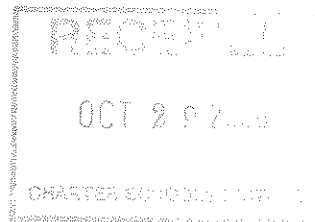


**EUGENIO MARIA DE HOSTOS
CHARTER SCHOOL**

**Communication of Matters Related to Internal Control
Over Financial Reporting and Other Matters
October 2008**



Bonadio & Co., LLP
Certified Public Accountants

October 2008

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

In planning and performing our audit of the financial statements of Eugenio Maria de Hostos Charter School (the School) for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States, we considered the School's internal control over financial reporting (internal control) 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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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.

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 was for the limited purpose described in the first paragraph 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 that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties

Bonadio & Co., LLP

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

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EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

COMMUNICATION OF MATTERS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING AND OTHER MATTERS SEPTEMBER 2008

STATUS OF PRIOR YEAR RECOMMENDATIONS

In connection with our audit of the School's financial statements for the year ended June 30, 2008, we reviewed the status of our prior year suggestions for the consideration of management. We are pleased to report that the following recommendations have been addressed as follows:

Audit Adjustments - We did not propose any audit adjustments as part of the June 30, 2008 audit process.

Financial Expertise - During fiscal 2008, the School engaged the services of certified public accounting firm to supplement management's financial expertise and fulfill the role needed to ensure proper internal controls.

Segregation of Duties - The School has developed additional controls through the consulting services provided by the certified public accountant.

Investments - The School's management considered utilizing an investment management firm, but elected not to do so at this time.

Documentation Policies and Procedures - A policy for helping to ensure the accuracy of coding expenses has not been yet been developed. However, the School has contracted with a certified public accounting firm to assist with improving the School's internal control structure.

INTERNAL CONTROL MATTERS

We have identified the following control deficiency that we do not consider to be either a significant deficiency or a material weakness:

1. ACCOUNTING SOFTWARE

Observation

The School utilizes a standard Fund EZ general ledger software package. However, the School has not entered into a maintenance agreement for this software with any third-party.

Recommendation

We recommend that the School consider contracting with the software provider to maintain and field support questions to help ensure the retention of system functionality. In addition, the School should utilize software user controls or perform reconciliations of data within the system to supporting documentation to ensure accuracy and completeness of data housed within.

OTHER MATTERS

2. FEDERAL FORM 990

Observation

In August 2008, the IRS released the 2008 Form 990, *Return of Organization Exempt from Income Tax* and the applicable instructions. Form 990 is the informational return filed by public charities and other tax-exempt organizations. The redesigned Form 990 will be first effective for organizations having a fiscal year-end of December 31, 2008. As such, the new Form 990 will be effective for the School's fiscal year ending June 30, 2009.

The current Form 990 consists of a 9-page core and Schedules A and B, if applicable. At the same time, 36 possible attachments may be necessary requesting additional financial information. The new Form 990 contains a 10-page core form and 15 potential schedules.

These changes to the Form 990 are the first significant changes since 1979 and reflect the IRS' attempt to keep pace with changes in law and the ever-increasing size, diversity, and complexity of tax-exempt organizations. The new Form 990 will meet the IRS' tax compliance interests by increasing the efficiency of assessing the risk of noncompliance, as well as helping to meet the transparency and accountability needs of the states, the general public, and the local communities served by these organizations.

The new core form allows an organization to describe its exempt accomplishments and mission up-front and provides more opportunities throughout the form to explain its activities. Other major changes were made to the form's summary page, governance section, and the various schedules, including those relating to executive compensation, related organizations, foreign activities, hospitals, non-cash contributions, and tax-exempt bonds.

Recommendation

We recommend that the School, in conjunction with the Board of Trustees, familiarize themselves with the reporting requirements of the new Form 990. Even though these reporting requirements will not be effective until the fiscal 2009 return is filed, there are a number of future reporting requirements, specifically with respect to governance, that should be currently addressed.

The new 2008 Form 990 and its instructions can be reviewed at the IRS' website (irs.gov) under the Charities and Non-Profits tab.

**EUGENIO MARIA DE HOSTOS
CHARTER SCHOOL**

**Financial Statements
as of June 30, 2008
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

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INDEPENDENT AUDITORS' REPORT

October 21, 2008

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) as of June 30, 2008, 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, 2007 financial statements and in our report dated September 29, 2007, 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, 2008 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2008, 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.

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

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EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2008

(With Comparative Totals for 2007)

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 985,224	\$ 881,675
Grants receivable	72,810	96,351
Other receivables, net	<u>49,614</u>	<u>64,919</u>
Total current assets	1,107,648	1,042,945
LAND, BUILDINGS, AND EQUIPMENT, net	<u>344,466</u>	<u>181,585</u>
Total assets	<u>\$ 1,452,114</u>	<u>\$ 1,224,530</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 83,715	\$ 189,362
Accrued liabilities	<u>178,550</u>	<u>118,093</u>
Total liabilities	262,265	307,455
NET ASSETS	<u>1,189,849</u>	<u>917,075</u>
Total liabilities and net assets	<u>\$ 1,452,114</u>	<u>\$ 1,224,530</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, 2008
(With Comparative Totals for 2007)**

	<u>2008</u>	<u>2007</u>
REVENUES, GAINS, AND OTHER SUPPORT:		
Public school district -		
Resident student enrollment	\$ 3,187,535	\$ 2,726,879
Students with disabilities	114,841	80,776
Federal and state grants	1,055,480	896,561
Cafeteria	206,103	171,176
Interest	23,920	29,845
Other	8,938	4,582
	<u>4,596,817</u>	<u>3,909,819</u>
EXPENSES:		
Program -		
Regular education	3,201,172	2,779,679
Special education	500,910	365,020
Other	314,864	251,938
	<u>4,016,946</u>	<u>3,396,637</u>
Supporting services -		
Management and general	307,097	242,606
	<u>4,324,043</u>	<u>3,639,243</u>
CHANGE IN NET ASSETS	272,774	270,576
NET ASSETS - beginning of year	917,075	646,499
NET ASSETS - end of year	\$ 1,189,849	\$ 917,075

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, 2008

(With Comparative Totals for 2007)

	Program				Supporting Services		Total
	Regular Education	Special Education	Other Program	Total	Management and General	2008	
Salaries -	\$ 1,450,970	\$ 256,097	\$ -	\$ 1,707,067	\$ 174,087	\$ 1,881,154	\$ 1,626,280
Faculty and administration	-	-	70,313	70,313	-	70,313	60,683
Cafeteria	437,410	77,203	21,197	535,810	52,480	588,290	493,993
Employee benefits and payroll taxes	384,478	33,433	-	417,911	-	417,911	329,858
Contract services	255,884	45,164	12,400	313,448	30,701	344,149	301,095
Occupancy	287,352	24,987	-	312,339	-	312,339	334,115
Textbooks and curriculum	-	-	194,214	194,214	-	194,214	151,887
Food and supplies	127,302	22,469	6,169	155,940	15,273	171,213	34,800
Depreciation and amortization	53,145	9,380	2,575	65,100	6,376	71,476	56,486
Utilities	49,631	8,760	2,405	60,796	5,955	66,751	38,679
Maintenance and repairs	22,894	4,041	1,109	28,044	2,747	30,791	38,469
Computer	18,929	3,341	917	23,187	2,271	25,458	12,816
Office supplies	15,010	1,305	-	16,315	3,581	19,896	5,969
Minor equipment purchases	13,499	2,383	654	16,536	1,620	18,156	15,907
Insurance	11,329	2,000	549	13,878	1,359	15,237	14,140
Accounting and audit fees	11,076	963	-	12,039	2,643	14,682	29,155
Staff development	9,720	1,716	471	11,907	1,166	13,073	9,287
Instructional supplies	9,030	785	-	9,815	2,155	11,970	6,898
Travel	8,130	1,435	394	9,959	975	10,934	19,482
Printing	4,983	879	242	6,104	598	6,702	-
Payroll processing fees	2,665	470	129	3,264	320	3,584	6,440
Telephone	27,735	4,099	1,126	32,960	2,790	35,750	46,804
Other	\$ 3,201,172	\$ 500,910	\$ 314,864	\$ 4,016,946	\$ 307,097	\$ 4,324,043	\$ 3,639,243

The accompanying notes are an integral part of these statements.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2008 (With Comparative Totals for 2007)

	<u>2008</u>	<u>2007</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Revenue from school districts	\$ 3,317,678	\$ 2,790,009
Grant revenues	1,079,021	854,439
Miscellaneous sources	238,961	205,603
Payments to vendors for goods and services rendered	(1,730,278)	(1,328,886)
Payments to charter school personnel for services rendered	<u>(2,467,739)</u>	<u>(2,178,307)</u>
Net cash flow from operating activities	<u>437,643</u>	<u>342,858</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of equipment	<u>(334,094)</u>	<u>(67,377)</u>
Net cash flow from investing activities	<u>(334,094)</u>	<u>(67,377)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	103,549	275,481
CASH AND CASH EQUIVALENTS - beginning of year	<u>881,675</u>	<u>606,194</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 985,224</u>	<u>\$ 881,675</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Change in net assets	\$ 272,774	\$ 270,576
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	171,213	34,800
Increase (decrease) in assets:		
Grants receivable	23,541	(35,156)
Other receivables	15,305	(17,646)
Increase (decrease) in liabilities:		
Accounts payable	(105,647)	88,601
Accrued liabilities	60,457	8,649
Deferred revenue	<u>-</u>	<u>(6,966)</u>
Net cash provided by operating activities	<u>\$ 437,643</u>	<u>\$ 342,858</u>

The accompanying notes are an integral part of these statements.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2008

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 current charter is effective for a five-year term through February 1, 2010. 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.

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. It is the School's intention to add grades seven and eight in the future.

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, 2008 and 2007, 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. 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2007, from which the summarized information was derived.

Estimates

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

3. NET ASSETS

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

	<u>2008</u>	<u>2007</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 72% of the School's total revenue for both of the years ended June 30, 2008 and 2007, respectively.

Grants Receivable

At June 30, 2008 and 2007, 100% and 60%, respectively, of grants receivable were from the New York State Department of Education.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 512,927	\$ 334,575
Computers	195,630	134,081
Equipment	<u>182,382</u>	<u>88,189</u>
	890,939	556,845
Less: Accumulated depreciation and amortization	<u>(546,473)</u>	<u>(375,260)</u>
	<u>\$ 344,466</u>	<u>\$ 181,585</u>

6. 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 8.73% and 8.60% of compensation for the years ended June 30, 2008 and 2007, 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 \$142,530 and \$83,771 during the years ended June 30, 2008 and 2007, respectively.

6. RETIREMENT PLANS (Continued)

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, 2008 and 2007 were \$22,698 and \$19,698 respectively.

7. AFFILIATE TRANSACTIONS

Lease

In September 2006, the School entered into an operating lease for school facilities with Ibero American Development Corporation under the terms of a non-cancelable agreement through August 2010. Upon expiration of this agreement, the School has the option to continue to rent the facility at a monthly rate of \$22,500 until August 2015. Rent expense recognized under the terms of this sublease agreement was \$270,000 and \$225,000 for the years ended June 30, 2008 and 2007, respectively.

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

2009	\$	270,000
2010		<u>45,000</u>
	\$	<u>315,000</u>

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, 2008 and 2007 was \$285,744 and \$246,977, respectively.

8. 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 September 2007 through August 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 \$67,200 for the year ended June 30, 2008.

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

2009	\$	83,000
2010		95,000
2011		<u>8,000</u>
	\$	<u>186,000</u>

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 21, 2008

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, 2008, and have issued our report thereon dated October 21, 2008. 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 our 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.

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.

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 School'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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

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(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)

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 2008.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, 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 21, 2008

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, 2008. 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, 2008.

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

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(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 of 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, others within the entity, 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, 2008**

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Education:		
Passed through the New York State Education Department -		
Twenty-First Century Community Learning Centers	84.287	\$ 335,816
Reading First State Grants	84.357	217,693
Title I Grants to Local Educational Agencies	84.010	208,944
Improving Teacher Quality State Grants	84.367	12,383
Safe and Drug-Free Schools and Communities - State Grants	84.186	2,659
Education Technology State Grants	84.318	2,415
State Grants for Innovative Programs	84.298	1,285
U.S. Department of Agriculture:		
Passed through the New York State Education Department -		
National School Lunch Program	10.555	139,112
School Breakfast Program	10.553	<u>58,029</u>
		<u>\$ 978,336</u>

The accompanying notes are an integral part of this schedule.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2008

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, 2008. 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, 2008

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. No significant deficiencies related 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, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies related to the audit of the major federal award programs are reported in the 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 on all major federal programs.
6. There are no audit findings relative to the major federal award programs of the School.
7. The programs tested as major programs included:
 - Twenty-First Century Community Learning Centers, CFDA No. 84.287
 - Reading First State Grants, CFDA No. 84.357
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

None.

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

None.

EUGENIO MARIA DE HOSTOS CHARTER SCHOOL

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2008

Finding 07-01 - Account Reconciliation Policies and Procedures

Condition: The auditors identified material audit adjustments to adjust expense and revenue amounts to actual based on services provided and revenue earned.

Recommendation: We recommended that the School establish formal account reconciliation controls to increase the possibility of identifying improper transactions.

Current Status: These adjustments were recorded during fiscal year 2008 in order for the financial statements to be fairly presented in all material respects in conformity with generally accepted accounting principles and corrective actions were taken.

Finding 07-02 - Accounting Expertise

Condition: The School did not employ nor have on its Board of Trustees an individual with the professional qualifications and expertise necessary to adequately select and apply generally accepted accounting principles in the preparation of the School's financial statements. This finding was a material weakness based upon the auditors discussions with management and historical experience with the School.

Recommendation: We recommended that the School look to identify a board member with financial expertise, or look to obtain the requisite experience within the organization, if practical.

Current Status: The School has contracted with a Certified Public Accounting firm to supplement the School's accounting function and add needed financial expertise.

Finding 07-03 - Segregation of Duties

Condition: Numerous transactions were initiated, approved, and recorded by a single individual. Due to the limited staffing of the School's administration, an ideal set of internal controls could not be maintained.

Recommendation: We recommended that the School continue to review its processes and procedures to evaluate whether incompatible duties were being performed by a single individual and seek to mitigate that risk in the most cost-effective manner possible.

Current Status: The School has contracted with a Certified Public Accounting firm to supplement the School's accounting function, which adds an additional level of review and needed financial expertise.