



*FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION*

*JUNE 30, 2015 AND 2014*

**HENRY JOHNSON CHARTER SCHOOL**

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*JUNE 30, 2015 AND 2014*

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Henry Johnson Charter School

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Henry Johnson Charter School (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 13-14 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 19, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 27, 2015, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



**CUSACK & COMPANY, CPA'S LLC**

Latham, New York  
October 27, 2015

**HENRY JOHNSON CHARTER SCHOOL**

## STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current Assets		
Cash	\$ 1,958,719	\$ 1,744,797
Grants and Contracts Receivable	144,515	353,935
Prepaid Expenses	<u>65,615</u>	<u>90,317</u>
Total Current Assets	<u>2,168,849</u>	<u>2,189,049</u>
Other Assets		
Property and Equipment - Net	7,534,483	168,311
Loan Acquisition Costs - Net	106,989	-
Cash - Designated	<u>75,019</u>	<u>1,089,619</u>
Total Other Assets	<u>7,716,491</u>	<u>1,257,930</u>
Total Assets	<u>\$ 9,885,340</u>	<u>\$ 3,446,979</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Current Portion of Long-Term Debt	\$ 82,612	\$ -
Accounts Payable and Accrued Expenses	86,300	28,613
Accrued Payroll and Benefits	489,056	472,865
Compensated Absences	<u>39,522</u>	<u>18,881</u>
Total Current Liabilities	<u>697,490</u>	<u>520,359</u>
Long-Term Liabilities		
Long-Term Debt, Net of Current Portion	<u>5,898,007</u>	<u>-</u>
Total Liabilities	<u>6,595,497</u>	<u>520,359</u>
Net Assets		
Unrestricted		
Undesignated	3,214,824	1,837,001
Designated	<u>75,019</u>	<u>1,089,619</u>
Total Unrestricted	<u>3,289,843</u>	<u>2,926,620</u>
Total Liabilities and Net Assets	<u>\$ 9,885,340</u>	<u>\$ 3,446,979</u>

**HENRY JOHNSON CHARTER SCHOOL**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>2015</u>	<u>2014</u>
Revenue		
Public School District		
Resident Student Enrollment	\$ 5,432,751	\$ 5,275,382
Students with Disabilities	-	10,122
Grants and Contracts		
Federal Grants	192,623	228,034
Food Service/Children Nutrition Program	321,491	311,012
State and Local Grants	<u>32,256</u>	<u>-</u>
Total Revenue	<u>5,979,121</u>	<u>5,824,550</u>
Expenses		
Program Services		
Regular Education	3,618,831	3,658,789
Special Education	445,339	408,317
Other Programs	<u>460,435</u>	<u>432,213</u>
Total Program Services	4,524,605	4,499,319
Management and General	<u>1,095,572</u>	<u>803,331</u>
Total Operating Expenses	<u>5,620,177</u>	<u>5,302,650</u>
Surplus from School Operations	<u>358,944</u>	<u>521,900</u>
Other Revenue/Expenses		
Fundraising	3,061	-
E-Rate Income	18,304	55
Interest Income	147	3,748
Miscellaneous Income	4,083	699
In-Kind Donations	25,295	11,569
Loss on Asset Disposition	<u>(46,611)</u>	<u>15,019</u>
Total Other Revenue/Expenses	<u>4,279</u>	<u>31,090</u>
Increase in Net Assets before Extraordinary Item	-	552,990
Extraordinary Item	<u>-</u>	<u>(257,211)</u>
Increase in Net Assets	363,223	295,779
Net Assets, Beginning of Year	<u>2,926,620</u>	<u>2,630,841</u>
Net Assets, End of Year	<u>\$ 3,289,843</u>	<u>\$ 2,926,620</u>

**HENRY JOHNSON CHARTER SCHOOL**  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows Provided by Operating Activities:		
Increase in Net Assets	\$ 363,223	\$ 295,779
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Amortization	1,911	-
Depreciation	145,935	53,438
Bad Debt Expense	1,152	3,500
Extraordinary Item - Loss on Fair Value Adjustment	-	257,211
Loss on Asset Disposition	46,611	-
Changes in Operating Assets and Liabilities		
<u>(Increase) Decrease in Assets</u>		
Grants and Contracts Receivable	208,268	(84,445)
Prepaid Expenses	24,702	10,916
<u>Increase (Decrease) in Liabilities</u>		
Accounts Payable and Accrued Expenses	57,687	(118,416)
Accrued Payroll and Benefits	16,191	(18,367)
Compensated Absences	<u>20,641</u>	<u>5,309</u>
Net Cash Provided by Operating Activities	<u>886,321</u>	<u>404,925</u>
Cash Flows Used In Financing Activities		
Repayments of Long-Term Debt	(19,381)	-
Payment for Debt Acquisition Costs	<u>(108,900)</u>	<u>-</u>
Net Cash Used In Financing Activities	<u>(128,281)</u>	<u>-</u>
Cash Flows Used In Investing Activities		
Purchase of Property and Equipment	<u>(1,558,718)</u>	<u>(92,999)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(800,678)	311,926
Cash, Beginning of Year	<u>2,834,416</u>	<u>2,522,490</u>
Cash, End of Year	<u>\$ 2,033,738</u>	<u>\$ 2,834,416</u>
Non-Cash Investing/Financing - Building Acquisition with Debt Proceeds	<u>\$ 6,000,000</u>	<u>\$ -</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.

A provisional charter, valid for five years, was granted to the School by the University of the State of New York pursuant to Article 56 of the Education Law of the State of New York. The School began providing educational services in the fall of 2007 for K-1 grades. The provisional charter allowed for an additional grade to be added in each subsequent year until the School reaches grades K-4. A charter renewal was granted in 2011 extending the school’s operations for an additional three years ending June 30, 2015. As of June 30, 2015, the School had an enrollment of 386 students in K-4th grades. The authorizer has approved an additional five year renewal until June 30, 2020.

The School is governed by a Board of Trustees in accordance with the School’s by-laws. The School partners with Albany Charter School Network which provides academic and operational assistance to area charter schools.

**2. ACCOUNTING POLICIES AND FINANCIAL STATEMENT PRESENTATION**

*Financial Statement Presentation*

The following summarizes the significant accounting policies consistently applied in the preparation of the School’s financial statements, with references to the Accounting Standards Codification (ASC) where applicable.

*Basis of Accounting*

The accompanying financial statements have been prepared in accordance with ASC “Financial Statements of Not-for-Profit Organizations” utilizing the accrual basis of accounting. This basis of accounting conforms to accounting principles generally accepted in the United States of America.

*Support and Revenue*

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 support 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 financial statements.

**2. ACCOUNTING POLICIES AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)**

*Support and Revenue (Continued)*

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.

*Revenue Recognition*

A substantial portion of the School's revenue and related receivables is derived from its billing of Albany City School District. State law requires the District to reimburse the School on a per capita basis. These revenues are recognized ratably over the related school year during which they are earned.

Revenue from other governmental resources generally represents entitlements grants and is recognized as earned as allowable expenditures are incurred. Costs are subject to audit and changes, if any, are recognized in the year known.

*Donated Services*

A number of unpaid volunteers have made contributions of their time. The value of this contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or valuation and it does not meet the reporting requirements of the accounting standards.

*Grants, Contracts and Accounts Receivable*

Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of accounts previously written off are recorded when received. A receivable is considered past due if any portion of the receivable balance is outstanding for more than 90 days. Management considers all receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is required.

**2. ACCOUNTING POLICIES AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)**

*Property, Equipment and Depreciation*

Acquisitions of property and equipment in excess of \$500 are capitalized and recorded at cost. Improvements and replacements of property and equipment are capitalized. Maintenance and repairs not improving or extending the lives of property and equipment is charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statement of activities. Depreciation is provided over the estimated useful life of each class of depreciable assets (ranging from 3 to 39 years) and is computed using the straight-line method.

*Conditional and Unconditional Promises to Give*

At June 30, 2015 and 2014, 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. 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.

*Income Taxes*

The School is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code, and the School is exempt from state income tax. The School has been classified as a publicly-supported organization that is not a private foundation under §509(a) of the Code.

Under ASC Section 740, the tax-exempt status of a tax-exempt entity is an uncertain tax position, since events could potentially occur that jeopardize tax exempt status. Management is not aware of any events that could jeopardize tax exempt status.

**2. ACCOUNTING POLICIES AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)**

*Income Taxes (Continued)*

Forms 990 filed by the School are subject to examination by the Internal Revenue Service up to three years from the extended due date of each return. Forms 990 filed by the School for the fiscal years prior to June 30, 2012 are no longer subject to examination. There are currently no audits for these tax periods in progress.

*Fair Value*

For assets and liabilities measured at fair value on a recurring basis, the ASC required expanded disclosures about fair value measurements and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that the School would receive upon selling an asset or be paid to transfer a liability in an orderly transaction between market participants. The guidance establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

*Designated Cash and Net Assets*

Designated cash and net assets represents funds set aside by Board action for future school expansion.

*Advertising Costs*

The School expenses advertising costs as they are incurred. Advertising costs for the years ended June 30, 2015 and 2014 were \$7,291 and \$9,418, respectively.

**2. ACCOUNTING POLICIES AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)**

*Subsequent Events*

The School has adopted ASC 855, *Subsequent Events*, which establishes general standards of accounting for, and disclosures of, events that occur after the due date of the financial statements but before the financial statements are issued or are available to be issued. In the preparation of these financial statements and notes thereto, management has evaluated subsequent events or transactions as to any potential material impact on operations or financial position occurring through October 27, 2015, the date the financial statements were available to be issued. No such events or transactions were identified.

**3. GRANTS, CONTRACTS AND ACCOUNTS RECEIVABLE**

At June 30, 2015 and 2014, grants, contracts and accounts receivable were comprised of the following funding sources:

	<u>2015</u>	<u>2014</u>
School District Tuition	\$ 74,251	\$ 319,113
U.S. Department of Agriculture	<u>70,264</u>	<u>34,822</u>
	<u>\$ 144,515</u>	<u>\$ 353,935</u>

**4. PROPERTY AND EQUIPMENT - NET**

Property and equipment - net are reflected at historical cost, net of related depreciation, and are comprised of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Buildings	\$ 6,983,442	\$ -
Land	483,000	28,000
Land Improvements	2,234	2,234
Equipment	281,754	235,484
Furniture and Fixtures	187,835	184,355
Leasehold Improvements	<u>-</u>	<u>41,903</u>
Total at Cost	7,938,265	491,976
Less: Accumulated Depreciation	<u>(403,782)</u>	<u>(323,665)</u>
	<u>\$ 7,534,483</u>	<u>\$ 168,311</u>

Depreciation expense was \$145,935 and \$53,438 for the years ended June 30, 2015 and 2014, respectively.

**5. LOAN ACQUISITION COSTS**

Loan acquisition costs on the financing of certain real property of the School and are being amortized over 28.5 years. Capitalized costs totaled \$108,900 with accumulated amortization of \$1,911 as of June 30, 2015. Amortization expense was \$1,911 for the year ended June 30, 2015.

**6. LONG-TERM DEBT**

Long-term debt is comprised of the following at June 30, 2015:

Mortgage loan payable to Local Initiatives Support Corporation, in monthly payments of \$36,659, including interest at 6%, maturing in September, 2043, collateralized by building.	\$ 5,980,619
Less: current portion	<u>(82,612)</u>
	<u>\$ 5,898,007</u>

Estimated debt maturities at June 30 over the next five (5) years are as follows:

2016	\$ 82,612
2017	88,697
2018	94,167
2019	99,975
2020	105,216
Thereafter	<u>5,509,952</u>
	<u>\$ 5,980,619</u>

**7. RENTAL OF FACILITY**

In February 2015 the School purchased the buildings that it previously leased from the Brighter Choice Foundation. Net occupancy costs for the years ended June 30, 2015 and 2014 was \$366,667 and \$560,000, respectively.

**8. RETIREMENT PLAN**

The School has adopted a SIMPLE IRA retirement plan that all employees are eligible to participate in. The School contributes a matching contribution of up to 3% of the employee's gross compensation per payroll to any employee who contributes to the plan. The School's retirement plan expense for the years ended June 30, 2015 and 2014 was \$44,892 and \$44,150, respectively.

**9. CONCENTRATION OF RISK**

The School receives a substantial portion of its funding from school districts where students reside. Two school districts comprised approximately 82% and 83% of total revenue and support for the years ended June 30, 2015 and 2014, respectively. No other funding source accounted for more than 10% of total revenue and support.

**9. CONCENTRATION OF RISK (CONTINUED)**

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

The School is subject to audits and reviews of reimbursable costs by various governmental agencies. The outcome of the audits and reviews may have the effect of retroactively increasing or decreasing revenue from various sources. These charges, if any, will be recognized in accordance with the rules and guidelines established by the various funding sources.

**SUPPLEMENTARY INFORMATION**

**HENRY JOHNSON CHARTER SCHOOL***SCHEDULE OF FUNCTIONAL EXPENSES**FOR THE YEAR ENDED JUNE 30, 2015*

	<u>Program Services</u>			<u>Supporting Services</u>		
	<u>Regular Education</u>	<u>Special Education</u>	<u>Other Education</u>	<u>Total</u>	<u>Management and General</u>	<u>Total</u>
Administrative Personnel	\$ 139,351	\$ -	\$ -	\$ 139,351	\$ 557,405	\$ 696,756
Instructional Personnel	1,939,517	229,237	-	2,168,754	-	2,168,754
Non-Instructional Personnel	-	-	113,050	113,050	42,163	155,213
Total Salaries	<u>2,078,868</u>	<u>229,237</u>	<u>113,050</u>	<u>2,421,155</u>	<u>599,568</u>	<u>3,020,723</u>
Fringe Benefits and Payroll Taxes	492,703	54,330	-	547,033	132,108	679,141
Retirement	32,568	3,591	-	36,159	8,733	44,892
Legal Service	3,111	343	-	3,454	834	4,288
Accounting and Audit Services	20,527	2,264	-	22,791	5,504	28,295
Other Purchased, Professional and Consulting Services	112,778	58,726	-	171,504	41,418	212,922
Building and Land Lease	266,009	29,333	20,133	315,475	51,192	366,667
Repairs and Maintenance	140,327	15,474	10,621	166,422	27,005	193,427
Insurance	27,750	3,060	2,100	32,910	5,340	38,250
Utilities	50,761	5,597	3,842	60,200	9,769	69,969
Supplies and Materials	43,870	4,838	-	48,708	69,654	118,362
Equipment and Furnishings	1,823	201	-	2,024	489	2,513
Staff Development	26,204	2,889	-	29,093	-	29,093
Marketing and Recruitment	5,290	583	-	5,873	1,418	7,291
Technology	21,891	2,414	-	24,305	5,869	30,174
Food Service	-	-	159,024	159,024	-	159,024
Student Services	129,582	14,289	149,572	293,443	-	293,443
Office Expense	27,671	3,052	2,093	32,816	5,326	38,142
Depreciation and Other	137,098	15,118	-	152,216	36,759	188,975
Interest Expense	-	-	-	-	94,586	94,586
Total Expenses	<u>\$ 3,618,831</u>	<u>\$ 445,339</u>	<u>\$ 460,435</u>	<u>\$ 4,524,605</u>	<u>\$1,095,572</u>	<u>\$ 5,620,177</u>

**HENRY JOHNSON CHARTER SCHOOL***SCHEDULE OF FUNCTIONAL EXPENSES**FOR THE YEAR ENDED JUNE 30, 2014*

	<u>Program Services</u>				<u>Supporting Services</u>	
	<u>Regular Education</u>	<u>Special Education</u>	<u>Other Education</u>	<u>Total</u>	<u>Management and General</u>	<u>Total</u>
Administrative Personnel	\$ 113,712	\$ -	\$ -	\$ 113,712	\$ 454,849	\$ 568,561
Instructional Personnel	1,958,352	204,505	-	2,162,857	-	2,162,857
Non-Instructional Personnel	-	-	112,975	112,975	41,983	154,958
Total Salaries	<u>2,072,064</u>	<u>204,505</u>	<u>112,975</u>	<u>2,389,544</u>	<u>496,832</u>	<u>2,886,376</u>
Fringe Benefits and Payroll Taxes	456,065	45,012	-	501,077	100,113	601,190
Retirement	33,492	3,306	-	36,798	7,352	44,150
Legal Service	10,555	1,042	-	11,597	2,317	13,914
Accounting and Audit Services	20,756	2,049	-	22,805	4,556	27,361
Other Purchased, Professional and Consulting Services	133,252	60,361	-	193,613	38,683	232,296
Building and Land Lease	424,818	41,928	28,902	495,648	64,352	560,000
Repairs and Maintenance	138,204	13,640	9,402	161,246	20,935	182,181
Insurance	26,720	2,638	1,817	31,175	4,048	35,223
Utilities	53,956	5,325	3,671	62,952	8,173	71,125
Supplies and Materials	61,820	6,101	-	67,921	36,951	104,872
Equipment and Furnishings	1,976	195	-	2,171	434	2,605
Staff Development	16,839	1,662	-	18,501	-	18,501
Marketing and Recruitment	7,145	705	-	7,850	1,568	9,418
Technology	11,568	1,142	-	12,710	2,539	15,249
Food Service	-	-	143,516	143,516	-	143,516
Student Services	115,520	11,401	130,154	257,075	-	257,075
Office Expense	26,101	2,575	1,776	30,452	3,954	34,406
Depreciation and Other	<u>47,938</u>	<u>4,730</u>	<u>-</u>	<u>52,668</u>	<u>10,524</u>	<u>63,192</u>
Total Expenses	<u>\$ 3,658,789</u>	<u>\$ 408,317</u>	<u>\$ 432,213</u>	<u>\$ 4,499,319</u>	<u>\$ 803,331</u>	<u>\$ 5,302,650</u>

**FEDERAL AWARD PROGRAM INFORMATION**

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CERTIFIED PUBLIC ACCOUNTANTS

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NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Trustees  
Henry Johnson Charter School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Henry Johnson Charter School (the "School"), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows as of and for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 27, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **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 identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider significant deficiencies.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CUSACK & COMPANY, CPA'S LLC**

Latham, New York  
October 27, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Trustees  
Henry Johnson Charter School

**Report on Compliance for Each Major Federal Program**

We have audited Henry Johnson Charter School's (the "School") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2015. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination on the School's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

## Report on Internal Control Over Compliance

Management of the School is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. The results of our tests identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider significant deficiencies.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



**CUSACK & COMPANY, CPA'S LLC**

Latham, New York  
October 27, 2015

**HENRY JOHNSON CHARTER SCHOOL**  
*SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*  
*FOR THE YEAR ENDED JUNE 30, 2015*

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<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity/Project Number</u>	<u>Federal Expenditures</u>
<u>Passed Through New York State Education Department:</u>			
<u>U.S. Department of Education</u>			
ESEA Title I (FY14)	84.010	0021-14-4369	\$ 15,837
ESEA Title I (FY15)	84.010	0021-13-4369	168,968
Improving Teacher Quality State Grants (FY 14)	84.367	0147-14-4369	5,998
Improving Teacher Quality State Grants (FY 15)	84.367	0147-14-4369	<u>1,820</u>
Total U.S. Department of Education Passed Through New York State Education Department			<u>192,623</u>
<u>U.S. Department of Agriculture</u>			
School Breakfast Program	10.553	-	86,856
School Lunch Program	10.555	-	<u>234,635</u>
Total U.S. Department of Agriculture Passed Through New York State Education Department			<u>321,491</u>
Total Federal Assistance			<u>\$ 514,114</u>

**HENRY JOHNSON CHARTER SCHOOL**  
*NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*  
*JUNE 30, 2015*

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards was prepared on the accrual basis of accounting. Grant awards are recorded as revenue when the criteria for earning the revenue is met, generally when the expenditure of grant funds is made. Grant expenditures are recorded when the liability is incurred.

The amounts reported as federal expenditures on the schedule represent expenditures of federal funds as obtained from the appropriate federal financial reports for the applicable programs and periods. The non-federal share of expenditures, if any, is excluded from the schedule.

**2. SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133**

Henry Johnson Charter School is an independent non-profit corporation. All federal grant operations of the School are included in the scope of the single audit.

**HENRY JOHNSON CHARTER SCHOOL**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

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**SECTION I — SUMMARY OF AUDITOR’S RESULTS**

*Financial Statements*

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- “Going Concern” explanatory paragraph included in audit report? \_\_\_ Yes   X   No
- Significant deficiency disclosed?   X   Yes \_\_\_ No
- Significant deficiency(ies) reported as a material weakness? \_\_\_ Yes   X   None reported
- Material noncompliance disclosed? \_\_\_ Yes   X   No

*Federal Awards*

Internal Control over major programs:

- Significant deficiency disclosed for any major programs?   X   Yes \_\_\_ No
- Significant deficiency(ies) reported for any major programs as a material weakness? \_\_\_ Yes   X   None reported
- Any known questioned costs reported? \_\_\_ Yes   X   No

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?   X   Yes \_\_\_ No

Identification of major programs:

<u>CFDA Number(s)</u> 10.553/10.555	<u>Name of Federal Program or Clusters</u> Child Nutrition Cluster
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Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? \_\_\_ Yes   X   No

**SECTION II — FINANCIAL STATEMENT FINDINGS**

N/A

**SECTION III — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

See pages 22-23 for federal award findings.

**SECTION IV — RESOLUTION OF PRIOR YEAR AUDIT FINDINGS**

N/A

For the year ended June 30, 2015, we selected the Child Nutrition Cluster (CFDA Numbers 10.553 and 10.555) as a major program for Henry Johnson Charter School's (the School) Single Audit. Our test work involved the inspection of 71 applications (Application for Free and Reduced Price School Meals/Milk) and of those applications, (68) were randomly selected from either the application folders or the "Meal Plan List" and (3) were selected as part of the internal "Verification" process, required of the School as part of the program. The current year findings below, individually and in aggregate, are deemed to be significant deficiencies less than material but warrant the attention of those charged with governance.

## **Findings and Questioned Costs**

### **Findings 2015-01: Auditor Preparation of Financial Statements**

Statement of Auditing Standards "Communicating Internal Control Related Matters Identified in an Audit" issued by the American Institute of Certified Public Accountants requires the reporting of a significant deficiency if the School does not employ an individual with the necessary qualifications to prepare a complete set of financial statements and related footnotes in accordance with generally accepted accounting principles. The School does not employ such a person. Governance and management have been advised of this previously and have concluded that the cost to rectify this comment would exceed the benefit.

### **Finding 2015-02: Incorrect Calculation of Student Eligibility**

*Requirement:* The School is required to review all applications submitted and utilize the income provided on the application in conjunction with the Income Eligibility Guidelines established by the USDA to determine whether the student should receive benefits under a Free/Reduced/Paid status and therefore determine whether the School should receive the related Free/Reduced/Paid federal funding for that student.

*Description of Condition:* We tested (71) applications for compliance in accordance with USDA Income Eligibility Guidelines. Of the applications reviewed for accuracy, (1) application was improperly marked with a "Paid" status and therefore the student was denied benefits; based on the income provided the student should have received benefits at a "Reduced" price. In turn, the School did not receive the related "Reduced" price federal funding for that student.

*Cause of Condition:* Insufficient training of the staff in charge of the application review process as well as lack of secondary review over all applications resulted in this deficiency.

*Effect of Condition and Questioned Costs:* The effect of this deficiency is two-fold. First, the student was required to pay the full price for all meals because they were denied benefits and considered a "Paid" status when they should have received benefits at a "Reduced" price. Additionally, the School should have received the related increased federal funding at a "Reduced" price. We reviewed the deficiency and extrapolated the error over all "Paid" statuses and determined that the finding resulted in a difference that was neither material to the financial statements or to the single audit as it did not exceed the \$10,000 threshold for questioned costs.

*Recommendation:* We recommend that the School employ procedures to ensure that all applicable staff are properly trained in regards to the application review process and utilizing the USDA Income Eligibility Guidelines to determine the student status as Free/Reduced/Paid. Additionally, we recommend that the School employ a secondary review over each application to ensure that both the students and the School are receiving the correct benefit.

*Management's Response:* Prior to the auditor's notification, the School reassigned job duties and thoroughly trained the new staff member now assigned to serve in that role. That said, the School agrees with auditor's recommendations and will implement a secondary review of all applications beyond the requirement and will designate a secondary oversight officer in management who will be properly trained to conduct checks in the absence of the primary-designated staff member.

**Finding 2015-03: Insufficient follow-up relating to the "Verification" process**

*Requirement:* The School must select a representative sample of applications for Free/Reduced Meals and contact selected applicants for verification of income. If the proof of income provided requires a change in the student's status (free/reduced/paid), the applicant must be notified and the change in status should be reflected in the School's software system.

*Description of Condition:* The sample size selected by the School was determined to be (3) applications. The proof of income provided for (1) of the (3) applications selected for verification testwork determined that the income exceeded the allowable threshold to receive "Reduced" price benefits. The student should have been denied benefits and the status should have been changed to "Paid". For the sample items, the status was not appropriately updated in the system and the student continued to receive benefits as "Reduced" when the student should have been denied benefits.

*Cause of Condition:* Insufficient follow-up action taken by the staff member in charge of the "Verification" process resulted in this finding. Additionally, insufficient review over the "Verification" process by a senior staff member contributed to the finding.

*Effect of Condition and Questioned Costs:* Applicants whose income exceeds allowable amounts as determined by USDA Income Eligibility Guidelines are not eligible to receive "Reduced" price meals, and therefore the School is not permitted to receive federal funding for that student at the "Reduced" rate. In order to determine the monetary effect of the finding, we calculated the rate difference between "Reduced" and "Paid" meal prices and determined that the finding resulted in a difference that was neither material to the financial statements or to the single audit as it did not exceed the \$10,000 threshold for questioned costs.

*Recommendation:* We recommend the School employ procedures to ensure all staff is properly trained in regards to the "Verification" process as required by the Child Nutrition Program. Additionally, we recommend the School employ a secondary review over the "Verification" process to ensure any necessary changes are made in a timely manner.

*Management's Response:* Prior to the auditor's notification, the School reassigned job duties and thoroughly trained the new staff member now assigned to serve in that role. That said, the School agrees with auditor's recommendations and will implement a secondary review of all aspects of the verification process and will designate a secondary oversight officer in management who will be properly trained to conduct checks in the absence of the primary-designated staff member.