



HENRY JOHNSON CHARTER SCHOOL

*FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011*

HENRY JOHNSON CHARTER SCHOOL

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NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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, 2012 and 2011 and the related statements of activities and cash flows 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, 2012 and 2011, and the changes 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 15, 2012 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 12 and 13 are presented for purposes of additional analysis and are 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.

A handwritten signature in black ink that reads "Cusack & Company, CPA's LLC". The script is cursive and fluid.

CUSACK & COMPANY, CPA'S LLC

Latham, New York
October 15, 2012

HENRY JOHNSON CHARTER SCHOOL*STATEMENTS OF FINANCIAL POSITION**JUNE 30, 2012 AND 2011*

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash	\$ 2,002,965	\$ 439,321
Grants and Contracts Receivable	215,352	771,901
Accounts Receivable	-	11,114
Prepaid Expenses	<u>137,225</u>	<u>585,030</u>
Total Current Assets	2,355,542	1,807,366
Property and Equipment - Net	<u>355,513</u>	<u>371,616</u>
Total Assets	<u><u>\$ 2,711,055</u></u>	<u><u>\$ 2,178,982</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 53,907	\$ 89,651
Accrued Payroll and Benefits	154,422	105,767
Compensated Absences	<u>15,095</u>	<u>10,248</u>
Total Liabilities	223,424	205,666
Net Assets		
Unrestricted	<u>2,487,631</u>	<u>1,973,316</u>
Total Liabilities and Net Assets	<u><u>\$ 2,711,055</u></u>	<u><u>\$ 2,178,982</u></u>

HENRY JOHNSON CHARTER SCHOOL

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

Revenue

Public School District

Resident Student Enrollment \$ 5,255,931

Students with Disabilities 7,204

Grants and Contracts

Federal Grants 157,735

Food Service/Children Nutrition Program 289,291Total Revenue 5,710,161

Expenses

Program Services

Regular Education 3,442,477

Special Education 600,046

Other Programs 407,314

Total Program Services 4,449,837

Management and General

759,196Total Operating Expenses 5,209,033Surplus from School Operations 501,128

Other Revenue

Contributions 1,523

Fundraising 2,328

Interest Income 80

Miscellaneous Income 9,256Total Other Revenue 13,187

Increase in Net Assets 514,315

Net Assets, Beginning of Year, as Restated 1,973,316Net Assets, End of Year \$ 2,487,631

HENRY JOHNSON CHARTER SCHOOL

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Revenue

Public School District	
Resident Student Enrollment	\$ 4,895,574
Students with Disabilities	45,940
Grants and Contracts	
Federal Grants	195,123
Food Service/Children Nutrition Program	<u>223,946</u>
Total Revenue	<u>5,360,583</u>

Expenses

Program Services	
Regular Education	2,893,627
Special Education	628,909
Other Programs	<u>352,461</u>
Total Program Services	3,874,997
Management and General	<u>539,669</u>
Total Operating Expenses	<u>4,414,666</u>
Surplus from School Operations	<u>945,917</u>

Other Revenue

Contributions	
Fundraising	500
Interest Income	2,276
Miscellaneous Income	246
Total Other Revenue	<u>18,619</u>
	<u>21,641</u>

Increase in Net Assets	967,558
Net Assets, Beginning of Year	<u>1,005,758</u>
Net Assets, End of Year, as Restated	<u>\$ 1,973,316</u>

HENRY JOHNSON CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows Provided by Operating Activities:		
Increase in Net Assets	\$ 514,315	\$ 967,558
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	60,425	52,873
Changes in Operating Assets and Liabilities		
<u>Decrease (Increase) in Assets</u>		
Grants and Contracts Receivable	556,549	(562,566)
Accounts Receivable	11,114	(3,859)
Prepaid Expenses	447,805	(585,030)
<u>(Decrease) Increase in Liabilities</u>		
Accounts Payable and Accrued Expenses	(35,744)	20,355
Accrued Payroll and Benefits	48,655	50,749
Deferred Income	-	(10,182)
Compensated Absences	<u>4,847</u>	<u>4,155</u>
Net Cash Provided by (Used in) Operating Activities	1,607,966	(65,947)
Cash Flows Used in Investing Activities		
Purchase of Property and Equipment	<u>(44,322)</u>	<u>(242,394)</u>
Net Increase (Decrease) in Cash	1,563,644	(308,341)
Cash, Beginning of Year	<u>439,321</u>	<u>747,662</u>
Cash, End of Year	<u><u>\$ 2,002,965</u></u>	<u><u>\$ 439,321</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.

During the 2011-2012 school year, the School had an annualized full-time enrollment of approximately 370 students in grades K through 4.

The School is governed by a Board of Trustees in accordance with the School’s by-laws. The School is a member of the Brighter Choice Foundation, which provides start-up grants, school facilities, revolving loan funds and technical assistance to area charter schools.

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, whereas revenue is recognized when earned and expenses are recognized when incurred. 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services and Goods

No amounts have been reflected in the financial statements for donated services. The School pays for services requiring specific expertise.

Grants, Contracts and Accounts Receivable

The School utilizes the allowance method to determine the allowance for doubtful accounts. At June 30, 2012 and 2011 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, 2012 and 2011, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value

For assets and liabilities measured at fair value on a recurring basis, the Accounting Standards Codification requires 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. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The School has no assets or liabilities measured at fair value on a recurring basis.

Accounting for Uncertainty in Income Taxes

The Accounting Standards Codification requires entities to disclose in their financial statements the nature of any uncertainty in their tax position. The School has not recognized any benefits from uncertain tax positions in 2011 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. Generally, federal, state and local authorities may examine the School's tax-exempt returns for three years from the date of filing; consequently, income tax returns for years prior to 2008 are no longer subject to examination by taxing authorities.

Subsequent Events

Management has evaluated subsequent events or transactions occurring through October 15, 2012, the date the financial statements were available to be issued. No such events or transactions were identified.

Cash and Cash Equivalents

For purposes of balance sheet classification and the statement of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less and any certificates of deposit that do not contain material early withdrawal penalties to be cash equivalents.

Advertising Costs

The School expenses advertising costs as they are incurred.

Reclassification

Certain 2011 amounts have been reclassified to conform with the current year presentation.

3. GRANTS, CONTRACTS AND ACCOUNTS RECEIVABLE

At June 30, 2012 and 2011, grants, contracts and accounts receivable were comprised of the following funding sources:

	<u>2012</u>	<u>2011</u>
School District Tuition	\$ 181,868	\$ 727,734
U.S. Department of Agriculture	32,346	25,537
U.S. Department of Education	1,138	18,630
Other Receivables	<u>-</u>	<u>11,114</u>
	<u><u>\$ 215,352</u></u>	<u><u>\$ 783,015</u></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, 2012 and 2011, respectively.

	<u>2012</u>	<u>2011</u>
Buildings	\$ 174,915	\$ 174,915
Furniture and Fixtures	162,525	159,448
Equipment	<u>236,917</u>	<u>195,672</u>
Total at Cost	574,357	530,035
Less: Accumulated Depreciation	<u>(218,844)</u>	<u>(158,419)</u>
	<u><u>\$ 355,513</u></u>	<u><u>\$ 371,616</u></u>

Depreciation expense was \$60,425 and \$52,873 for the years ended June 30, 2012 and 2011, respectively.

5. RENTAL OF FACILITY

The School currently leases facilities from the Brighter Choice Foundation through July 31, 2015. Net occupancy costs of the lease for the years ended June 30, 2012 and 2011 was \$543,200 and \$560,000, respectively. Rental expense for the years ending June 30, 2013 through 2015 are estimated at \$560,000 per year.

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, 2012 and 2011 was \$32,020 and \$27,204, respectively.

7. CONCENTRATION OF RISK

The School receives a substantial portion of its funding from school districts where students reside. Two school districts comprised approximately 85% and 74% of total revenue and support for the years ended June 30, 2012 and 2011, respectively. No other funding source accounted for more than 10% of total revenue and support.

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.

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 services. These charges, if any, will be recognized in accordance with the rules and guidelines established by the various funding sources.

8. RESTATEMENT OF NET ASSETS

The School's net assets as of June 30, 2011, and grants and contract revenue for the year then ended, have been decreased to correct the financial statements for the following activity:

Grants and Contracts Receivable, Overstated	\$ (23,061)
Net Assets, as Originally Reported, June 30, 2011	<u>1,996,377</u>
Net Assets, as Restated, June 30, 2011	<u>\$1,973,316</u>

HENRY JOHNSON CHARTER SCHOOL*STATEMENT OF FUNCTIONAL EXPENSES**FOR THE YEAR ENDED JUNE 30, 2012*

	Program Services				Supporting Services	
	<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	\$ 108,606	\$ -	\$ -	\$ 108,606	\$ 434,425	\$ 543,031
Instructional Personnel	1,808,733	323,551	-	2,132,284	-	2,132,284
Non-Instructional Personnel	-	-	-	-	40,706	40,706
Total Salaries	<u>1,917,339</u>	<u>323,551</u>	<u>-</u>	<u>2,240,890</u>	<u>475,131</u>	<u>2,716,021</u>
Fringe Benefits and Payroll Taxes	431,008	72,733	-	503,741	97,656	601,397
Retirement	22,948	3,872	-	26,820	5,199	32,019
Legal Service	25,513	4,305	-	29,818	5,781	35,599
Accounting and Audit Services	26,273	4,434	-	30,707	5,953	36,660
Other Purchased, Professional and Consulting Services	94,724	35,110	-	129,834	25,170	155,004
Building and Land Lease	389,299	65,694	36,778	491,771	51,429	543,200
Repairs and Maintenance	107,012	18,058	10,110	135,180	14,137	149,317
Insurance	19,011	3,208	1,796	24,015	2,512	26,527
Utilities	36,015	6,078	3,402	45,495	4,758	50,253
Supplies and Materials	64,223	10,838	-	75,061	44,662	119,723
Equipment and Furnishings	3,133	529	-	3,662	710	4,372
Staff Development	67,529	11,396	-	78,925	-	78,925
Marketing and Recruitment	21,096	3,560	-	24,656	4,780	29,436
Technology	17,281	2,916	-	20,197	3,915	24,112
Food Service	-	-	278,859	278,859	-	278,859
Student Services	112,011	18,902	73,820	204,733	-	204,733
Office Expense	26,982	4,553	2,549	34,084	3,565	37,649
Depreciation and Other	<u>61,080</u>	<u>10,309</u>	<u>-</u>	<u>71,389</u>	<u>13,838</u>	<u>85,227</u>
Total Expenses	<u>\$ 3,442,477</u>	<u>\$ 600,046</u>	<u>\$ 407,314</u>	<u>\$ 4,449,837</u>	<u>\$ 759,196</u>	<u>\$ 5,209,033</u>

HENRY JOHNSON CHARTER SCHOOL**STATEMENT OF FUNCTIONAL EXPENSES****FOR THE YEAR ENDED JUNE 30, 2011**

	Program Services				Supporting Services	
	<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	\$ 77,349	\$ -	\$ -	\$ 77,349	\$ 309,395	\$ 386,744
Instructional Personnel	1,410,214	323,311	-	1,733,525	-	1,733,525
Non-Instructional Personnel	-	-	-	-	19,300	19,300
Total Salaries	1,487,563	323,311	-	1,810,874	328,695	2,139,569
Fringe Benefits and Payroll Taxes	333,253	72,430	-	405,683	73,636	479,319
Retirement	18,914	4,111	-	23,025	4,179	27,204
Legal Service	5,116	1,112	-	6,228	1,130	7,358
Accounting and Audit Services	31,883	6,929	-	38,812	7,045	45,857
Other Purchased, Professional and Consulting Services	116,520	25,325	-	141,845	25,747	167,592
Building and Land Lease	389,347	84,622	37,585	511,554	48,446	560,000
Repairs and Maintenance	108,845	23,656	10,507	143,008	13,543	156,551
Insurance	24,990	5,431	2,412	32,833	3,110	35,943
Utilities	36,574	7,949	3,531	48,054	4,551	52,605
Supplies and Materials	89,421	19,435	-	108,856	8,679	117,535
Equipment and Furnishings	2,187	475	-	2,662	483	3,145
Staff Development	36,087	7,843	-	43,930	-	43,930
Marketing and Recruitment	16,263	3,535	-	19,798	3,594	23,392
Technology	11,960	2,599	-	14,559	2,643	17,202
Food Service	-	-	228,367	228,367	-	228,367
Student Services	110,846	24,092	67,929	202,867	-	202,867
Office Expense	22,082	4,801	2,130	29,013	2,748	31,761
Depreciation and Other	51,776	11,253	-	63,029	11,440	74,469
Total Expenses	<u>\$ 2,893,627</u>	<u>\$ 628,909</u>	<u>\$ 352,461</u>	<u>\$ 3,874,997</u>	<u>\$ 539,669</u>	<u>\$ 4,414,666</u>

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**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 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, 2012, and have issued our report thereon dated October 15, 2012. 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

Management of Henry Johnson Charter School is responsible for establishing and maintaining effective 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*.

We noted certain matters that we reported to management of the School in a separate letter dated October 15, 2012.

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 15, 2012