,150,565</u>	<u>\$ 1,189,849</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, 2009

(With Comparative Totals for 2008)

	Program			Supporting Services	Total	
	Regular Education	Special Education	Other Program	Total	Management and General	
					2009	2008
Salaries:						
Faculty and administration	\$ 1,486,960	\$ 225,147	\$ -	\$ 1,712,107	\$ 1,898,210	\$ 1,881,154
Cafeteria	-	-	96,206	96,206	96,206	70,313
Employee benefits and payroll taxes	477,474	72,296	30,893	580,663	640,422	588,290
Contract services	376,720	31,742	-	408,462	408,462	417,911
Occupancy	263,183	39,850	17,028	320,061	353,000	344,149
Textbooks and curriculum	253,905	22,013	-	275,918	275,918	312,339
Depreciation and amortization	142,577	24,551	10,491	177,619	20,293	171,213
Food and supplies	-	-	183,200	183,200	183,200	194,214
Utilities	52,553	7,957	3,400	63,910	6,577	71,476
Computer	39,500	5,981	2,556	48,037	4,944	30,791
Staff development	30,135	2,620	-	32,755	7,190	14,682
Office expense	24,819	3,758	1,606	30,183	3,107	32,160
Maintenance and repairs	19,661	2,977	1,272	23,910	2,461	66,751
Accounting and audit fees	14,791	2,419	1,034	18,244	2,000	15,237
Insurance	14,170	1,795	767	16,732	1,484	18,156
Minor equipment purchases	10,939	951	-	11,890	2,610	19,896
Instructional supplies	11,157	1,456	487	13,100	942	13,073
Telephone	6,903	1,045	447	8,395	864	3,584
Travel	4,486	390	-	4,876	1,070	11,970
Printing	1,121	170	73	1,364	140	10,934
Other	31,497	4,274	1,825	37,596	3,531	35,750
	\$ 3,262,551	\$ 451,392	\$ 351,285	\$ 4,065,228	\$ 336,014	\$ 4,324,043

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2009

(With Comparative Totals for 2008)

	<u>2009</u>	<u>2008</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Revenue from school districts	\$ 3,619,771	\$ 3,317,678
Grant revenues	463,558	1,079,021
Miscellaneous sources	237,177	238,961
Payments to vendors for goods and services rendered	(1,574,347)	(1,730,278)
Payments to charter school personnel for services rendered	<u>(2,622,639)</u>	<u>(2,467,739)</u>
Net cash flow from operating activities	<u>123,520</u>	<u>437,643</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of equipment	<u>(46,218)</u>	<u>(334,094)</u>
Net cash flow from investing activities	<u>(46,218)</u>	<u>(334,094)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	77,302	103,549
CASH AND CASH EQUIVALENTS - beginning of year	<u>985,224</u>	<u>881,675</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 1,062,526</u>	<u>\$ 985,224</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (39,284)	\$ 272,774
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	197,912	171,213
Increase (decrease) in assets:		
Grants receivable	(3,163)	23,541
Other receivables	(38,641)	15,305
Increase (decrease) in liabilities:		
Accounts payable	(44,521)	(105,647)
Accrued liabilities	(18,364)	60,457
Due to New York State	<u>69,581</u>	<u>-</u>
Net cash flow from operating activities	<u>\$ 123,520</u>	<u>\$ 437,643</u>

The accompanying notes are an integral part of these statements.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

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

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's current charter is effective for a five-year term through June 2010. The School is currently in the process of submitting an application to the New York State Department of Education requesting a five-year extension of their charter.

In its initial year of operation, the 2000-2001 school year, the School provided educational instruction to students in kindergarten through second grade. In each of the subsequent school years, the School added the next grade level until the School had grades kindergarten through six during the 2004-2005 school year. As part of the School's application for an extension of its charter, the School is seeking approval to add grades seven and eight. If approved, it is anticipated that grade seven would be added for the 2010-2011 school year and grade eight would be added for the 2011-2012 school year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

Financial Reporting

At June 30, 2009 and 2008, all of the School's net assets were unrestricted.

Revenue Recognition

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

Grant revenue is recognized as the related costs are incurred. Amounts received in advance of incurring the related costs, if any, are reported as deferred revenue.

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. Other program expenses primarily include the costs related to the operation of the School's cafeteria. Regular education expenses include the costs of all other educational activities.

Cash and Cash Equivalents

Cash and cash equivalents include bank demand deposit and money market accounts. The bank accounts and insured money market accounts, at times, may exceed federally insured limits. Certain other money market accounts are not insured. 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.

Accounts and Grants Receivable

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.

Property and Equipment

Property and equipment is stated at cost or fair value at the date of donation. It is the School's policy to capitalize all additions greater than \$1,000 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 three to five years. Leasehold improvements are amortized over the shorter of the assets' estimated useful lives or the remaining lease term.

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.

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109, Accounting for Income Taxes* (FIN 48). This interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. In accordance with FASB Staff Position No. 48-3, the School has elected to defer the application of FIN 48 until 2010, and currently accounts for uncertain tax positions in accordance with generally accepted accounting principles related to accounting for contingencies. The School is currently evaluating the impact of adopting the provisions of FIN 48, but does not anticipate it will have a material effect on its financial statements.

Comparative Information

The financial statements include certain prior year summarized comparative information in total, but not by functional expense classification. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. NET ASSETS

The School's Board of Trustees has designated certain unrestricted net assets as follows at June 30:

	<u>2009</u>	<u>2008</u>
Program and curriculum enhancement	\$ 220,000	\$ 220,000
Facility development	150,000	150,000
Property additions	62,713	62,713
Library	<u>25,000</u>	<u>25,000</u>
	<u>\$ 457,713</u>	<u>\$ 457,713</u>

4. CONCENTRATIONS

Revenue

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 statement of activities and change in net assets. This funding is received on a per pupil basis and was approximately 84% and 72% of the School's total revenue for the years ended June 30, 2009 and 2008, respectively.

Grants Receivable

At June 30, 2009 and 2008, 100% of grants receivable were from the New York State Department of Education.

5. PUBLIC SCHOOL DISTRICT REVENUE

During the year ended June 30, 2009, the School recognized revenue totaling \$109,819 that resulted from New York State's final reconciliation of the public school district revenue related to the 2006-2007 school year. At the same time, New York State retained \$9,149 as a result of New York State's final reconciliation of public school district revenue for the 2007-2008 school year.

At June 30, 2009, the School has recorded a liability of \$69,581 that will be recouped by New York State during the year ending June 30, 2010 related to the final reconciliation of the public school district revenue for the 2008-2009 school year.

6. LAND, BUILDINGS, AND EQUIPMENT

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

	<u>2009</u>	<u>2008</u>
Leasehold improvements	\$ 553,464	\$ 512,927
Computers	201,311	195,630
Equipment	<u>182,382</u>	<u>182,382</u>
	937,157	890,939
Less: Accumulated depreciation and amortization	<u>(744,385)</u>	<u>(546,473)</u>
	<u>\$ 192,772</u>	<u>\$ 344,466</u>

7. RETIREMENT PLANS

New York State Teachers' Retirement System

The School participates in the New York State Teachers' Retirement System (the System). Eligible full-time employees automatically begin participation upon hire. The School made contributions for eligible full-time employees at rates of 7.63% and 8.73% of compensation for the years ended June 30, 2009 and 2008, respectively. Contributions are used by the System to purchase fully vested individual retirement annuity contracts. The School recognized pension expense for required contributions to the System of \$103,402 and \$142,530 during the years ended June 30, 2009 and 2008, respectively.

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 salary. The School's contributions to the Plan for the years ended June 30, 2009 and 2008 were \$18,138 and \$22,698 respectively.

8. AFFILIATE TRANSACTIONS

Lease

In September 2006, the School entered into an operating lease for school facilities with Ibero-American Development Corporation (Development) under the terms of a non-cancelable agreement through August 2010. Development is related to IAAL through common management and Board of Directors' members. The terms of the agreement allow the School to rent the facility at a monthly rate of \$22,500. Upon expiration of this agreement, the School has the option to continue to rent the facility at a monthly rate of \$23,850 until August 2015. Rent expense recognized under the terms of this agreement was \$270,000 for both of the years ended June 30, 2009 and 2008, respectively.

Future minimum lease payments under the terms of this agreement are as follows for the years ending June 30:

2010	\$ 270,000
2011	<u>45,000</u>
	<u>\$ 315,000</u>

8. AFFILIATE TRANSACTIONS (Continued)

Extended Day Program

IAAL provides certain personnel services to the School for the School's Extended Day Program. The cost to the School of the services provided during the years ended June 30, 2009 and 2008 was \$294,493 and \$285,744, respectively.

9. COMMITMENTS

Facility Lease

In January 2007, the School entered into an operating lease agreement for additional school facilities with an unrelated organization for the period August 2007 through September 2010. Upon expiration of this agreement, the School has the option to renew its lease under the current agreement at an increased monthly rate of \$10,000 until August 2015. Rent expense recognized under the terms of this agreement was \$83,000 and \$67,200 for the years ended June 30, 2009 and 2008, respectively.

Future minimum lease payments under the terms of this agreement are as follows for the years ending June 30:

2010	\$ 95,000
2011	<u>8,000</u>
	<u>\$ 103,000</u>

10. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 20, 2009, which is the date the financial statements were available to be issued.

**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 20, 2009

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

We have audited the financial statements of Eugenio Maria de Hostos Charter School (the School) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 20, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs (findings 2009-01 and 2009-02) to be significant deficiencies in internal control over financial reporting.

171 Sully's Trail
Pittsford, NY 14534
p (585) 381-1000
f (585) 381-3131

ROCHESTER • BUFFALO
ALBANY • SYRACUSE
PERRY • GENEVA

www.bonadio.com

(Continued)

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

(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the School in a separate letter dated October 2009.

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

This report is intended solely for the information and use of management, the Board of Trustees, and others within Eugenio Maria de Hostos Charter School and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

October 20, 2009

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

Compliance

We have audited the compliance of Eugenio Maria de Hostos Charter School (the School) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The School's major federal programs are identified in the summary of auditors' 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 federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

171 Sully's Trail
Pittsford, NY 14534
p (585) 381-1000
f (585) 381-3131

ROCHESTER • BUFFALO
ALBANY • SYRACUSE
PERRY • GENEVA

www.bonadio.com

(Continued)

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**
(Continued)

Internal Control Over Compliance

The management of the School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on the effectiveness of internal control over compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Trustees, and others within Eugenio Maria de Hostos Charter School and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2009

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract/ Grantor Number</u>	<u>Expenditures</u>
U.S. Department of Education:			
Passed through the New York State Education Department -			
Reading First State Grants	84.357	0243090183	\$ 181,097
Title I Grants to Local Educational Agencies	84.010	0021094055	248,490
Improving Teacher Quality State Grants	84.367	0147094055	31,924
Safe and Drug - Free Schools and Communities - State Grants	84.186	0180094055	3,060
Education Technology State Grants	84.318	0292094055	1,800
U.S. Department of Agriculture:			
Passed through the New York State Education Department -			
National School Lunch Program	10.555	None	120,258
School Breakfast Program	10.553	None	<u>62,079</u>
			<u>\$ 648,708</u>

The accompanying notes are an integral part of this schedule.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2009

1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of Eugenio Maria de Hostos Charter School. The schedule includes expenditures of federal awards received directly from federal agencies, as well as federal awards passed through other organizations.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards has been prepared in conformity with accounting principles generally accepted in the United States.

Amounts included in the accompanying schedule of expenditures of federal awards are actual expenditures for the year ended June 30, 2009. Differences between amounts included in the accompanying schedule of expenditures of federal awards and amounts reported to funding agencies for these programs result from report timing.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Eugenio Maria de Hostos Charter School (the School).
2. Significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the School were disclosed during the audit.
4. No significant deficiencies related to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the School expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs of the School.
7. The programs tested as major programs were:
 - CFDA No. 84.357 - Reading First State Grants and
 - CFDA No. 84.010 - Title I Grants to Local Educational Agencies.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The School was determined not to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2009-01: PUBLIC SCHOOL DISTRICT REVENUE

Criteria: Properly reconciled accounts result in accurate and timely financial statements.

Condition: Accurate enrollment data was not provided timely to the Rochester City School District (RCSD) for per pupil reimbursement. As a result, the School received overpayments of tuition revenue throughout the year.

B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

2009-01: PUBLIC SCHOOL DISTRICT REVENUE (Continued)

Effect: An adjustment was required as part of the audit process.

Cause: The School did not have the proper controls in place to detect this on a timely basis.

Auditor's Recommendation: We recommend the School develop and implement a more effective method to ensure accurate enrollment reporting to RCSD. In addition, the School should reconcile their tuition payments to monthly enrollment statistics to determine the accuracy of their payments. If the amount due to the School is different than the amount paid by RCSD, the School should record the difference as either a receivable or payable.

Management Response

We agree with the recommendation and have already developed and implemented procedures that will help ensure that the RCSD has accurate enrollment statistics. At the same time, the School's Finance department will reconcile all tuition payments to current enrollment statistics.

2009-02: NET ASSETS

Criteria: Properly reconciled accounts result in accurate and timely financial statements.

Condition: Prior year audit adjustments had not been properly posted to the general ledger. As a result, the beginning of the year net asset balance was not in agreement with the prior year's ending net asset balance.

Effect: An audit adjustment was necessary to properly state beginning of the year net assets.

Cause: The School did not have the proper controls in place to detect this error.

Auditor's Recommendation: We recommend that any audit adjustments be properly posted to the School's general ledger to help ensure the accuracy of the School's financial reporting process.

Management Response

We agree with the recommendation and will implement procedures to ensure that all audit adjustments, if any, are properly posted to the School's general ledger.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

None.