

HENRY JOHNSON CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

HENRY JOHNSON CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

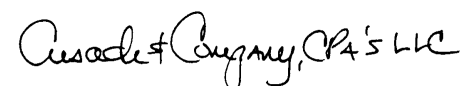
Board of Trustees
Henry Johnson Charter School

We have audited the accompanying statements of financial position of Henry Johnson Charter School as of June 30, 2010 and 2009 and the related statements of activities and change in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of Henry Johnson Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits 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 audits provide 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 Henry Johnson Charter School as of June 30, 2010 and 2009, and the change in its net assets and cash flows for the years 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 October 18, 2010 on our consideration of Henry Johnson Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
October 18, 2010

HENRY JOHNSON CHARTER SCHOOL

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2010 AND 2009

ASSETS

| | <u>2010</u> | <u>2009</u> |
|---------------------------------|----------------------------|--------------------------|
| Current Assets | | |
| Cash | \$ 747,662 | \$ 457,535 |
| Grants and Contracts Receivable | 209,335 | 95,262 |
| Accounts Receivable | 7,255 | - |
| Prepaid Expenses | <u>-</u> | <u>5,270</u> |
| Total Current Assets | 964,252 | 558,067 |
| Property and Equipment - Net | <u>182,095</u> | <u>195,909</u> |
| Total Assets | <u>\$ 1,146,347</u> | <u>\$ 753,976</u> |

LIABILITIES AND NET ASSETS

| | | |
|---------------------------------------|----------------------------|--------------------------|
| Current Liabilities | | |
| Accounts Payable and Accrued Expenses | \$ 69,296 | \$ 43,818 |
| Accrued Payroll and Benefits | 55,018 | - |
| Deferred Income | <u>10,182</u> | <u>-</u> |
| Total Current Liabilities | 134,496 | 43,818 |
| Long-Term Liabilities | | |
| Compensated Absences | <u>6,093</u> | <u>11,986</u> |
| Total Liabilities | <u>140,589</u> | <u>55,804</u> |
| Net Assets | | |
| Unrestricted | <u>1,005,758</u> | <u>698,172</u> |
| Total Liabilities and Net Assets | <u>\$ 1,146,347</u> | <u>\$ 753,976</u> |

HENRY JOHNSON CHARTER SCHOOL
 STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2010

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|---------------------|
| Revenue and Other Support: | | | |
| Public School District | | | |
| Resident Student Enrollment | \$ 3,164,828 | \$ - | \$ 3,164,828 |
| Students with Disabilities | 44,297 | - | 44,297 |
| Grants and Contracts | | | |
| Federal - Title and IDEA | 239,882 | - | 239,882 |
| Food Service/Children Nutrition Program | <u>189,555</u> | <u>-</u> | <u>189,555</u> |
| Total Revenue, Gains and Other Support | <u>3,638,562</u> | <u>-</u> | <u>3,638,562</u> |
| Expenses: | | | |
| Program Services | | | |
| Regular Education | 2,507,827 | - | 2,507,827 |
| Special Education | 105,817 | - | 105,817 |
| Other Programs | <u>326,437</u> | <u>-</u> | <u>326,347</u> |
| Total Program Services | 2,940,081 | - | 2,940,081 |
| Management and General Fundraising | 408,591 | - | 408,591 |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Operating Expenses | <u>3,348,672</u> | <u>-</u> | <u>3,348,672</u> |
| Surplus from School Operations | <u>289,890</u> | <u>-</u> | <u>289,890</u> |
| Support and Other Revenue: | | | |
| Contributions | | | |
| Corporations | 500 | - | 500 |
| Fundraising | 1,057 | - | 1,057 |
| Interest Income | 115 | - | 115 |
| Miscellaneous Income | <u>16,024</u> | <u>-</u> | <u>16,024</u> |
| Total Support and Other Revenue | <u>17,696</u> | <u>-</u> | <u>17,696</u> |
| Increase in Net Assets | 307,586 | - | 307,586 |
| Net Assets, Beginning of Year | <u>698,172</u> | <u>-</u> | <u>698,172</u> |
| Net Assets, End of Year | <u>\$ 1,005,758</u> | <u>\$ -</u> | <u>\$ 1,005,758</u> |

HENRY JOHNSON CHARTER SCHOOL
 STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2009

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-------------------|
| Revenue and Other Support: | | | |
| Public School District | | | |
| Resident Student Enrollment | \$ 2,302,306 | \$ - | \$ 2,302,306 |
| Students with Disabilities | 50,647 | - | 50,647 |
| Grants and Contracts | | | |
| Federal - Title and IDEA | 164,998 | - | 164,998 |
| Food Service/Children Nutrition Program | <u>127,030</u> | <u>-</u> | <u>127,030</u> |
| Total Revenue, Gains and Other Support | <u>2,644,981</u> | <u>-</u> | <u>2,644,981</u> |
| Expenses: | | | |
| Program Services | | | |
| Regular Education | 1,902,669 | - | 1,902,669 |
| Special Education | 104,145 | - | 104,145 |
| Other Programs | <u>255,318</u> | <u>-</u> | <u>255,318</u> |
| Total Program Services | 2,262,132 | - | 2,262,132 |
| Management and General | 391,557 | - | 391,557 |
| Fundraising | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Operating Expenses | <u>2,653,689</u> | <u>-</u> | <u>2,653,689</u> |
| Deficit from School Operations | <u>(8,708)</u> | <u>-</u> | <u>(8,708)</u> |
| Support and Other Revenue: | | | |
| Contributions | | | |
| Corporations | 500 | - | 500 |
| Fundraising | 2,710 | - | 2,710 |
| Miscellaneous Income | 198,412 | - | 198,412 |
| Net Assets Related from Restrictions | <u>62,988</u> | <u>(62,988)</u> | <u>-</u> |
| Total Support and Other Revenue | <u>264,610</u> | <u>(62,988)</u> | <u>201,622</u> |
| Increase (Decrease) in Net Assets | 255,902 | (62,988) | 192,914 |
| Net Assets, Beginning of Year | <u>442,270</u> | <u>62,988</u> | <u>505,258</u> |
| Net Assets, End of Year | <u>\$ 698,172</u> | <u>\$ -</u> | <u>\$ 698,172</u> |

HENRY JOHNSON CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|
| Cash Flows Provided by Operating Activities: | | |
| Increase in Net Assets | \$ 307,586 | \$ 192,914 |
| Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation | 42,010 | 37,682 |
| Changes in Operating Assets and Liabilities | | |
| <u>Decrease (Increase) in Assets</u> | | |
| Grants and Contracts Receivable | (114,073) | (43,246) |
| Accounts Receivable | (7,255) | - |
| Prepaid Expense | 5,270 | 5,194 |
| <u>(Decrease) Increase in Liabilities</u> | | |
| Accounts Payable and Accrued Expenses | 11,200 | 6,893 |
| Accrued Payroll and Benefits | 69,296 | (30,700) |
| Deferred Income | 10,182 | - |
| Compensated Absences | <u>(5,893)</u> | <u>3,508</u> |
| Net Cash Provided by Operating Activities | <u>318,323</u> | <u>172,245</u> |
| Cash Flows Used in Investing Activities | | |
| Purchase of Property and Equipment | <u>(28,196)</u> | <u>(18,124)</u> |
| Net Increase in Cash and Cash Equivalents | 290,127 | 154,121 |
| Cash and Cash Equivalents, Beginning of Period | <u>457,535</u> | <u>303,414</u> |
| Cash and Cash Equivalents, End of Period | <u>\$ 747,662</u> | <u>\$ 457,535</u> |

HENRY JOHNSON CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2010

| | <u>Program Services</u> | | | | <u>Supporting Services</u> | | | |
|--|--------------------------|--------------------------|------------------------|---------------------|----------------------------|-------------------------------|-------------------|---------------------|
| | <u>Regular Education</u> | <u>Special Education</u> | <u>Other Education</u> | <u>Total</u> | <u>Fundraising</u> | <u>Management and General</u> | <u>Total</u> | <u>Total</u> |
| Administrative Staff Personnel | \$ 63,001 | \$ - | \$ - | \$ 63,001 | \$ - | \$ 239,517 | \$ 239,517 | \$ 302,518 |
| Instructional Personnel | 1,282,423 | 56,771 | - | 1,339,194 | - | - | - | 1,339,194 |
| Non-Instructional Personnel | - | - | - | - | - | 29,093 | 29,093 | 29,093 |
| Total Salaries and Staff | 1,345,424 | 56,771 | - | 1,402,195 | - | 268,610 | 268,610 | 1,670,805 |
| Fringe Benefits and Payroll Taxes | 243,804 | 10,287 | - | 254,091 | - | 48,675 | 48,675 | 302,766 |
| Retirement | 9,995 | 422 | - | 10,417 | - | 1,996 | 1,996 | 12,413 |
| Legal Service | 604 | 25 | - | 629 | - | 121 | 121 | 750 |
| Accounting/Audit Services | 13,412 | 566 | - | 13,978 | - | 2,678 | 2,678 | 16,656 |
| Other Purchased/Professional/ Consulting Services | 35,437 | 1,495 | - | 36,932 | - | 7,075 | 7,075 | 44,007 |
| Building and Land Rent/Lease | 450,942 | 19,028 | 44,558 | 514,528 | - | 45,472 | 45,472 | 560,000 |
| Repairs and Maintenance | 72,530 | 3,060 | 7,167 | 82,757 | - | 7,314 | 7,314 | 90,071 |
| Insurance | 21,217 | 895 | 2,097 | 24,209 | - | 2,140 | 2,140 | 26,349 |
| Utilities | 40,409 | 1,705 | 3,993 | 46,107 | - | 4,075 | 4,075 | 50,182 |
| Supplies/Materials | 76,355 | 3,222 | - | 79,577 | - | 4,457 | 4,457 | 84,034 |
| Equipment/Furnishings | 8,059 | 340 | - | 8,399 | - | 1,609 | 1,609 | 10,008 |
| Staff Development | 17,469 | 737 | - | 18,206 | - | - | - | 18,206 |
| Marketing/Recruitment | 18,393 | 776 | - | 19,169 | - | 3,672 | 3,672 | 22,841 |
| Food Service | - | - | 178,355 | 178,355 | - | - | - | 178,355 |
| Student Services | 89,292 | 3,768 | 88,090 | 181,150 | - | - | - | 181,150 |
| Office Expense | 22,028 | 929 | 2,177 | 25,134 | - | 2,221 | 2,221 | 27,355 |
| Depreciation and Other | 42,457 | 1,791 | - | 44,248 | - | 8,476 | 8,476 | 52,724 |
| Total Expenses | <u>\$2,507,827</u> | <u>\$ 105,817</u> | <u>\$ 326,437</u> | <u>\$ 2,940,081</u> | <u>\$ -</u> | <u>\$ 408,591</u> | <u>\$ 408,591</u> | <u>\$ 3,348,672</u> |

HENRY JOHNSON CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2009

| | <u>Program Services</u> | | | | <u>Supporting Services</u> | | | |
|--|--------------------------|--------------------------|------------------------|---------------------|----------------------------|-------------------------------|-------------------|---------------------|
| | <u>Regular Education</u> | <u>Special Education</u> | <u>Other Education</u> | <u>Total</u> | <u>Fundraising</u> | <u>Management and General</u> | <u>Total</u> | <u>Total</u> |
| Administrative Staff | \$ 54,489 | \$ - | \$ - | \$ 54,489 | \$ - | \$ 207,783 | \$ 207,783 | \$ 262,272 |
| Instructional Personnel | 864,947 | 50,327 | - | 915,274 | - | - | - | 915,274 |
| Non-Instructional Personnel | - | - | - | - | - | 23,880 | 23,880 | 23,880 |
| Total Salaries and Staff | 919,436 | 50,327 | - | 969,763 | - | 231,663 | 231,663 | 1,201,426 |
| Fringe Benefits and Payroll Taxes | 162,507 | 8,895 | - | 171,402 | - | 40,945 | 40,945 | 212,347 |
| Retirement | 8,430 | 461 | - | 8,891 | - | 2,124 | 2,124 | 11,015 |
| Legal Service | 153 | 8 | - | 161 | - | 39 | 39 | 200 |
| Accounting/Audit Services | 11,617 | 636 | - | 12,253 | - | 2,927 | 2,927 | 15,180 |
| Other Purchased/Professional/ Consulting Services | 21,558 | 1,180 | - | 22,738 | - | 5,432 | 5,432 | 28,170 |
| Building and Land Rent/Lease | 428,561 | 23,458 | 41,977 | 493,996 | - | 66,004 | 66,004 | 560,000 |
| Repairs and Maintenance | 66,539 | 3,642 | 6,517 | 76,698 | - | 10,248 | 10,248 | 86,946 |
| Insurance | 16,498 | 903 | 1,616 | 19,017 | - | 2,541 | 2,541 | 21,558 |
| Utilities | 47,248 | 2,586 | 4,628 | 54,462 | - | 7,277 | 7,277 | 61,739 |
| Supplies/Materials | 50,091 | 2,742 | - | 52,833 | - | 5,627 | 5,627 | 58,460 |
| Equipment/Furnishings | 4,305 | 236 | - | 4,541 | - | 1,085 | 1,085 | 5,626 |
| Staff Development | 17,232 | 943 | - | 18,175 | - | - | - | 18,175 |
| Marketing/Recruitment | 18,708 | 1,024 | - | 19,732 | - | 4,714 | 4,714 | 24,446 |
| Food Service | - | - | 126,636 | 126,636 | - | - | - | 126,636 |
| Student Services | 79,801 | 4,368 | 72,281 | 156,450 | - | - | - | 156,450 |
| Office Expense | 16,983 | 930 | 1,663 | 19,576 | - | 2,616 | 2,616 | 22,192 |
| Depreciation and Other | 33,002 | 1,806 | - | 34,808 | - | 8,315 | 8,315 | 43,123 |
| Total Expenses | <u>\$1,902,669</u> | <u>\$ 104,145</u> | <u>\$ 255,318</u> | <u>\$ 2,262,132</u> | <u>\$ -</u> | <u>\$ 391,557</u> | <u>\$ 391,557</u> | <u>\$ 2,653,689</u> |

1. ORGANIZATION AND PURPOSE

Organization

Henry Johnson Charter School (the “School”) is a New York not-for-profit organization that works to ensure all students reach the highest levels of scholastic achievement in an environment that instills character, virtue, and “habits of mind” that ensure success both within and outside the classroom: diligence, courage, respect, self-reliance, duty, and responsibility.

The School is exempt from Federal and State income tax under §501(c)(3) of the Internal Revenue Code and comparable New York State Law. The School is designated as a publicly supported organization which is not a private foundation under §509(a) of the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The financial statements of the School have been prepared utilizing the accrual basis of accounting.

Support and Expenses

Grants and pledges received are measured at their fair values and reported as an increase in net assets. The School reports grants and pledges as restricted when a portion of their value is assigned to a long-term future use, long-term meaning in excess of one year for the purpose of these statements.

The School reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the School reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Donated Services and Goods

No amounts have been reflected in the financial statements for donated services, while the School has received donated rent as described later. The School pays for services requiring specific expertise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants, Contracts and Accounts Receivable

The School utilizes the allowance method to determine the allowance for doubtful accounts. At June 30, 2010 and 2009 management determined no allowance was necessary based upon their review of the specific receivables.

Property, Equipment and Depreciation

Property and equipment are reflected at cost, with depreciation provided on a straight-line basis over an estimated useful life of 7 years for furniture, 5 years for equipment and 3 years for software. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

Conditional and Unconditional Promises to Give

At June 30, 2010 and 2009, the School had not received any conditional or unconditional promises to give.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs benefitted. Salaries are allocated based on estimates of total time spent, while other expenses are allocated based on estimates of the resources used.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

Fair Value Measurement - Definition and Hierarchy

In 2009, the School adopted the provisions of FASB ASC 820-10, (formerly SFAS No. 157), *Fair Value Measurements*. FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurement - Definition and Hierarchy (Continued)

The School uses various valuation techniques in determining fair value. FASB ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the School. Unobservable inputs are inputs that reflect the School's assumptions about the assumptions market participants would use in pricing the asset or liability, developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the School has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

The School's cash and cash equivalents are primarily valued utilizing Level 1 inputs.

- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

The School's receivables and payables are primarily valued utilizing Level 2 inputs.

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The School's property and equipment are measured using Level 3 inputs.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the School in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting for Uncertainty in Income Taxes

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 (“FIN48”)*. FIN 48, now referred to as FASB ASC 740-10, requires entities to disclose in their financial statements the nature of any uncertainty in their tax position. For tax-exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur and jeopardize the tax-exempt status. The School implemented this policy in 2009 and its current accounting policy for evaluating uncertain tax positions is in accordance with generally accepted accounting principles. The School has not recognized any benefits from uncertain tax positions in 2010 or 2009 and believes it has no uncertain tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the balance sheet date of June 30, 2010.

Subsequent Events

During 2009, the School adopted ASC 855, *Subsequent Events*, which establishes general standards of accounting for, and disclosure of, events that occur after the date of the financial statements but before the financial statements are issued or are available to be issued. In preparing the financial statements and notes thereto, the School has considered subsequent events through October 18, 2010, the date the financial statements were issued.

Reclassification

Certain 2009 amounts have been reclassified to conform with the current year presentation.

3. GRANTS, CONTRACTS AND ACCOUNTS RECEIVABLE

At June 30, 2010 and 2009, grants, contracts and accounts receivable were comprised of the following funding sources:

| | <u>2010</u> | <u>2009</u> |
|--------------------------------|-------------------|------------------|
| School District Tuition | \$ 27,968 | \$ 59,808 |
| U.S. Department of Agriculture | 22,569 | 25,428 |
| U.S. Department of Education | 158,798 | 10,026 |
| Other Receivables | 7,255 | - |
| | <u>\$ 216,590</u> | <u>\$ 95,262</u> |

4. PROPERTY AND EQUIPMENT

Property and equipment are reflected at historical cost, net of related depreciation, and are comprised of the following at June 30, 2010 and 2009, respectively.

| | <u>2010</u> | <u>2009</u> |
|--------------------------------|-------------------|-------------------|
| Furniture/Fixtures | \$ 142,359 | \$ 130,485 |
| Equipment | <u>145,281</u> | <u>128,960</u> |
| Total at Cost | 287,640 | 259,445 |
| Less: Accumulated Depreciation | <u>(105,545)</u> | <u>(63,536)</u> |
| | <u>\$ 182,095</u> | <u>\$ 195,909</u> |

Depreciation expense was \$42,010 and \$37,682 for the years ended June 30, 2010 and 2009, respectively.

5. RENTAL OF FACILITY

The School currently leases facilities from the Brighter Choice Foundation. Net occupancy costs of the lease for the years ended June 30, 2010 and 2009 was \$560,000. Rent assistance was received from the Foundation in the amount of \$190,526 and recorded as in-kind revenue in the Statement of Activities for the year ending June 30, 2009. Gross occupancy costs for the year ending June 30, 2011 are estimated at \$560,000, and at present time, no rental assistance has been pledged to the School for future years.

6. RETIREMENT PLAN

The School has adopted a SIMPLE IRA retirement plan covering all eligible employees. The School contributes a matching contribution to each eligible employee's SIMPLE IRA at the rate of 2% of the employee's gross compensation for the calendar year. The School's retirement plan expense for the years ended June 30, 2010 and 2009 was \$12,413 and \$11,015, respectively.

7. CONCENTRATION OF RISK

The School receives a majority of its funding from the residing school districts of each student. Any change in law which governs charter schools could put the School at risk should the districts' requirement to fund charter schools be reduced.

The School does occasionally maintain deposits in excess of federal insured limits. FASB ASC 850-10 identifies this as a possible concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is further managed by maintaining all deposits in high quality financial institutions.

8. RESTATEMENT OF UNRESTRICTED NET ASSETS

Unrestricted net assets as of June 30, 2009 have been increased to correct the financial statements for the following activity:

| | |
|-----------------------------------|------------------|
| Record Tuition Revenue Receivable | <u>\$ 52,500</u> |
|-----------------------------------|------------------|

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**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 Trustees of
Henry Johnson Charter School

We have audited the financial statements of Henry Johnson Charter School as of and for the year ended June 30, 2010, and have issued our report thereon dated October 18, 2010. 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 Henry Johnson Charter 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Henry Johnson Charter 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink that reads "Cusack & Company, CPA's LLC". The signature is written in a cursive, flowing style.

CUSACK & COMPANY, CPA'S LLC

Latham, New York
October 18, 2010