

KINGS COLLEGIATE CHARTER SCHOOL

BROOKLYN, NEW YORK

AUDITED FINANCIAL STATEMENTS

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2008

OCT 31 2008

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AUDITED FINANCIAL STATEMENTS

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REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kings Collegiate Charter School

We have audited the accompanying statement of financial position of Kings Collegiate Charter School as of June 30, 2008, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the period from July 31, 2006 (date of inception) to June 30, 2008. These financial statements are the responsibility of the Charter School's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Kings Collegiate Charter School as of June 30, 2008, and the changes in its net assets and its cash flows for the period from July 31, 2006 (date of inception) to June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2008 on our consideration of Kings Collegiate Charter School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 22, 2008



KINGS COLLEGIATE CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2008

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 253,024
Certificates of deposit	250,000
Grants and other receivables	96,265
Prepaid expenses	2,403
TOTAL CURRENT ASSETS	<u>601,692</u>

PROPERTY AND EQUIPMENT, net

154,461	
TOTAL ASSETS	<u>\$ 756,153</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 55,945
Deferred revenue	147,034
TOTAL CURRENT LIABILITIES	<u>202,979</u>

NET ASSETS, unrestricted

Designated for building fund	250,000
Undesignated	303,174
	<u>553,174</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 756,153</u>

The accompanying notes are an integral part of the financial statements.

KINGS COLLEGIATE CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

PERIOD FROM JULY 31, 2006 (DATE OF INCEPTION) TO JUNE 30, 2008

Operating revenue and support:		
State and local per pupil operating revenue	\$	919,786
Government grants		362,115
Contributions		375,150
Other income		<u>10,417</u>
TOTAL OPERATING REVENUE AND SUPPORT		1,667,468
Expenses:		
Program services - education		894,094
General and administrative		<u>220,200</u>
TOTAL EXPENSES		<u>1,114,294</u>
		CHANGE IN NET ASSETS 553,174
Unrestricted net assets at beginning of year		<u>-</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	\$	<u>553,174</u>

The accompanying notes are an integral part of the financial statements.

KINGS COLLEGIATE CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

PERIOD FROM JULY 31, 2006 (DATE OF INCEPTION) TO JUNE 30, 2008

	<u>Program services - education</u>	<u>General and administrative</u>	<u>Total</u>
Salaries	\$ 536,823	\$ 128,808	\$ 665,631
Payroll taxes and employee benefits	92,429	22,176	114,605
Occupancy	16,803	-	16,803
Repairs and maintenance	488	1,228	1,716
Textbooks	4,835	-	4,835
Instructional supplies and assessments	36,859	-	36,859
Computer and technology support	13,824	-	13,824
Student enrichment and services	34,584	-	34,584
Professional development	45,163	-	45,163
Professional services	-	9,500	9,500
Telephone	-	11,523	11,523
Insurance	-	9,382	9,382
Management fees	85,171	15,030	100,201
Office expense	-	19,831	19,831
Depreciation	27,115	589	27,704
Other	-	2,133	2,133
	<u>\$ 894,094</u>	<u>\$ 220,200</u>	<u>\$ 1,114,294</u>

The accompanying notes are an integral part of the financial statements.

KINGS COLLEGIATE CHARTER SCHOOL

STATEMENT OF CASH FLOWS

PERIOD FROM JULY 31, 2006 (DATE OF INCEPTION) TO JUNE 30, 2008

CASH FLOWS - OPERATING ACTIVITIES

Change in net assets	\$ 553,174
Adjustments to reconcile change in net assets to net cash provided from operating activities:	
Depreciation	27,704
Changes in certain assets and liabilities affecting operations:	
Grants and other receivables	(96,265)
Prepaid expenses	(2,403)
Accounts payable and accrued expenses	55,945
Deferred revenue	<u>147,034</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	685,189

CASH FLOWS - INVESTING ACTIVITIES

Purchases of property and equipment	(182,165)
Purchases of certificates of deposit	<u>(250,000)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(432,165)</u>
NET INCREASE IN CASH	253,024
Cash at beginning of year	-
CASH AT END OF YEAR	<u>\$ 253,024</u>

The accompanying notes are an integral part of the financial statements.

KINGS COLLEGIATE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

Kings Collegiate Charter School (the "Charter School"), is an educational corporation operating as a charter school in the borough of Brooklyn, New York City. On July 31, 2006, the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration.

The Charter School's mission is to prepare students to enter, succeed in and graduate from outstanding college preparatory high schools and colleges.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Charter School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

These classes of net assets are defined as follows:

Permanently restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2008.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School had no temporarily restricted net assets at June 30, 2008.

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School's operations in accordance with the guidelines established by the Charter School. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

Revenue and support recognition

Revenue from state and local governments resulting from the Charter School's charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable.

KINGS COLLEGIATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2008

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Cont'd

Contributions

Contributions received are recorded as unrestricted, temporarily, or permanently restricted support depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as unrestricted revenue.

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash and cash equivalents

The Charter School considers all highly liquid investments with maturities of three months or fewer to be cash equivalents. The Charter School maintains its cash in a bank deposit account and bank certificate of deposit which, at times, may exceed federally insured limits. Uninsured balances at June 30, 2008 approximated \$410,000. The Charter School has not experienced any losses in such accounts.

Certificates of deposit

Certificates of deposit represent certificates of deposit with maturities of nine months.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2008.

Property and equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to seven years.

Deferred revenue

The Charter School records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

KINGS COLLEGIATE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2008

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,
Cont'd

Contributed services

The Charter School receives contributed services from volunteers to develop its academic program and to serve on the board of trustees. These services are not valued in the financial statements because they do not require "specialized skills" and would typically not be purchased if they were not contributed.

Use of estimates in the preparation of financial statements

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B: RELATED PARTY TRANSACTIONS

Uncommon Schools, Inc. ("USI"), a not-for-profit organization dedicated to helping start and run charter schools, provides management and other administrative support services to the Charter School. The Charter School entered into a five year agreement with USI, dated July 1, 2007, under which the Charter School pays USI a service fee of a set percentage of the average number of students enrolled at the Charter School during the school year multiplied by the approved per pupil operating expenses for the school year, and a percentage of all other public entitlement funding receivable during the fiscal year, excluding in-kind contributions and funds from competitive public grants. This percentage is fixed at 10% for years 1-3, decreasing to 9.5% in year 4 and 9% in year 5. The fee incurred for the period from July 31, 2006 (date of inception) to June 30, 2008 was \$100,201. At June 30, 2008, approximately \$27,000 and \$6,700 are included in accounts receivable and accounts payable, respectively, relating to USI.

NOTE C: SCHOOL FACILITY

As part of the New York City Chancellor's Charter School Initiative, the New York City Department of Education has committed space to the Charter School at no charge. The facilities and services provided by the New York City Department of Education to the Charter School are outlined in a Shared Facility Use Agreement. At June 30, 2008, the board of trustees has designated \$250,000 as a building fund to be available to meet future needs of the Charter School. During the period from July 31, 2006 (date of inception) to June 30, 2008, the Charter School paid a fee to the New York City Department of Education for additional after-school and weekend usage amounting to approximately \$16,800.

KINGS COLLEGIATE CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2008

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Furniture and fixtures	\$ 85,648
Computers and software	<u>96,517</u>
	182,165
Less accumulated depreciation	<u>27,704</u>
	<u><u>\$ 154,461</u></u>

NOTE E: RETIREMENT PLAN

The Charter School sponsors a defined contribution 403(b) plan covering most employees. The Charter School matches employees' contributions up to 1% of gross payroll. The Charter School's total contribution to the Plan for the period from July 31, 2006 (date of inception) to June 30, 2008 approximated \$6,200.

NOTE F: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE G: MAJOR GRANTOR

One federal start-up grant accounted for over ten percent of total operating revenue and support for the period from July 31, 2006 (date of inception) to June 30, 2008.

NOTE H: CONCENTRATION

At June 30, 2008 approximately 72% of accounts receivable are due from New York State.

KINGS COLLEGIATE CHARTER SCHOOL

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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**INDEPENDENT AUDITORS' 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**

Board of Trustees
Kings Collegiate Charter School

We have audited the financial statements of Kings Collegiate Charter School as of June 30, 2008 and for the period from July 31, 2006 (date of inception) to June 30, 2008, and have issued our report thereon dated October 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kings Collegiate 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 Kings Collegiate Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Charter School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Charter School's financial statements that is more than inconsequential will not be prevented or detected by the Charter School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Charter School's internal control.

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

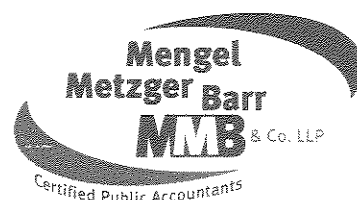
As part of obtaining reasonable assurance about whether Kings Collegiate Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct 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 Kings Collegiate Charter School in a separate letter dated October 22, 2008.

This report is intended solely for the information and use of the Board of Trustees, management, federal, state and local awarding agencies, The Charter Schools Institute of the State University of New York and the State Education Department of the State University of New York and others within the Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 22, 2008



KINGS COLLEGIATE CHARTER SCHOOL

ADVISORY COMMENT LETTER

JUNE 30, 2008

OCT 31 2008

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October 22, 2008

To the Board of Trustees
Kings Collegiate Charter School

In planning and performing our audit of the financial statements of Kings Collegiate Charter School as of June 30, 2008 and for the period from July 31, 2006 (date of inception) to June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter School's internal control over financial reporting (internal control) 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 Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

During the course of our audit of the financial statements of Kings Collegiate Charter School as of June 30, 2008 and for the period from July 31, 2006 (date of inception) to June 30, 2008, we observed the Charter School's significant accounting policies and procedures and certain business, financial and administrative practices. As a result of our observations, we suggest you consider the following comments which we do not consider to be significant deficiencies or material weaknesses:

State Aid Reconciliation

We noted that it may be possible for the Charter School to continue to receive state aid for students who have left the school, whether due to oversight on the part of management while completing the year-end reconciliation or due to intentional misstatement. The procedures currently in place rely upon the Department of Education to detect students who are improperly included on the reconciliation and withhold the associated funding.

Recommendation

We recommend management implement a review and approval process for the year-end reconciliation prior to submission to the Department of Education. The review process will be most effective if completed by an individual familiar with the students in attendance during the applicable year.

Form 990

The Internal Revenue Service has released a new version of the Form 990 that will be effective for entities filing on or after December 31, 2008 with transitional relief for smaller organizations over a three year period. The stated goals of the revised Form 990 are to enhance transparency and promote compliance. Many questions require additional disclosures, explanations and descriptions and many questions focus on policies and procedures that may or may not be in place.

Recommendation

We recommend that management gain an understanding of the changes to the Form 990 to be prepared to gather the necessary information to be able to complete the revised Form.

* * * * *

We believe that the implementation of these recommendations will improve the controls in place and efficiency of the Charter School's internal control.

This communication is intended solely for the information and use of Management, Finance Committee Members and Board Members and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the outstanding cooperation from your staff that our personnel received during the audit of the Charter School's financial statements. Should you have any questions or comments, please contact Michelle Cain or Jackie Boone.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP

