

**UNIVERSITY HEIGHTS  
CHARTER SCHOOL**

**Auditors' Management Report  
On  
Administrative Findings  
Financial, Compliance  
And Performance  
June 30, 2019**

**UNIVERSITY HEIGHTS CHARTER SCHOOL**  
**Auditors’ Management Report On Administrative Findings**  
**Financial, Compliance and Performance**  
**For the Year Ended June 30, 2019**

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<b>Tax Identification Number: 52-2424169</b>	

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## **Report of Independent Auditors**

Honorable President and  
Members of the Board of Trustees  
University Heights Charter School  
County of Essex, New Jersey

We have audited, in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States, the basic financial statements of the Board of Trustees of University Heights Charter School in the County of Essex, for the year ended June 30, 2019, and have issued our report thereon dated December 20, 2019.

As part of our audit, we performed procedures required by the New Jersey Department of Education and the findings and results thereof are disclosed on the following pages, as listed in the accompanying table of contents.

This report is intended for the information of the University Heights Charter School Board of Trustees' management and the New Jersey Department of Education. However, this report is a matter of public record and its distribution is not limited.

*Olugbenga Olabintan, CPA*

December 20, 2019  
Newark, New Jersey

OLUGBENGA OLABINTAN  
Certified Public Accountant/Consultant



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Olugbenga Olabintan, CPA  
Licensed Public School Accountant  
No. 20CS00230200

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**Scope of Audit**

The audit covered the financial transactions of the Board Secretary/School Business Administrator, the activities of the Charter School, and the records of the various funds under the auspices of the Charter School.

**Administrative Practices and Procedures**

**Insurance**

Fire insurance coverage was carried in the amounts as detailed on Exhibit J-20, Insurance Schedule contained in the charter school's CAFR.

**Official Bonds (N.J.S.A. 18A:17-32, 18A:13-13)**

<b><u>Name</u></b>	<b><u>Position</u></b>	<b><u>Amount</u></b>
Michael Falkowski	Board Secretary/School Business Administrator	\$240,000

There is a Public Employee's Faithful Performance Blanket Position Bond Policy covering all other employees with multiple coverage of \$25,000.

School Leaders Errors and Omissions Liability insurance was carried for all members of the Board of Trustees with coverage for each wrongful act of \$3,000,000.

**Tuition Charges**

A review of the financial statements indicated that the charter school charged no tuition for any student attending the Charter School and all proceeds for the after school program were accounted for in an Enterprise Fund.

**Financial Planning, Accounting and Reporting**

**Examination of Claims**

An examination of claims paid during the period under review did not indicate any discrepancies with respect to signatures, certification or supporting documentation.

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**Payroll Account**

The net salaries of all employees of the Charter School were deposited in the Payroll Account. Employees' payroll deductions and employer's share of fringe benefits were deposited in the Payroll Agency Account.

All payrolls were approved by the designee in the Charter School and were certified by the President of the Board of Trustees, the School Business Administrator and the Executive Director.

Salary withholdings were promptly remitted to the proper agencies, including health benefits withholdings due to the general fund.

Payrolls were delivered to the School Business Administrator/Board Secretary who then made cash transfers from the Operating account to the separate bank accounts for net payroll and the withholdings.

**Reserve for Encumbrances and Accounts Payable**

A review of outstanding issued purchased orders was made as of June 30 for proper classification of orders as reserve for encumbrances and accounts payable. No exceptions were noted.

**Classification of Expenditures**

The coding of expenditures was tested for proper classification in accordance with NJAC 6A:23-2.2(g) as part of our test of transactions of randomly selected expenditure items. We also reviewed the coding of all expenditures included in our compliance and single audit testing procedures. In addition to randomly selecting a test sample, our sample selection specifically targeted administrative coding classifications to determine overall reliability and compliance with N.J.A.C 6A:23 A-8.3. As a result of the procedures performed, no transaction error rate was noted.

**Board Secretary's Records**

We reviewed the financial and accounting records maintained by the Business Office and we noted no material findings.

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***Finding # 2019-001 – Current Year's 2019 Low Fund Balance***

The Charter School recorded a significant current year deficit of \$1,719,190 during the fiscal year ended June 30, 2019. This resulted in end of year available balance of \$124,691 which is too low compared to a 2018-2019 total General Fund revenue of almost \$14 million. The state recommends a minimum of \$250,000 to \$500,000 in fund balance.

The Charter School administration and its Board of Trustees had projected the shortfall during the year and anticipated a significant increase in per pupil state aid rate in the 2019-2020 fiscal year.

***Recommendation:***

In the event of a significant current year's budget shortfall, the Charter School Administration in consultation with the Board of Trustees should continue to take timely steps to reduce budgeted expenditures.

***Management Response:***

Management noted that during the 2019-2020 school year, state aid rate per student has increased significantly resulting in revenue increasing by approximately \$1,750,000 over the 2018-2019 fiscal year. The increase in revenue is likely to sustain in the ensuing years thereby improving the fund balance.

***Finding # 2019-002 - Events of Default on Bonds Indenture***

On September 12, 2018, the Charter School closed on the purchase of its previously leased facility located at 66-78 Morris Avenue, Newark, New Jersey. The purchase was financed with the issuance of New Jersey Economic Development Authority (NJEDA) bonds amounting to \$14,720,000.

On December 20, 2019, the holders of the Bonds notified the Charter School of certain "Events of Default" under the Bonds Indenture: (1) The Charter School did not meet two financial covenants as of June 30, 2019 – the Debt Service Coverage Ratio and the Days Cash on Hand and (2) "In addition, by letter dated May 23, 2019, the State of New Jersey Department of Education (the "DOE") informed the School that it had been placed on probation. The School subsequently submitted a comprehensive remedial plan to the DOE, and made such plan available to Bondholders by Notice dated September 4, 2019." The Charter School has agreed with the Bond Holders to retain the services of an Independent Financial Consultant to provide a neutral assessment of the Charter School's financial and operational situation and will include observations and conclusions that may serve to guide the Bond Holders in considering whether forbearance or other relief may be extended to the Charter School.

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***Recommendation:***

We recommend that the Charter School should continue to work with the Bond Holders in improving its finances and ensuring compliance with the terms of the bond agreements.

***Management Response:***

Management noted that during the 2019-2020 school year, state aid rate per student has increased significantly resulting in revenue increasing by approximately \$1,750,000 over the 2018-2019 fiscal year. The increase in revenue is likely to sustain in the ensuing years thereby improving the fund balance and the Charter School's ability to meet the terms of the bond agreements.

**Treasurer's Records**

Our review of the treasurer's records disclosed that the Charter School is in compliance with the State requirements. All cash accounts were reconciled monthly and reporting requirements were met on time.

**Elementary and Secondary Education Act (E.S.E.A) as amended by the Every Student Succeeds Act (ESSA)**

The E.S.E.A. financial exhibits are contained within the Special Revenue Section of the Comprehensive Annual Financial Report (CAFR). This section of the CAFR documents the financial position pertaining to the projects under Titles I through VI of the Elementary and Secondary Education Act as amended and reauthorized.

The study of compliance for E.S.E.A. indicated no areas of noncompliance and/or questionable costs.

**Other Special Federal and/or State Projects**

The Charter School's Special Projects were approved as listed on Schedule A (K-3) and Schedule B (K-4) located in the CAFR. Our audit of the federal and state funds on a test basis indicated that obligations and expenditures were incurred during the fiscal year or project period for which the project was approved.

The financial exhibits are contained within the Special Revenue Section of the CAFR. This section of the CAFR documents the financial position pertaining to the aforementioned special projects.

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**T.P.A.F. Reimbursement**

Our audit procedures included a test of the biweekly reimbursements filed with the Department of Education for Charter School employees who are members of the Teachers' Pension and Annuity Fund. No exceptions noted.

**TPAF Reimbursement to the State for Federal Salary Expenditures**

The amount of the expenditure charged to the current year's Final Report(s) for all federal awards for the charter school to reimburse the State for the TPAF/FICA payments made by the State on-behalf of the charter school for those employees whose salaries are identified as being paid from federal funds was made prior to the end of the 90-day grant liquidation period required by the Office of Grants Management. The expenditure was reviewed subsequent to the reimbursement and no exceptions were noted.

**School Purchasing Programs**

**Contracts and Agreements Requiring Advertising for Bids**

Effective July 1, 2015 and thereafter the bid thresholds in accordance with N.J.S.A 18A:18A-3 (as amended) and 18A:39-3 is \$40,000 (with a Qualified Purchasing Agent) and \$29,000 (without a Qualified Purchasing Agent), respectively. The law regulating bidding for public student transportation contract under N.J.S.A. 18A:39-3 is currently \$19,000 for 2018-2019.

The Charter School Board of Trustees has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Solicitor's opinion should be sought before a commitment is made.

Based on the results of our examination, we did not note any individual payments, contracts, or agreements made for the performance of any work or goods or services, in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provision of N.J.S.A 18A:18A-4, amended.

Resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A 18A:A8A-5.

**School Food Service**

The financial transactions and statistical records of the Charter School food services were reviewed. The financial accounts, meal count records and eligibility applications were reviewed on a test-check basis.



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Cash receipts and bank records were reviewed for timely deposit.

The Charter School utilizes a food service management company (FSMC) and is depositing and expending program monies in accordance with *N.J.S.A. 18A:17-34*, and 19-1 through 19-4.1. Provisions of the FSMC contract/addendum were reviewed and audited. The FSMC contract includes an operating results provision which guarantees that the food service program will break even. The operating results provision has been met. All vendor discounts, rebates, and credits from vendors and/or the FSMC were tracked and credited to the Food Service Account and reconciled to supporting documentation at least annually.

Expenditures should be separately recorded as food, labor and other costs. Vendor invoices were reviewed and costs verified. Inventory records on food and supply items were currently maintained and properly applied in determining the cost of food and supplies used.

The cash disbursements records reflected expenditures for program related goods and services. The appropriate revenue and expenditure records were maintained in order to substantiate the non-profit status of the school food service.

Net cash resources did not exceed three-month average expenditures.

Time sheets were reviewed and labor costs verified. Payroll records were maintained on all School Food Services employees authorized by the board of education/board of trustees. No exceptions were noted.

The number of meals claimed for reimbursement was compared to sales and meal count records. As part of the claims review process the Edit Check Worksheet was completed. Reimbursement claims were submitted/certified in a timely manner.

Applications for free and reduced-price meals were reviewed for completeness and accuracy. The number of free and reduced-price meals claimed as served was compared to the number of valid applications /or to the list of directly certified students on file, times the number of operating days, on a school-by-school basis. The free and reduced-price meal and free milk policy was reviewed for uniform administration throughout the school system. Sites approved to participate in Provisions I and II were examined for compliance with all counting and claiming requirements. The required verification procedures for free and reduced-price applications were completed and available for review.

Food Distribution Program commodities were not received and therefore no inventory was maintained.

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Exhibits reflecting Child Nutrition Program operations are included in the section entitled Enterprise Funds, Section G of the CAFR.

**Student Body Activities**

Our audit revealed some student body activities during the fiscal year ended June 30, 2019 which were accounted for in separate bank accounts. Our review of the record of the Student Body Activities did not disclose any exceptions.

**Enrollment Counts and Submission to the Department**

Our audit procedures included test of information reported on the October 15th, and the last day of school for on-roll, special education, bilingual and low income. We also performed a review of the Charter School procedures related to its completion. The Charter School maintained adequate written procedures for the recording of student enrollment data.

**Miscellaneous**

**Testing for Lead of All Drinking Water in Educational Facilities**

The Charter School adhered to all the requirements of N.J.A.C. 26-1.2 and 12.4 related to the testing for lead of all drinking water in educational facilities.

The Charter School submitted the annual Statement of Assurance to the Department of Education, pursuant to N.J.A.C. 6A:26-12.4(g)

**Follow-up on Prior Year's Findings**

In accordance with *Government Auditing Standards*, our procedures included a review of all prior year recommendations including findings. There were no findings in the prior year's 2018.

There were no audit reports issued by the Office of Fiscal Accountability and Compliance (OFAC) during the 2018-2019 fiscal year.

**Acknowledgement**

We received the complete cooperation of all the officials of the Charter School and we greatly appreciate the courtesies extended to the members of the audit team.

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**Food Service Fund**  
**Number of Meals Served and (Over)/Underclaim**  
**Enterprise Fund**  
**For the Fiscal Year Ended June 30, 2019**

Program	Meal Category	Meals Claimed	Meals Verified	Difference	Rate	(Over) Under Claim
National School Lunch	Paid	11,001	11,001	-	0.44	\$ -
	Reduced	-	-	-	3.05	-
	Free	111,520	111,520	-	3.45	-
	Total	<u>122,521</u>	<u>122,521</u>	<u>-</u>		<u>-</u>
School Breakfast	Paid	5,766	5,766	-	0.31	-
	Reduced	-	-	-	1.84	-
	Free	58,462	58,462	-	2.14	-
	Total	<u>64,228</u>	<u>64,228</u>	<u>-</u>		<u>-</u>
National After School Snacks	Paid	-	-	-	-	-
	Reduced	-	-	-	-	-
	Free	40,956	40,956	-	0.91	-
	Total	<u>40,956</u>	<u>40,956</u>	<u>-</u>		<u>-</u>
Total Net (Over)/Underclaim						<u>\$ -</u>

**UNIVERSITY HEIGHTS CHARTER SCHOOL**  
**Application for Charter School Aid**  
**Schedule of Audited Enrollments**  
**Enrollment Count as of October 15, 2017**

Grades	Submission to DOE reported on Roll	Reported on Workpapers	Verified signed registration forms	Errors	Verified # of days enrolled	Errors	Special Ed &/ or Bilingual	Verified Documentation	Errors	Verified # of days of Service Provided	Errors	Low Income	Verified Documentation	Errors
Pre-Kindergarten	121	60	60	-	60	-	-	-	-	-	-	60	60	-
Kindergarten	120	60	60	-	60	-	1	1	-	1	-	60	60	-
One	143	72	72	-	72	-	-	-	-	-	-	72	72	-
Two	143	72	72	-	72	-	4	4	-	4	-	72	72	-
Three	73	44	44	-	44	-	-	-	-	-	-	44	44	-
Four	92	47	47	-	47	-	4	4	-	4	-	47	47	-
Fifth	86	44	44	-	44	-	3	3	-	3	-	44	44	-
Sixth	82	41	41	-	41	-	5	5	-	5	-	41	41	-
Seventh	72	36	36	-	36	-	3	3	-	3	-	36	36	-
Eight	59	29	29	-	29	-	3	3	-	3	-	29	29	-
<b>Total</b>	<b>991</b>	<b>505</b>	<b>505</b>	<b>0</b>	<b>505</b>	<b>0</b>	<b>23</b>	<b>23</b>	<b>0</b>	<b>23</b>	<b>0</b>	<b>505</b>	<b>505</b>	<b>0</b>
Percentage				0.00%		0.00%			0.00%		0.00%			0.00%

**UNIVERSITY HEIGHTS CHARTER SCHOOL**  
**Application for Charter School Aid**  
**Schedule of Audited Enrollments**  
**Enrollment Count as of Last Day of School**

Grades	Submission to DOE reported on Roll	Reported on Workpapers	Verified signed registration forms	Errors	Verified # of days enrolled	Errors	Special Ed &/ or Bilingual	Verified Documentation	Errors	Verified # of days of Service Provided	Errors	Low Income	Verified Documentation	Errors
Pre-Kindergarten	121	61	61	-	61	-	-	-	-	-	-	61	61	-
Kindergarten	120	60	60	-	60	-	1	1	-	1	-	60	60	-
One	143	71	71	-	71	-	0	-	-	-	-	71	71	-
Two	143	71	71	-	71	-	3	3	-	3	-	71	71	-
Three	77	43	43	-	43	-	6	6	-	6	-	43	43	-
Four	92	45	45	-	45	-	4	4	-	4	-	45	45	-
Fifth	86	42	42	-	42	-	4	4	-	4	-	42	42	-
Sixth	82	41	41	-	41	-	2	2	-	2	-	41	41	-
Seventh	72	36	36	-	36	-	5	5	-	5	-	36	36	-
Eight	59	30	30	-	30	-	3	3	-	3	-	36	36	-
<b>Total</b>	<b>995</b>	<b>500</b>	<b>500</b>	<b>0</b>	<b>500</b>	<b>0</b>	<b>28</b>	<b>28</b>	<b>0</b>	<b>28</b>	<b>0</b>	<b>506</b>	<b>506</b>	<b>0</b>
Percentage				0.00%		0.00%			0.00%		0.00%			0.00%

**UNIVERSITY HEIGHTS CHARTER SCHOOL  
NET CASH RESOURCE SCHEDULE**

**Net cash resources did/did not exceed three months of expenditures  
Proprietary Funds - Food Service  
Year ended June 30, 2019**

<u>Net Cash Resources:</u>		<b>Food Service B - 4/5</b>
<b>CAFR</b>	*	
	<b>Current Assets</b>	
B-4	Cash & Cash Equiv.	\$ -
B-4	Due from Other Gov'ts	104,877
B-4	Accounts Receivable	-
B-4	Investments	-
	<b>Current Liabilities</b>	
B-4	Less Accounts Payable	-
B-4	Less Accruals	-
B-4	Less Due to Other Funds	(104,877)
B-4	Less Deferred Revenue	-
	<b>Net Cash Resources</b>	<u><u>\$ -</u></u> (A)
 <b><u>Net Adj. Total Operating Expense:</u></b>		
B-5	Tot. Operating Exp.	686,316
B-5	Less Depreciation	-
	<b>Adj. Tot. Oper. Exp.</b>	<u><u>\$ 686,316</u></u> (B)
 <b><u>Average Monthly Operating Expense:</u></b>		
	B / 10	<u><u>\$ 68,632</u></u> (C)
 <b><u>Three times monthly Average:</u></b>		
	3 X C	<u><u>\$ 205,895</u></u> (D)

TOTAL IN BOX A	\$	-
LESS TOTAL IN BOX D	\$	(205,895)
NET	\$	<u><u>(205,895)</u></u>
From above:		
<b>D is greater than A, cash does not exceed 3 X average monthly operating expenses.</b>		

\* Inventories are not to be included in total current assets.

Source: Charter School's CAFR

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**Audit Recommendations Summary**

Findings and Recommendations:

1. Administrative Practices and Procedures

None

2. Financial Planning, Accounting and Reporting

None

3. School Purchasing Programs

None

4. School Food Service

None

5. Student Body Activities

None

6. Application for State School Aid

None

7. Pupil Transportation

None

8. Facilities and Capital Assets

None

9. Miscellaneous

None

10. Status of Prior Year Audit Findings/Recommendations

There were no findings in the prior year's 2018.