

**Georgia Charter Schools, Inc.
Kennesaw Charter Science
and Math Academy
Audited Financial Statements
June 30, 2015**

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Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
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June 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Georgia Charter Schools, Inc.
Kennesaw, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kennesaw Charter Science and Math Academy ("the School"), a component unit of the Cobb County School District and division of Georgia Charter Schools, Inc. ("Charter holder") as of and for the year ended June 30, 2015, which collectively comprise the School's basic financial statements, as listed in the table of contents.

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 opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School, as of June 30, 2015, and the respective changes in financial position in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis and budgetary comparison information presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 18, 2015 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 School's internal control over financial reporting and compliance.

Bambo Sonaike CPA, LLC

September 18, 2015

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
Management's Discussion and Analysis
For the period ended June 30, 2015

Kennesaw Charter Science and Math Academy (the "School"), a division of Georgia Charter Schools, Inc. (the "Charter holder"), offer readers of the School's financial statement this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2015 to (a) assist the reader in focusing on significant financial issues, (b) provide an overview and analysis of the School's financial activities, (c) identify changes in the Schools financial position, (d) identify material deviations from the approved budget, and (e) highlight significant issues in individual funds.

Because the information contained in the Management's Discussion and analysis (MD&A) is intended to highlight significant transactions, events, and conditions, it should be considered in conjunction with the Basic Financial Statements.

Financial Highlights

- At the end of the current fiscal year, long term liabilities had an ending balance of \$16,880,806.
- At the end of the current fiscal year, unassigned and restricted fund balances for the governmental funds were \$333,189 and \$1,998,305 respectively.
- The liabilities of the school exceeded its assets at the close of the most recent fiscal year by \$1,081,357.
- The School's total net assets decreased by \$20,530.
- As of the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$2,331,494.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government Wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the School's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The Statement of activities presents information showing how the School's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in

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For the period ended June 30, 2015

cash flows in future fiscal periods (e.g., uncollected funding and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the School that are principally supported by district, state, and federal funding (governmental activities). Basic instructions, exceptional instruction, and food services are examples of the School's governmental activities.

The government-wide financial statements include only the school itself, which is a component unit of the School District of Cobb County, Georgia. The School District of Cobb County, Georgia includes the operations of the School in their operational results.

The statement of net assets and statement of activities have been presented below on a comparative basis.

	Governmental Activities		
	2015	2014	Variance
ASSETS			
Current and other assets	\$ 2,617,933	\$ 2,461,473	\$ 156,460
Capital assets ^(net)	13,429,317	13,675,360	(246,043)
Bond issuance costs ^(net)	471,642	489,782	(18,140)
Total assets	<u>16,518,892</u>	<u>16,626,615</u>	<u>(107,723)</u>
LIABILITIES			
Current and other liabilities	719,443	810,283	(90,840)
Long term liabilities	16,880,806	16,877,159	3,647
Total liabilities	<u>17,600,249</u>	<u>17,687,442</u>	<u>(87,193)</u>
NET ASSETS (DEFICITS)			
Unrestricted asset (deficit)	(1,081,357)	(1,060,827)	(20,530)
Total net assets (deficits)	<u>\$ (1,081,357)</u>	<u>\$ (1,060,827)</u>	<u>\$ (20,530)</u>

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	Governmental Activities		
	2015	2014	Variance
REVENUES			
State passed through local school district	\$ 5,671,574	\$ 5,159,078	\$ 512,496
Program revenues	436,676	421,898	14,778
Other revenues	173,740	140,177	33,563
Total revenues	6,281,990	5,721,153	560,837
EXPENSES			
Basic Instruction	3,386,930	3,276,219	110,711
Pupil and media services	114,529	125,429	(10,900)
Staff development	6,147	1,736	4,411
Board of directors	13,170	11,378	1,792
School administration	498,639	344,318	154,321
Food services	138,160	136,737	1,423
Operation of school	636,746	588,429	48,317
Before and after	178,649	198,067	(19,418)
Debt service	1,329,549	1,344,716	(15,167)
Total expenses	6,302,519	6,027,029	275,490
Change in net assets (deficits)	\$ (20,529)	\$ (305,876)	\$ 285,347

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities of objectives. The School, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the operations of the School are presented in governmental funds only.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the governmental-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund

Georgia Charter Schools, Inc.
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Management's Discussion and Analysis
For the period ended June 30, 2015

statement of revenues, expenditures, and changes in fund balances provide reconciliation to facilitate this comparison between governmental funds and governmental activities.

The School maintains two individual government funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund which is considered to be the School's only major fund.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

As noted earlier, net assets may serve as a useful indicator over time of the School's financial position. In the case of the School, liabilities exceed assets by \$1,081,357 for the year ended June 30, 2015.

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
Statement of Net Assets (Deficits)
As of June 30, 2015

ASSETS

Cash and cash equivalents	\$ 616,711
Restricted cash ^(note 3)	1,998,305
Prepaid expenses	2,917
Bond issuance costs ^{(net)(note 2)}	471,642
Capital assets ^{(net) (note 4)}	13,429,317
Total assets	<u>16,518,892</u>

LIABILITIES

Accounts payable & accrued expenses ^(note 2)	286,439
Accrued interest on bonds payable	433,004
Bonds payable- due in more than one year ^{(net) (note 5)}	16,880,806
Total liabilities	<u>17,600,249</u>

NET ASSETS (DEFICITS)

Unrestricted	<u>(1,081,357)</u>
Total net assets (deficits)	<u>\$ (1,081,357)</u>

The accompanying notes are an integral part to these financial statements.

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
Statement of Activities
For the period ended June 30, 2015

Governmental Activities	Expenses	Program revenues			Net (Expenses) Revenue and Changes in Net Assets
		Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	
Basic Instruction	\$ 3,386,930	\$ 38,038	\$ -	\$ -	\$ (3,348,892)
Pupil and media services	114,529	-	-	-	(114,529)
Staff development	6,147	-	-	-	(6,147)
Board of directors	13,170	-	-	-	(13,170)
School administration	498,639	-	-	-	(498,639)
Food services	138,160	12,631	123,362	-	(2,167)
Operation of school	636,746	-	-	-	(636,746)
Before and after	178,649	262,645	-	-	83,996
Debt service	1,329,549	-	-	-	(1,329,549)
Total governmental activities	\$ 6,302,519	\$ 313,314	\$ 123,362	\$ -	\$ (5,865,843)

General revenues:

State passed through local school district	5,671,574
Other revenue	173,740
Total general revenues	5,845,314
Change in net assets	(20,529)
Net assets (deficits) at beginning	(1,060,828)
Net assets (deficits) at year ending	\$ (1,081,357)

The accompanying notes are an integral part to these financial statements.

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
Statement of Financial Position- Governmental Funds
As of June 30, 2015

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents ^(note 2)	\$ 616,711	\$ -	\$ -	\$ 616,711
Restricted cash ^(note 3)	-	-	1,998,305	1,998,305
Prepaid expenses	2,917	-	-	2,917
Total assets	<u>619,628</u>	<u>-</u>	<u>1,998,305</u>	<u>2,617,933</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable & accrued expenses	286,439	-	-	286,439
Total liabilities	<u>286,439</u>	<u>-</u>	<u>-</u>	<u>286,439</u>
FUND BALANCES				
Unassigned	333,189	-	-	333,189
Restricted	-	-	1,998,305	1,998,305
Total fund balance	<u>\$ 333,189</u>	<u>\$ -</u>	<u>\$ 1,998,305</u>	<u>\$ 2,331,494</u>
Total liabilities and fund balance	<u>\$ 619,628</u>	<u>\$ -</u>	<u>\$ 1,998,305</u>	<u>\$ 2,617,933</u>

The accompanying notes are an integral part to these financial statements.

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
Reconciliation of Statement of Financial Position – Governmental Funds to
Statement of Net Assets (Deficits)
For the period ended June 30, 2015

Total Fund balances - Governmental funds \$ 2,331,494

The amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Those assets consist of:

Land	2,049,412
Building	12,096,887
Furniture	182,406
Accumulated depreciation	(899,388)
Total capital assets	13,429,317

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Bonds payable	(16,975,000)
Bond discount, net of amortization	94,194
Bond issuance costs, net of amortization	471,642
Accrued interest on bonds payable	(433,004)
Total long-term liabilities	(16,842,168)

Total Net assets (deficits) - Governmental activities	\$ (1,081,357)
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The accompanying notes are an integral part to these financial statements.

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
Statement of Revenue, Expenditures, and Changes in Fund Balances –
Governmental Funds
For the period ended June 30, 2015

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES				
State passed through local school district	\$ 5,671,574	\$ -	\$ -	\$ 5,671,574
Other revenues	610,083	-	333	610,416
Total revenue	6,281,657	-	333	6,281,990
EXPENDITURES				
Current:				
Basic Instruction	3,386,930	-	-	3,386,930
Pupil and media services	114,529	-	-	114,529
Staff development	6,147	-	-	6,147
Board of directors	13,170	-	-	13,170
School administration	498,639	-	-	498,639
Food services	138,160	-	-	138,160
Operation of school	379,140	1	2	379,143
Before and after	178,649	-	-	178,649
Capital outlay	11,560	-	-	11,560
Debt service				
Principal	-	-	210,000	210,000
Interest	-	-	1,312,138	1,312,138
Total expenditures	4,726,924	1	1,522,140	6,249,065
Excess (deficiency) of revenue over (under) expenditures	1,554,733	(1)	(1,521,807)	32,925
OTHER FINANCING SOURCES (USES)				
Transfers	(1,428,022)	-	1,428,022	-
Total other financing sources (uses)	(1,428,022)	-	1,428,022	-
Net change in fund balances	126,711	(1)	(93,785)	32,925
Fund balances at beginning	206,478	1	2,092,090	2,298,569
Fund balances at year ending	<u>\$ 333,189</u>	<u>\$ -</u>	<u>\$ 1,998,305</u>	<u>\$ 2,331,494</u>

The accompanying notes are an integral part to these financial statements.

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund
Balances to Statement of Activities
For the period ended June 30, 2015

Total net change in fund balances- Government funds \$ 32,925

The amounts reported for governmental activities in the statement of activities are different because:

Capital assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	11,560
Depreciation expense	(257,602)
Total	<u>(246,042)</u>

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on bonds payable	210,000
Bond discount amortization expense	(3,647)
Bond issuance costs amortization expense	(18,140)
Increase in accrued bond interest expense	4,375
Total of long-term debt	<u>192,588</u>

Change in net assets of governmental activities	<u>\$ (20,529)</u>
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The accompanying notes are an integral part to these financial statements.

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
Notes to Financial Statements
June 30, 2015

1. Organization

Kennesaw Charter Science and Math Academy, (the School) is a division of Georgia Charter Schools, Inc. (a Georgia not for profit organization). The governing body of the School is the Board of Directors, which is comprised of seven members. Information presented in these financial statements only reflects the financial position of the School.

The general operating authority of the School is contained in O.C.G.A. (Official Code of Georgia Annotated) 20-2-2060, Georgia Statutes. The School operates under a charter of the sponsoring school district, the School Board of Cobb County, Georgia (the District). The Schools current charter is for 5 years expiring on June 30, 2020. At the end of the charter's term, the District may choose not to renew the charter under the grounds specified in the underwriting of the charter. In this case, the District must notify the School at least 90 days prior to the charter's expiration. During the term of charter, the District may terminate the charter if good cause is evident.

2. Significant accounting policies

Basis of presentation

The School's basic financial statements are collectively comprised of the government-wide financial statements, fund financial statements and notes to the basic financial statements of the Georgia Charter Schools, Inc.

Government-wide Financial Statements

The government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities. These statements report information on all of the non-fiduciary activities of the School. As part of the consolidation process, all interfold activities are eliminated from these statements. Both statements report only governmental activities as the School does not engage in any business type activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the School's governmental activities.

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses (expenses of the School District related to the administration and support of the School District's programs, such as office and maintenance personnel and accounting) are not allocated to programs.
- Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

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Fund Financial Statements

Separate fund financial statements report detailed information about the School's governmental funds. The focus of the governmental fund financial statements is on major funds. Therefore, major funds are reported in separate columns on the fund financial statements. Reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentation.

The fund financial statements provide information about the School's funds. Eliminations have been made to minimize the double counting of internal activities. Separate statements for each category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The School reports the following major governmental funds:

- General Fund is the School's primary operating fund. It accounts for and reports all financial resources not accounted for and reported in another fund.
- Capital Projects Fund accounts for and reports financial resources that are restricted, committed or assigned to the expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.
- Debt Service Fund accounts for and reports financial resources that are restricted, committed, or assigned for the payment of general long-term principal and interest.

Basis of accounting

The basis of accounting determines when transactions are reported on the financial statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The School uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The School considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. The School considers all intergovernmental revenues to be available if they are collected within 120 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in

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governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

Net assets

The School's net assets in the Government-wide Financial Statements are classified as follows:

Net investment in capital assets

This represents the School's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted net position

This represents resources for which the School is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net position

Unrestricted net position represents resources derived from grants and contributions not restricted to specific programs, charges for services, and miscellaneous revenues. These resources are used for transactions relating to the educational and general operations of the School, and may be used at the discretion of the Board to meet current expenses for those purposes.

Fund balances

The School's fund balances are classified as follows:

Non-spendable

These are amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted

These are amounts with limitations imposed on their use by external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Committed

These are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School's highest level of decision-making authority.

Assigned

These are amounts that are constrained by the School's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned

These are amounts that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. This is the residual classification for the general fund.

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Cash and cash equivalent

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition in authorized financial institutions.

Concentrations of credit risks

Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned to it. The School does not have a written policy regarding custodial credit risk for deposits.

Capital assets

Capital assets purchased, including capital outlay costs, are recorded as expenditures in the fund financial statements at the time of purchase. On the government-wide financial statements, all purchased capital assets are valued at cost where historical records are available. Capital assets are defined by the School as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than 1 year. Donated capital assets are recorded at estimated fair market value on the date donated. Disposals are deleted at depreciated recorded cost.

The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized. Depreciation is computed using the straight-line method. During the fiscal year under review, no events or changes in circumstances affecting a capital asset that may indicate impairment were known to the School.

The estimated useful lives of capital assets reported in the government-wide statements are as follows:

Asset Class	Estimated useful life
Building	50
Furniture, fixtures and equipment	3 - 7

Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using the straight-line method. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

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Bond issuance costs

Bond issuance costs are amortized over the term of the related bond using the straight-line method. Issuance costs, whether or not withheld from actual proceeds, are reported as debt service expenditures. Total amortization of bond issuance costs for the year ended June 30, 2015 is \$18,140.

Bond issuance costs	\$ 547,300
Less accumulated amortization	(75,658)
Total bond issuance costs, net	<u>\$ 471,642</u>

Accounts payable and accrued expenses

Accounts payable and accrued expenses are recorded in the statement of net assets when expenses are incurred. Details of accounts payable and accrued expenses as of the period ended June 30, 2015 are as follows:

Accounts payable	\$ 132,996
Real estate taxes	3,554
Payroll liabilities	109,635
Accrued benefits	40,254
Total	<u>\$ 286,439</u>

Tax lien

The City of Kennesaw, Georgia filed and recorded a property tax lien for unpaid property taxes on the property located on 3010 North Cobb Parkway, Kennesaw Georgia with the Clerk of Superior Court of Cobb County Georgia. The outstanding tax lien balance of \$3,554 has been recorded as a liability as of June 30, 2015.

On August 17, 2015, the School paid the outstanding property tax balance to the City of Kennesaw.

Revenue sources and recognition

Revenues for current operations are received primarily from the State of Georgia through the District pursuant to the funding provisions included in the School's charter. In accordance with the funding provisions of the charter and Section 20-2-2060 of the Georgia Statutes, the School reports the number of full-time equivalent (FTE) students and related data to the District and the District reports the information to the Georgia Department of Education (GDOE) for funding. Funding for the School, is adjusted during the year to reflect revised calculations by the GDOE under the Georgia Education Finance Program and actual weighted FTE students reported by the School during designated FTE student survey periods. For the period ended June 30, 2015 revenue received recognized from this source was \$5,671,574.

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 June 30, 2015

Use of estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

3. Restricted cash

In accordance with the bond issuance, The School maintains several restricted cash accounts held by the Trustee. The following is a summary of these funds and the permitted uses of the moneys to be held in these funds:

Bond principal fund	\$ 17,513
Bond interest fund	543,528
Bond reserve fund	1,437,264
Total restricted cash	<u>\$ 1,998,305</u>

Bond Principal Fund

The Bond Principal Fund is used for principal payments on the Bonds. Commencing on September 1, 2012, the School was required to make monthly payments into the Bond Principal Fund in the amount sufficient to pay the principal which will become due on the Bonds on February 1 of each year with first payment scheduled for February 1, 2013. Payments after February 1, 2013 will be an amount sufficient to pay 1/12th the principal which will become due on the next principal payment date. As of June 30, 2015, the balance in the Bond Principal Fund was \$17,513. The School is required to make annual payments into the Bond Principal Fund as follows:

Year ending June 30,	Principal
2016	\$ 97,917
2017	241,250
2018	258,333
2019	276,250
2020	385,000
2021-2025	1,911,250
2026-2030	2,512,083
2031-2035	3,641,667
2036-2041	6,123,450
Total	<u>\$ 15,447,200</u>

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
Notes to Financial Statements
June 30, 2015

On January 31, 2015, the School and Hamlin Capital Management, a bond holder representative of at least 66 2/3% of the Beneficial Owners of the Bonds (“Hamlin”) entered into an agreement to (i) use \$123,742 of the amounts on deposit in the Bond Reserve Fund established under the indenture (“Reserve Withdrawal Amount”) to pay a portion of the mandatory sinking fund installment payment due on the Bonds on February 1, 2015; and (ii) defer the \$225,000 mandatory sinking fund installment payment due on the Bonds on February 1, 2016 (the “Deferred Principal amount”) to February 1, 2021. The agreement was contingent upon the School agreeing to repay the Reserve Withdrawal Amount in twelve equal monthly installments commencing on March 1, 2015 and pay the Deferred Principal Amount on February 1, 2021 in addition to the mandatory sinking fund installment payment of \$350,000 and interest due on the Bonds due on February 1, 2021.

In accordance with the provision of the indenture, Hamlin also directed the Trustee not to (i) declare an event of Default as a result of the draw on the Bond Reserve Fund and (ii) send any notice to the Bondholders as a result thereof.

Bond Interest Fund

The Bond Interest Fund is used for interest payments on the Bonds due semi-annually on February 1 and August 1. During the period ended June 30, 2015, \$1,312,138 in interest on the Bonds was paid from the Fund and as of June 30, 2015 the Fund has a cash balance of \$543,528. Commencing on September 1, 2012, the School was required to make monthly payments into the Bond Interest Fund in the amount sufficient to pay 1/6th the interest which will become due on the next interest payment date. The School is required to make annual payments into the Bond Interest Fund as follows:

Year ending June 30,	Interest
2016	\$ 1,299,013
2017	1,292,893
2018	1,277,815
2019	1,261,669
2020	1,244,403
2021-2025	5,842,032
2026-2030	5,099,681
2031-2035	3,976,735
2036-2041	2,400,667
Total	<u>\$ 23,694,908</u>

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
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Bond Reserve Fund

The Bond Reserve Fund is used by the Trustee for principal and interest payments on the Bonds in the event the moneys in the Bond Principal Fund and Bond Interest Fund are insufficient to cover the payments when due. As of June 30, 2015, the Fund had a cash balance of \$1,437,264.

On January 31, 2015, the School and Hamlin Capital Management, a bond holder representative of at least 66 2/3% of the Beneficial Owners of the Bonds ("Hamlin") entered into an agreement to (i) use \$123,742 of the amounts on deposit in the Bond Reserve Fund established under the indenture ("Reserve Withdrawal Amount") to pay a portion of the mandatory sinking fund installment payment due on the Bonds on February 1, 2015; and (ii) defer the \$225,000 mandatory sinking fund installment payment due on the Bonds on February 1, 2016 (the "Deferred Principal amount") to February 1, 2021. The agreement was contingent upon the School agreeing to repay the Reserve Withdrawal Amount in twelve equal monthly installments commencing on March 1, 2015 and pay the Deferred Principal Amount on February 1, 2021 in addition to the mandatory sinking fund installment payment of \$350,000 and interest due on the Bonds due on February 1, 2021.

In accordance with the provision of the indenture, Hamlin also directed the Trustee not to (i) declare an event of Default as a result of the draw on the Bond Reserve Fund and (ii) send any notice to the Bondholders as a result thereof.

As of June 30, 2015, the Bond Reserve Fund had a cash balance of \$1,437,264.

Repair Replacement Fund

The Repair Replacement Fund is used for paying the cost of extraordinary maintenance and replacements which may be required to keep the facility in sound condition. There were no activities in the fund during the fiscal year and as of June 30, 2015, the Fund had no cash balance. Commencing with the fiscal year 2014-2015, the School is required to pay equal monthly payments for 1/12th of \$25,000 each fiscal year until the repair and replacement fund is equal to \$200,000. During the period ended June 30, 2015, the School was required to maintain a balance of \$25,000 in the Repair Replacement Fund. As of June 30, 2015, the Repair and Replacement Fund had no cash balance.

Rebate Fund

The Rebate Fund is used for interest or other investment income from other Funds. The Fund is also used for the purpose of paying taxes on the gains of investments earned by other Funds. There were no activities in the fund during the fiscal year and as of June 30, 2015, the Fund had no cash balance.

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
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June 30, 2015

4. Capital assets

Capital assets activity for the year ended June 30, 2015 was as follows:

	Balance 6/30/2014	Additions	Dispositions	Balance 6/30/2015
Non-depreciable assets				
Land	\$ 2,049,412	\$ -	\$ -	\$ 2,049,412
Total non-depreciable assets	2,049,412	-	-	2,049,412
Depreciable assets				
Building	12,123,109	-	-	12,123,109
Furniture, fixtures and equipment	144,624	11,560	-	156,184
Total depreciable assets	12,267,733	11,560	-	12,279,293
Less accumulated depreciation:				
Building	(565,118)	(242,462)	-	(807,580)
Furniture, fixtures and equipment	(76,668)	(15,140)	-	(91,808)
Total accumulated depreciation	(641,786)	(257,602)	-	(899,388)
Total capital assets, net	<u>\$ 13,675,359</u>			<u>\$ 13,429,317</u>

Depreciation expense in the amount of \$257,602 was recorded in the statements of activities.

5. Long-term debt

A summary of changes in the long-term debt are as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Series 2011A Bonds	17,185,000	-	(210,000)	16,975,000
Bond discount ^(series 2011A Bonds)	(97,841)	-	3,647	(94,194)
Total	<u>\$ 17,087,159</u>	<u>\$ -</u>	<u>\$ (206,353)</u>	<u>\$ 16,880,806</u>

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
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June 30, 2015

Bonds payable

On April 1, 2011 the School entered into a loan agreement with Public Finance Authority for the issuance of Series 2011A and Series 2011B Bonds. The Series 2011A Bonds were issued in the aggregate principal amount of \$17,220,000, and the Series 2011B Bonds were issued in the aggregate principal amount of \$230,000. Interest on the Series 2011 (A and B) Bonds is payable semiannually on August 1 and February 1 of each year, commencing on August 1, 2011. Interest on the Bonds is computed on the basis of a year of 360 days of 12 months of 30 days each until payment of principal has been made. Public Finance Authority, a corporate and politic body created and existing under the laws of the State of Wisconsin is the issuer of the Series 2011 Bonds. Wells Fargo Bank, National Association of Atlanta, Georgia is the trustee, bond registrar, and paying agent for the Series 2011 (A and B) Bonds.

On April 1, 2011 the School entered into a loan agreement with Public Finance Authority, the bond issuer for all payments of principal and interest as they become due and payable. Under the loan agreement the School has pledged its gross revenue in order to secure the payment of the loan and the payment of all other amounts payable under the loan agreement. To further secure its obligation under the loan agreement, the School has granted to the trustee, Wells Fargo Bank, a first lien on and first security title to its new educational facility, and a priority security title to certain personal property in the new educational facility.

The Series 2011 (A and B) Bonds are subject to redemption prior to maturity at the option of the Public Finance Authority and also subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount plus accrued interest to the redemption date. The School is required to provide funds for deposit into the Bond Principal Fund and Bond Interest Fund sufficient to redeem the principal amounts of the Series 2011 (A and B) Bonds plus accrued interest to the redemption date.

On January 31, 2015, the School and Hamlin Capital Management, a bond holder representative of at least 66 2/3% of the Beneficial Owners of the Bonds ("Hamlin") entered into an agreement to (i) use \$123,742 of the amounts on deposit in the Bond Reserve Fund established under the indenture ("Reserve Withdrawal Amount") to pay a portion of the mandatory sinking fund installment payment due on the Bonds on February 1, 2015; and (ii) defer the \$225,000 mandatory sinking fund installment payment due on the Bonds on February 1, 2016 (the "Deferred Principal amount") to February 1, 2021. The agreement was contingent upon the School agreeing to repay the Reserve Withdrawal Amount in twelve equal monthly installments commencing on March 1, 2015 and pay the Deferred Principal Amount on February 1, 2021 in addition to the mandatory sinking fund installment payment of \$350,000 and interest due on the Bonds due on February 1, 2021.

In accordance with the provision of the indenture, Hamlin also directed the Trustee not to (i) declare an event of Default as a result of the draw on the Bond Reserve Fund and (ii) send any notice to the Bondholders as a result thereof.

The following schedule summarizes the School's bond obligations:

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
Notes to Financial Statements
June 30, 2015

Charter School Revenue Bonds	Interest Rate	Maturity date	Outstanding
2011A Series	6.25%	February 1, 2021	\$ 1,565,000
2011A Series	7.00%	February 1, 2026	1,850,000
2011A Series	7.50%	February 1, 2031	2,620,000
2011A Series	8.00%	February 1, 2041	10,940,000
		Total	<u>\$ 16,975,000</u>

The future debt service requirements are as follows:

Year ending June 30,	Principal	Interest	Total
2016	\$ -	\$ 1,299,013	\$ 1,299,013
2017	235,000	1,294,117	1,529,117
2018	250,000	1,279,117	1,529,117
2019	270,000	1,263,075	1,533,075
2020	285,000	1,245,888	1,530,888
2021-2025	1,955,000	5,853,108	7,808,108
2026-2030	2,435,000	5,114,725	7,549,725
2031-2035	3,525,000	3,999,983	7,524,983
2036-2041	8,020,000	2,454,133	10,474,133
Total	<u>\$ 16,975,000</u>	<u>\$ 23,803,157</u>	<u>\$ 40,778,157</u>

Covenants

The loan agreement includes certain operational and financial covenants the School must adhere to so long as the Series 2011 (A and B) Bonds are outstanding. Operational covenants include: (1) maintaining the Charter in good standing at all times, (2) operating the facilities in compliance with the Charter at all times, and (3) filing for renewal of the Charter in accordance with applicable State of Georgia laws and policies. Financial covenants include: (1) achieve a coverage ratio of at least 1.25 to 1.00 to be measured on September 30, December 31, March 31, and June 30 during each fiscal year, commencing on the first calculation date following "stabilized occupancy", and be based on the preceding 12 months. If the School fails to meet the coverage ratio for two consecutive calculation dates, the School must employ a management consultant unless a waiver is received from the bond issuer and must follow the recommendations of the management consultant until the coverage ratio is met, (2) maintain not less than \$600,000 in unrestricted cash as of each June 30 and December 31.

Georgia Charter Schools, Inc.
 (Kennesaw Charter Science and Math Academy)
 Notes to Financial Statements
 June 30, 2015

The School has also agreed to various other operational and financial covenants and restrictions such as limitations on the incurrence of additional indebtedness, maintenance of certain amounts of insurance, limitations on mergers and transfers of assets, limitations on the creation of liens, and financial reporting covenants.

The School did not meet the coverage ratio requirement as of June 30, 2015.

The School maintained at least \$600,000 in unrestricted cash on June 30, 2015 therefore met the liquidity covenant.

6. Concentrations

Revenue sources

As stated in Note 2, the School receives revenues for current operations primarily from the State of Georgia through the District. The following is a schedule of revenue sources and amounts:

Sources	Amounts
State sources passed through the Cobb County, Georgia School Board:	
Quality basic education (QBE)	\$ 5,671,574
Other revenue:	
Before/after care	262,645
Food service	135,993
Fundraising	120,680
Other revenue	53,060
Field trips	38,038
Total	<u>\$ 6,281,990</u>

7. Commitments and Contingencies

Federal and state grants

The school participates in federal and state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2015 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore no provision has been recorded in the accompanying financial statements for such contingencies.

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
Notes to Financial Statements
June 30, 2015

8. Retirement plan

Substantially all teachers, administrators, and non-instructional personnel of the School are members of Teachers Retirement System of Georgia ("TRS") a cost-sharing multiple-employer defined benefit public employee retirement system. TRS was created in 1943 by an act of the Georgia General Assembly and is administrated by a ten member board of Trustees. TRS is funded by a combination of employee, employer, and State of Georgia contributions. Benefits are established by State statute and provide retirement, death, long-term disability, survivor, and health insurance premium benefits. TRS issues a comprehensive annual financial report that includes financial statement and required supplementary information. The report may be obtained by writing to Teachers Retirement System of Georgia located at Two Northside 75, Suite 400, and Atlanta, Georgia 30381-7901.

Plan members are required to contribute 6 percent of their annual covered payroll and the School is required to contribute 13.15 percent of the covered payroll. The contribution requirements of plan members and the school are established and may be amended by the TRS board of trustees.

9. Risks management

The School is exposed to various risk of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; general liabilities; and natural disaster for which the school carries commercial insurance.

10. Subsequent events

On August 17, 2015, the School paid the outstanding property tax balance to the City of Kennesaw.

During the year ended June 30, 2015, the School was delinquent on remitting payroll tax liabilities to the Internal Revenue Service. On September 16, 2015, the School paid all outstanding payroll tax liability to the Internal Revenue Service.

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
Schedule of Revenue, Expenditures, and Changes in Fund Balances –
Budget and Actual – General Fund
For the period ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
State passed through local school district	\$ 5,424,768	\$ 5,671,574	\$ (246,806)
Supplemental fee revenue	659,742	610,083	49,659
Total revenue	<u>6,084,510</u>	<u>6,281,657</u>	<u>(197,147)</u>
EXPENDITURES			
Salaries and benefits	3,541,644	3,637,692	(96,048)
Direct educational expenditures	377,100	361,884	15,216
General and administrative	260,972	332,773	(71,801)
Facility operating expenditures	361,368	372,515	(11,147)
School operating expenditures	<u>4,541,084</u>	<u>4,704,864</u>	<u>(163,780)</u>
Board expenditures	17,000	10,500	6,500
Capital outlay	-	11,560	(11,560)
Total expenditures	<u>4,558,084</u>	<u>4,726,924</u>	<u>(168,840)</u>
Excess (deficiency) of revenues over (under) expenditures	1,526,426	1,554,733	(28,307)
OTHER FINANCING SOURCES (USES)			
Transfers	<u>(1,522,830)</u>	<u>(1,428,022)</u>	<u>(94,808)</u>
Net change in fund balance	3,596	126,711	(123,115)
Fund balance at beginning	206,478	206,478	-
Fund Balance at year ending	<u>\$ 210,074</u>	<u>\$ 333,189</u>	<u>\$ (123,115)</u>

Georgia Charter Schools, Inc.
(Kennesaw Charter Science and Math Academy)
Note to the Schedule of Revenue, Expenditures, and Changes in Fund
Balances – Budget and Actual – General Fund
For the period ended June 30, 2015

1. Budgetary Information

Budgetary basis of accounting

Annual budgets are adopted for the entire operations at the combined governmental level and may be amended by the board of directors (the "Board"). The budgets presented for the fiscal year ended June 30, 2015 have been amended according to Board procedures. Budgets are adopted in full accrual basis accounting. The legal level of budgetary control is the fund level.

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

To the Board of Directors
Georgia Charter Schools, Inc.
Kennesaw, Georgia

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 governmental activities, each major fund, and the aggregate remaining fund information of Georgia Charter Schools, Inc. ("the School"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 18, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of School's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 entity'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 preceding paragraph 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. However, as described in the accompanying management letter, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying management letter.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bambo Sonaike CPA, LLC

September 18, 2015

MANAGEMENT LETTER

To the Board of Directors
Georgia Charter Schools, Inc.
Kennesaw, Georgia

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Georgia Charter Schools, Inc. ("the School"), a component unit of the Cobb County School District and division of Georgia Charter Schools, Inc. ("Charter holder") as of and for the year ended June 30, 2015, which collectively comprise the School's basic financial statements.

We issued our report on internal control over financial reporting and on compliance and other matters dated September 18, 2015. Disclosures in that report, if any, should be considered in conjunction with this management letter.

There are audited findings that are required to be reported by Government Auditing Standards. However, during our audit, we became aware of several matters that are opportunities for strengthening internal control and operating efficiency. We will review the status of our comments during our next audit engagement. We have already discussed many of these comments and suggestions with personnel at your organization. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Our comments are summarized as follows:

Current Year Comments and Recommendations

15-01 Accounts payable ledger reconciliation

Criteria: We noted that the accounts payable ledger as of June 30, 2015 included vendor invoices that were over 90-120 days old.

Recommendation: We recommend the School periodically reconcile accounts payable ledger to reduce the risk of duplicate transactions in the financial statements.

Status: The accounts payable ledger that currently shows past due amounts are due to reconciliation errors. The School is current on its bills and invoices with all vendors.

Prior Year Comments and Recommendations

14-01 Reconciliation of restricted cash accounts

Criteria: The School did not record or reconcile the transactions in the restricted cash accounts during the year.

Recommendation: We recommend that the School record or reconcile the transactions in the restricted cash accounts.

Status: Repeated, see comments below.

The School on a monthly basis receives the trust bank statements and reviews the flow of funds in the trust bank statements to ensure that all funds contributed by the School is credited into the trust accounts and all funds disbursed from the accounts are for the School's obligations. The School currently records all payments (principal and interest) for the bonds into a single general ledger account so as to enable ease of reporting and year-end audit trail. The School has determined that due to the complicated series of accounting journal entries required to be made on a monthly basis, that it will be efficient to re-allocate and record all the transactions in the trust account during the annual audit.

14-02 Property taxes and liens

Criteria: The School is a nonprofit organization with a tax exempt status as such the School qualifies for exemption from local property taxes assessed by local authorities. Liens have been filled by City of Kennesaw for unpaid property taxes.

Recommendation: We recommend the School pay the outstanding tax liability.

Status: Corrected

14-03 Bond payments entries

Criteria: The School recorded the bond payments to the trust accounts in various expense and liability accounts.

Recommendation: We recommend the School record all the payments to the trust accounts in a single account for reconciliation.

Status: Corrected

14-04 Duplicate transactions

Criteria: We noted several material transactions that were recorded twice in the general ledger.

Recommendation: We recommend the School establish appropriate controls to prevent the ability to record transactions twice and establish a monthly review of the accounts to detect possible duplicated transactions.

Status: Corrected with comments on 15-01 above.

14-05 Bond payments/ transfers

Criteria: The School did not make all the required payments to the Bond Principal Fund (trust account) in accordance with the Debt Service Amortization Schedule.

Recommendation: We recommend the School establish appropriate controls to verify the monthly payments to the trust accounts are in accordance with the Debt Service Amortization Schedule and any other bond document.

Status: Corrected

14-06 Credit card liability

Criteria: The School is recording the credit card expenses in the general ledger when a payment is made to the credit card rather than when the expense is charged to the credit card.

Recommendation: We recommend the School establish a separate liability account on the balance sheet and record the transactions as they occur in the credit card statements. The credit card statements need to be reconciled monthly to the liability on the balance sheet, similar to cash reconciliation procedures.

Status: Corrected

14-07 Reconciliations

Criteria: Due to duplications and other errors in the accounting entries, the School had a significant amount of transactions recorded as outstanding items in the bank reconciliations.

Recommendation: The School needs to implement procedures to review the bank reconciliations and determine if there are any errors or omissions.

Status: Corrected

14-08 Documentation

Criteria: During our sampling, we noted the School did not have sufficient documents to make sure the expenses or payments were correct, not duplicated, and actually occurred. We received a copy of a check as support for an invoice payment, but the check was not in the general ledger and after further research it was determined the check was voided. However, the supporting documents did not indicate the check was voided or how the invoice was paid.

Recommendation: We recommend the use of a check request form to document approval and as a process to catch duplicates, voids, or other errors. The School should maintain and attach invoices and other supporting documents to the check request form.

Status: Corrected

14-09 Cash disbursements

Criteria: During our sampling, we noted the 4 instances where the check number recorded in the cash general ledger did not match the actual check issued. We also noted 1 instance where the check issued was a manual check rather than from the accounting system.

Recommendation: We recommend the School make sure that bank reconciliation procedures and review procedures detect these errors.

Status: Corrected

14-10 Payroll entries

Criteria: The School did not record payroll accruals and reversals correctly. We noted 2 instances where the debits and credits of the payroll journal entries were recorded opposite of the normal entry. The School also had a few accruals during the year that were not reversed resulting in an overstated liability.

Recommendation: We recommend the School develop the necessary payroll entry procedures to ensure payroll is recorded correctly.

Status: Corrected

Bambo Sonaike CPA, LLC

September 18, 2015

–End of Report–