



Marvin and company, p.c.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

October 29, 2008

Board of Trustees of the
New Covenant Charter School

Dear Board Member:

In planning and performing our audit of the financial statements of the New Covenant Charter School (NCCS) as of and for the year ended June 30, 2008, in accordance with U.S. generally accepted auditing standards, we considered the NCCS's internal control over financial reporting (internal control) as a basis for designing our audit 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 Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust'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. However, during our audit, we noted a matter involving the internal control that is presented for your consideration. This letter does not affect our report dated October 29, 2008, on the financial statements of the NCCS. We will review the status of this comment during our next engagement. Our comment and recommendation, both of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss this comment in further detail at your convenience, perform any additional study of this matter, or assist you in implementing the recommendation.

Our comment is as follows:

PAYROLL - REPEAT FINDING

Finding

Our audit procedures disclosed that two employees were incorrectly paid due to errors in calculating the total number of hours worked as reported on the employee's time sheet.

Recommendation

We recommend that a procedure be implemented to recalculate hours reported on employee's time sheets prior to the entering of those hours into the payroll system.

Kevin J. McCoy

Thomas W. Donovan

Frank S. Venezia

James E. Amell

Carol A. Hausamann

Benjamin R. Lasher

Daniel J. Litz

11 British American Blvd.

Latham, NY 12110

Ph: 518-785-0134

Fx: 518-785-0299

Email:

webmaster@marvincpa.com

Web:

http://www.marvincpa.com



OCT 31 2008

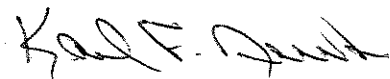
AMERICAN

We believe that the implementation of this recommendation will provide the New Covenant Charter School with a stronger system of internal control and financial reporting.

This report is intended solely for the information and use of the Board of Trustees and management, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank you for the cooperation and assistance extended to us during the course of our audit. We appreciate the opportunity to be of service to your organization.

Very truly yours,

A handwritten signature in black ink, appearing to read "Karl F. Newton". The signature is written in a cursive, slightly slanted style.

Karl F. Newton, CPA
Manager

NEW COVENANT CHARTER SCHOOL

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1-2
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6-14
SCHEDULE OF FUNCTIONAL EXPENSES	15
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	16
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	17
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 <i>GOVERNMENTAL AUDITING STANDARDS</i>	18-19
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	20-21
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	22-23

RECEIVED

OCT 21 2006

OFFICE OF THE SUPERVISOR OF FINANCIAL SERVICES



Marvin and company, p.c.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
New Covenant Charter School

Kevin J. McCoy

Thomas W. Donovan

Frank S. Venezia

James E. Amell

Carol A. Hausamann

Benjamin R. Lasher

Daniel J. Litz

We have audited the accompanying statements of financial position of New Covenant Charter School (NCCS) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of New Covenant Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New Covenant Charter School as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2008, on our consideration of New Covenant Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 important for assessing the results of our audit.

11 British American Blvd.

Latham, NY 12110

Ph: 518-785-0134

Fx: 518-785-0299

Email:

webmaster@marvincpa.com

Web:

http://www.marvincpa.com



Our audit was performed for the purpose of forming an opinion on the basic financial statements of NCCS taken as a whole. The accompanying schedule of functional expenses on page 15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on page 16 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Marvin and Company, P.C.

October 29, 2008

**NEW COVENANT CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007**

ASSETS

	<u>2008</u>	<u>2007</u>
Current Assets		
Cash and cash equivalents	\$ 514,175	\$ 924,108
Due from school districts, net	92,626	94,594
Due from governments	502,687	547,546
Prepaid expenses and other	41,746	10,841
Total Current Assets	<u>1,151,234</u>	<u>1,577,089</u>
Property, Plant and Equipment		
Land	3,100	3,100
Building and improvements	13,356,858	13,356,858
Equipment and textbooks	177,975	172,452
Total	<u>13,537,933</u>	<u>13,532,410</u>
Less accumulated depreciation	2,609,447	2,255,555
Net Property, Plant and Equipment	<u>10,928,486</u>	<u>11,276,855</u>
Other Assets		
Deferred financing costs, net	1,814,402	1,912,240
Bond trust accounts - restricted	1,372,098	1,897,997
Cash - restricted	-	89,382
Total Other Assets	<u>3,186,500</u>	<u>3,899,619</u>
TOTAL ASSETS	<u>\$ 15,266,220</u>	<u>\$ 16,753,563</u>

LIABILITIES AND NET DEFICIT

Current Liabilities		
Accounts payable	\$ 633,475	\$ 388,831
Due to management company - Edison Schools, Inc.	2,501,850	2,501,850
Current portion of bonded mortgage	175,000	160,000
Accrued expenses	819,748	743,859
Total Current Liabilities	<u>4,130,073</u>	<u>3,794,540</u>
Other Liabilities		
Bonded mortgage payable	<u>15,970,000</u>	<u>16,145,000</u>
TOTAL LIABILITIES	<u>20,100,073</u>	<u>19,939,540</u>
Net Deficit		
Unrestricted	(4,956,201)	(3,271,505)
Temporarily restricted	122,348	85,528
Total Net Deficit	<u>(4,833,853)</u>	<u>(3,185,977)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 15,266,220</u>	<u>\$ 16,753,563</u>

**NEW COVENANT CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Revenue		
Public School Districts		
Resident student enrollment	\$ 6,295,967	\$ 6,496,868
Students with disabilities	107,348	18,394
Grants		
Federal	651,111	894,921
State	52,761	27,283
Net assets released from restrictions	85,528	57,233
Other	184,763	236,577
Total Revenue	<u>7,377,478</u>	<u>7,731,276</u>
Expenses		
Program Expenses		
Regular education	4,291,674	4,476,208
Special education	174,508	221,083
Other program	773,543	864,992
Supporting Services		
Management and general	3,822,449	4,142,931
Total Expenses	<u>9,062,174</u>	<u>9,705,214</u>
Change In Unrestricted Net Assets	<u>(1,684,696)</u>	<u>(1,973,938)</u>
Change In Temporarily Restricted Net Assets		
Grants	122,348	85,528
Net assets released from restrictions	(85,528)	(57,233)
Increase (Decrease) In Temporarily Restricted Net Assets	<u>36,820</u>	<u>28,295</u>
Change In Net Assets	(1,647,876)	(1,945,643)
Net Deficiency, Beginning of Year	<u>(3,185,977)</u>	<u>(1,240,334)</u>
Net Deficit, End of Year	<u>\$ (4,833,853)</u>	<u>\$ (3,185,977)</u>

See accompanying notes to financial statements.

**NEW COVENANT CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (1,647,876)	\$ (1,945,643)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	353,891	428,781
Bad debt expense	117,815	204,538
Amortization of bond closing costs	30,295	30,295
Amortization of bond discount	67,544	67,516
(Increase) decrease in assets:		
Due from school districts	(115,847)	193,704
Due from governments	44,859	75,145
Due from other	-	804
Prepaid expenses	(30,905)	(5,266)
Cash - restricted	89,382	(89,382)
Increase (decrease) in liabilities:		
Accounts payable	244,644	321,689
Due to management company - Edison Schools, Inc.	-	420,960
Accrued expenses	75,889	548,105
Net Cash Provided (Used) By Operating Activities	<u>(770,309)</u>	<u>251,246</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	<u>(5,522)</u>	<u>(29,347)</u>
Cash Flows From Financing Activities		
Principal payments on long-term debt	(160,000)	(140,000)
Deposits to bond trust accounts	(1,079,321)	(1,411,078)
Proceeds from release of bond trust accounts	1,605,219	1,317,775
Net Cash Provided (Used) By Financing Activities	<u>365,898</u>	<u>(233,303)</u>
Net Decrease in Cash and Cash Equivalents	(409,933)	(11,404)
Cash and Cash Equivalents, Beginning of Year	<u>924,108</u>	<u>935,512</u>
Cash and Cash Equivalents, End of Year	<u>\$ 514,175</u>	<u>\$ 924,108</u>
Supplemental Data		
Cash paid for interest	<u>\$ 1,094,175</u>	<u>\$ 1,182,403</u>

See accompanying notes to financial statements.

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

1. ORGANIZATION, GOVERNANCE AND OPERATIONS

Organization

New Covenant Charter School ("NCCS" or "the School") was organized in August 1999 to operate a charter school pursuant to Article 56 of the New York State Education Law and in accordance with related charter agreements with the Board of Regents of the University of the State of New York ("State University"). The State University granted a provisional charter, valid for a term of five years, to NCCS in September 1999. On May 24, 2004, the State University issued a renewed provisional charter for an additional five years through 2009.

During the 2007/08 school year NCCS's operations, covering grades K to 6, with an enrollment of approximately 580 students, were conducted from its educational facility.

Governance and Operations

NCCS has entered into a management agreement with Victory Schools, Inc. (VSI) to provide educational management and operational services for operating the school through June 30, 2009. Under the terms of the agreement NCCS is required to pay a management fee based upon full time equivalent student enrollment. The management fee was \$957,041 and \$937,280 for the years ended June 30, 2008 and 2007, respectively.

In 2000 NCCS engaged Edison Schools, Inc. ("Edison"), a private sector manager of public schools, to administer its fiscal management, as well as implement the education program, including related technology and management systems. On August 8, 2006, the Board terminated its management agreement with Edison. (See Note 7).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The School prepares its financial statements on the accrual basis of accounting and, accordingly, reflects all significant receivables, payables, and other liabilities, and recognizes revenue when earned and expenses when incurred.

The financial statement presentation follows the recommendations of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. In accordance with SFAS No. 117, information regarding financial position and activities are reported according to three classes of net assets: unrestricted, temporarily restricted, or permanently restricted. There were no permanently restricted net assets at June 30, 2008 and 2007.

Cash and Cash Equivalents

For the purposes of reporting its cash flows, the School considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The School also follows the policy of maintaining its cash balances with high quality financial institutions.

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Property, Plant, Equipment and Depreciation

Property, plant and equipment are stated at cost including capitalized interest of \$24,980 less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building and Improvements	10-40
Equipment and Textbooks	3-5

Depreciation expense was \$353,891 and \$428,781 for the years ended June 30, 2008 and 2007, respectively.

Maintenance and repairs are charged to operations when incurred. When property, plant and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation accounts are relieved and any gain or loss is included in operations.

Revenue Recognition

A substantial portion of the School's revenue and related receivables are derived from the Albany City School District, which reimburses NCCS based on per capita enrollment. These revenues are recognized ratably over the related school year during which they are earned.

NCCS reports grants of cash and other assets as restricted support if they are received with stipulations that limit their use. When a restriction expires, that is, when a stipulated time restriction or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as Net Assets Released from Restrictions.

NCCS reports restricted grants as unrestricted support whenever the restrictions are met in the same year the grants are received.

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

Income Taxes

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Bad Debts

NCCS provides for losses on receivables using the allowance method.

Bad debt expense was \$117,815 and \$204,538 for the years ended June 30, 2008 and 2007, respectively.

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising and Promotions

NCCS uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense was \$58,278 and \$38,509 for the years ended June 30, 2008 and 2007, respectively.

Allocation of Expenses

Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to program and supporting services using specific allocation methods. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of NCCS.

Fair Value of Financial Instruments

The carrying amounts of cash, receivables due from school districts, receivables due from governments, and accounts payables approximate fair value because of the short maturity of these instruments. The fair value of bond trust accounts is based on quoted market prices. The carrying amount of bonded mortgage payable approximates fair value due to the debt instruments carrying interest rates available to NCCS for debt with similar terms and remaining maturities.

Reclassifications

Certain 2007 amounts have been reclassified for comparative purposes to conform with the 2008 financial statement presentation.

3. DUE FROM SCHOOL DISTRICTS AND GOVERNMENTS

Receivable balances due from school districts and governments are stated at the amounts management expects to collect from outstanding balances. NCCS provides for losses on receivables using the allowance method.

Due from school districts at June 30, 2008 and 2007 consists of the following:

	<u>2008</u>	<u>2007</u>
Due from school districts	\$ 182,296	\$ 197,269
Less allowance for doubtful accounts	<u>89,670</u>	<u>102,675</u>
Total	<u>\$ 92,626</u>	<u>\$ 94,594</u>

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

3. DUE FROM SCHOOL DISTRICTS AND GOVERNMENTS

Due from governments at June 30, 2008 and 2007 consists of the following:

	<u>2008</u>	<u>2007</u>
New York State Department of Education	\$ 455,872	\$ 492,424
Albany Industrial Development Agency	<u>46,815</u>	<u>55,122</u>
Total	<u>\$ 502,687</u>	<u>\$ 547,546</u>

4. DEFERRED FINANCING COSTS

Deferred financing costs consist of bond closing costs and bond discount costs incurred in connection with tax-exempt and taxable Civic Facility Revenue Bonds issued by the City of Albany Industrial Development Agency.

Bond closing costs are amortized using the straight-line method over the term of the obligation. Amortization expense was \$30,295 for the years ended June 30, 2008 and 2007, respectively.

Bond closing cost amortization expense over the next five years is as follows:

2009	\$ 30,295
2010	30,295
2011	30,295
2012	30,295
2013	30,295

Bond discount costs are amortized using the effective interest method over the term of the obligation. Amortization expense charged to operations as a component of interest expense was \$67,544 and \$67,516 for the years ended June 30, 2008 and 2007, respectively.

Bond discount amortization expense over the next five years is as follows:

2009	\$ 75,548
2010	81,549
2011	88,041
2012	95,062
2013	102,656

5. BOND TRUST ACCOUNTS - RESTRICTED

NCCS has entered into a custody agreement with U.S. Bank National Association as Custodian and as Trustee. Debt service reserve represents funds held by U.S. Bank National Association in the name of the NCCS. NCCS will direct educational aid payments to be deposited with the Custodian. The Custodian will pay the Trustee, for deposit in the Bond Fund, an amount equal to a proportionate share of the next interest payment and principal payment on the Bonds for which funds have not already been provided; for deposit in the Reserve Fund, certain amounts equal to a proportion of any amount by which the Reserve Requirement exceeds the amounts then on deposit in the Reserve Fund; and for the deposit in the Repair and Replacement Fund, a proportionate share of the applicable annual deposit required. Any funds remaining with the Custodian following such transfers will be transferred to NCCS.

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

5. BOND TRUST ACCOUNTS - RESTRICTED

In connection with the bonded mortgage with the City of Albany Industrial Development Agency, NCCS is required to maintain bond trust accounts which are administered by U.S. Bank National Association. The underlying investments in the bond trust accounts at June 30, 2008 and 2007 consist of U.S. Treasury obligations.

Bond trust accounts restricted at June 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Project fund	\$ 160,055	\$ 155,087
Bond fund	144,719	237,185
Reserve fund	1,066,454	1,504,881
Custody account	<u>870</u>	<u>843</u>
Total	<u>\$ 1,372,098</u>	<u>\$ 1,897,996</u>

Interest income earned on the bond trust accounts was \$61,070 and \$94,386 for the years ended June 30, 2008 and 2007, respectively.

6. FORBEARANCE AND AMENDMENT AGREEMENT

In January 2008, NCCS and U.S. Bank National Association acting as its capacity as Trustee entered into a Forbearance and Amendment Agreement due to anticipated material monetary and non-monetary defaults and events of defaults under the financing agreements for the bonded mortgage payable agreement between NCCS and the Trustee. NCCS represented that the defaults are expected to occur and continue for the failure to make the required full scheduled installment purchase payments and failure to replenish the Reserve Fund for withdrawals to be made as required under the Installment Sale Agreement.

In consideration for the forbearance NCCS's scheduled purchase payments are reduced to the minimum required payments for the period beginning July 15, 2007 through May 15, 2009 as follows:

	<u>Scheduled Purchase Payment</u>	<u>Minimum Required Payment</u>
Through June 30, 2008	\$ 1,344,267	\$ 863,374
Through May 15, 2009	\$ 1,330,125	\$ 931,088

NCCS's reduction in the scheduled purchase payments will not reduce the payment on the Bond obligation any deficiencies in money in the Bond Fund to make payments due on the Bonds shall be made from the Reserve Fund.

Commencing on July 15, 2009 and continuing on the 15th day of January, March, May, July, September and November NCCS will replenish the shortfall in the Reserve Fund, in the amount of \$28,798 until the Reserve Fund shall reach a balance of \$1,386,676.

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

7. CASH - RESTRICTED

NCCS at the request of the New York State Charter School Institute established an escrow account held at Whiteman Osterman & Hanna LLP, NCCS's legal counsel. The balance of the restricted cash account was \$-0- and \$89,383 at June 30, 2008 and 2007, respectively.

8. DUE TO MANAGEMENT COMPANY - EDISON SCHOOLS, INC.

Due to management company - Edison Schools, Inc. (Edison) represents costs claimed to have been incurred by Edison for providing educational and administrative services to NCCS prior to the termination of the management agreement between the two parties.

During the year ended June 30, 2007, Edison filed a claim against NCCS for alleged nonpayment of the management fee. NCCS has filed substantial and material counterclaims against Edison and is vigorously defending the claim. Given that the litigation is on-going, while it is at least reasonably possible the amount due to Edison will change in the near term, no estimate can be made for the amount due to Edison that is at present reasonably possible to determine.

9. BONDED MORTGAGE PAYABLE

Tax-exempt and taxable Civic Facility Revenue Bonds, \$16,605,000 issued by the City of Albany Industrial Development Agency with interest at 5% to 9%. Secured by leasehold mortgage lien and security interest in the land, building, fixtures and equipment and reserve funds initially funded through deposit of the bond proceeds.

Maturities, amounts and interest rates are as follows:

- \$ 300,000 5% Term Bond, Series 2005A due May 1, 2007.
- \$ 685,000 6.5% Term Bond, Series 2005A due May 1, 2016.
- \$ 4,090,000 7% Term Bond, Series 2005A due May 1, 2025.
- \$10,050,000 7% Term Bond, Series 2005A due May 1, 2035.
- \$ 1,480,000 9% Term Bond, Series 2005B due May 1, 2016.

	<u>2008</u>	<u>2007</u>
Total	\$ 16,145,000	\$ 16,305,000
Current portion of bonded mortgage payable	<u>175,000</u>	<u>160,000</u>
Long-Term Portion of Bonded Mortgage Payable	<u>\$ 15,970,000</u>	<u>\$ 16,145,000</u>

Bonded mortgage principal payable over the next five years is as follows:

2009	\$ 175,000
2010	190,000
2011	205,000
2012	220,000
2013	240,000

Interest expense was \$1,232,939 and \$1,240,875 for the years ended June 30, 2008 and 2007, respectively.

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

10. GRANTS

Grant revenue represents the portion of the grants utilized for operations. NCCS depends on grants for a portion of its support.

	<u>2008</u>		<u>2007</u>	
	<u>Grant Receipts Not Yet Expended</u>	<u>Grant Receipts Expended</u>	<u>Grant Receipts Not Yet Expended</u>	<u>Grant Receipts Expended</u>
Federal Grants passed through to New York State Department of Education				
Title I A & D - Grants to Local Educational Agencies	\$ 81,861	\$ 441,360	\$ 80,712	\$ 447,174
Title II A - Improving Teacher Quality State Grants	38,234	16,764	4,514	50,821
Title II D - Education Technology State Grants	-	5,012	-	10,479
Title IV - Safe and Drug-Free Schools and Communities State Grants	2,253	4,301	302	277
Title V - State Grants for Innovative Programs	-	1,923	-	6,806
Reading First	-	-	-	191,354
Child Nutrition Program	-	267,279	-	245,243
New York Department of Education				
Child Nutrition Program	-	11,272	-	13,117
New York State Library Program	-	4,000	-	4,005
New York State Textbook Law	-	27,902	-	10,161
New York State Software Law	-	9,587	-	-
 Total Grant Support and Revenue	 <u>\$ 122,348</u>	 <u>\$ 789,400</u>	 <u>\$ 85,528</u>	 <u>\$ 979,437</u>

11. GROUND LEASE

In 2001, the School and the City of Albany entered into a ninety-nine year lease for its property located at 50 North Lark Street, Albany, New York. The rent payable by the School for the term of the ground lease was nominal and was paid on the commencement date of the lease.

The lease allows the School to construct and install a building complex containing approximately 90,000 square feet to be used as a pre-school, primary school, secondary school or daycare facility accommodating no more than 1,000 students and a community center providing social and recreational programs for residents of the surrounding community.

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

12. SUBLEASE AGREEMENT

NCCS and the City of Albany Industrial Development Agency have entered into a sublease agreement for the rental of a portion of the School's facility for a community center. The sublease term is for ninety-nine years unless terminated earlier. For financial reporting purposes the rental income is a component of other revenue. Rental income was \$100,045 and \$104,360 for the years ended June 30, 2008 and 2007, respectively.

13. PENSION PLANS

General Information

NCCA participates in the New York State Teachers' Retirement System (NYSTRS). This System is a cost-sharing, multiple-employer, public employee retirement system. The System offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability.

NCCS offers a 403(b) defined contribution plan (Plan) for substantively all of its employees.

Plan Descriptions

Teachers' Retirement System (TRS)

The NYSTRS is administered by the New York State Teachers' Retirement Board. The System provides benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. The NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

Funding Policies

The System is noncontributory except for employees who joined the System after July 27, 1976, who contribute 3% of their salary, except that employees in the System more than ten years are not required to contribute. Pursuant to Article 11 of the Education Law, rates are established annually for the NYSTRS by the New York State Teachers' Retirement Board.

NCCS is required to contribute at an actuarially determined rate. Required contributions were \$388,393 and \$257,009 for the years ended June 30, 2008 and 2007, respectively.

Defined Contribution Plan (Plan)

Employees of NCCS are eligible for the Plan immediately upon employment and participation in the Plan is voluntary. Employees can make pretax contributions of up to 100% of their compensation, subject to Internal Revenue Service guidelines. For those employees who are not represented by NCCS's collective bargaining agreement, NCCS matches the employee contribution 100% up to 4% of the employee's annual compensation. The Plan assets are held in a separate trust and are not included in the accompanying financial statements. All Plan assets are held for the exclusive benefit of the Plans' participants and beneficiaries.

NCCS's contribution to the Plan was \$3,405 and \$1,303 for the years ended June 30, 2008 and 2007, respectively.

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

14. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Department of Education Grant Contributions Not Yet Expended	<u>\$ 122,348</u>	<u>\$ 85,528</u>

15. CONCENTRATION OF CREDIT RISK

Financial investments which potentially subject the School to credit risk consist of cash deposited in financial institutions in excess of federally insured limits. The amount subject to credit risk was approximately \$422,000 and \$868,000 at June 30, 2008 and 2007, respectively.

16. FINANCIAL POSITION AND MANAGEMENT PLANS

Financial Position and Management Plans

As indicated in the accompanying financial statements, NCCS experienced a net deficit of \$1,647,876 for the year ended June 30, 2008. NCCS's current liabilities exceeded its current assets by \$2,978,839 and \$2,217,451 for the years ended June 30, 2008 and 2007, respectively. NCCS's total liabilities exceeded its total assets by \$4,833,853 and \$3,185,977 for the years ended June 30, 2008 and 2007, respectively.

For the year ended June 30, 2009, NCCS's management has developed a plan whereby the current year's operating budget has been modified to reflect a lower enrollment and management is closely monitoring on a monthly basis for the actual results as compared to the NCCS budget. The June 30, 2009 budget was developed based upon 624 enrolled students and has a projected deficit of \$727,500. However, the projected cash flow is budgeted to be a positive \$4,500. This is the result of the concessions from the bondholders and Victory Schools, Inc. The bondholders and NCCS's management have entered into a forbearance agreement that lowers NCCS's scheduled bond payments through May 2009 (see Note 6). The bondholders will utilize part of NCCS's custodial reserve fund to pay the difference between the scheduled debt payment and the lower minimum required payment NCCS will be making, as drafted in the forbearance agreement.

The ability of NCCS to improve its financial position in future years is dependent on the implementation of management's plans and the success of the changes made by those plans.

**NEW COVENANT CHARTER SCHOOL
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008
(WITH COMPARATIVE TOTALS FOR 2007)**

Program Services

	<u>Regular Education</u>	<u>Special Education</u>	<u>Other Program</u>	<u>Management and General</u>	<u>2008 Totals</u>	<u>2007 Totals</u>
Functional Expenses						
Personnel service	\$ 2,102,974	\$ 98,533	-	553,827	\$ 2,755,334	\$ 3,060,100
Fringe benefits	837,220	39,227	-	126,011	1,002,458	914,441
Contracted services	378,907	10,822	-	146,670	536,399	472,392
Contracted services Victory Schools, Inc.	-	-	-	957,041	957,041	937,280
Rent	-	-	301,438	55,388	55,388	28,506
Food service	-	-	-	-	301,438	380,878
Insurance	83,645	2,247	-	5,292	91,184	55,912
Travel	-	-	-	5,265	5,265	4,050
Staff development	11,777	530	-	-	12,307	10,823
Telephone	9,091	244	-	22,507	31,842	60,983
Pupil services	16,864	760	-	-	17,624	14,163
Supplies and materials	77,632	3,461	-	31,323	112,416	101,140
Repairs and maintenance	22,621	608	-	1,431	24,660	23,828
Advertising and promotion	-	-	-	58,493	58,493	38,509
Miscellaneous	177	1	-	58,100	58,278	27,797
Student activities	17,446	786	-	-	18,232	5,229
Textbooks	89,807	-	-	-	89,807	177,924
Printing	-	-	-	11,679	11,679	7,457
Student transportation	-	-	472,105	-	472,105	484,114
Utilities	318,881	8,567	-	20,173	347,621	275,452
Audit	-	-	-	37,012	37,012	42,649
Legal	-	-	-	330,651	330,651	71,316
Interest	-	-	-	1,232,939	1,232,939	1,240,875
Bad debt	-	-	-	117,815	117,815	204,538
Amortization	-	-	-	30,295	30,295	30,295
Depreciation	324,632	8,722	-	20,537	353,891	428,781
Management expenses Edison Schools, Inc.	-	-	-	-	-	605,782
Total Functional Expenses	\$ 4,291,674	\$ 174,508	\$ 773,543	\$ 3,822,449	\$ 9,062,174	\$ 9,705,214

**NEW COVENANT CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<u>Federal CFDA Number</u>	<u>Pass- Through Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education			
Passed through New York State Education Department:			
Title I Grants to Local Educational Agencies	84.010	0021-07-4005	\$ 80,712
Title I Grants to Local Educational Agencies	84.010	0021-08-4005	360,648
Improving Teacher Quality - State Grants	84.367	0147-07-4005	4,514
Improving Teacher Quality - State Grants	84.367	0147-08-4005	12,250
Education Technology State Grants	84.318	0292-08-4005	5,012
Innovative Education Program Strategies	84.298	0002-08-4005	1,923
Safe and Drug-Free Schools and Communities - State Grant	84.186	0180-07-4005	302
Safe and Drug-Free Schools and Communities - State Grant	84.186	0180-08-4005	3,999
Special Education Grants to States	84.027	-	<u>32,121</u>
Total U.S. Department of Education			<u>501,481</u>
U.S. Department of Agriculture			
Passed through New York State Education Department			
School Breakfast Program	10.553	Not Applicable	77,139
National School Lunch Program	10.555	Not Applicable	<u>190,140</u>
Total U.S. Department of Agriculture			<u>267,279</u>
Total Expenditures of Federal Awards			<u>\$ 768,760</u>

**NEW COVENANT CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2. SCOPE OF AUDIT

All federal grant operations of NCCS are included in the scope of the single audit.



**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**

Kevin J. McCoy

Thomas W. Donovan

Frank S. Venezia

James E. Amell

Carol A. Hausamann

Benjamin R. Lasher

Daniel J. Litz

To the Board of Trustees of
New Covenant Charter School

We have audited the financial statements of New Covenant Charter School (NCCS) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 29, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 NCCS'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 NCCS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NCCS'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 NCCS's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of NCCS's financial statements that is more than inconsequential will not be prevented or detected by NCCS'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 NCCS'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 over financial reporting 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.

Kevin J. McCoy

Thomas W. Donovan

Frank S. Venezia

James E. Amell

Carol A. Hausamann

Benjamin R. Lasher

Daniel J. Litz

11 British American Blvd.

Latham, NY 12110

Ph: 518-785-0134

Fx: 518-785-0299

Email:

webmaster@marvincpa.com

Web:

<http://www.marvincpa.com>



Compliance and Other Matters

As part of obtaining reasonable assurance about whether NCCS'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 NCCS in a separate letter dated October 29, 2008.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Marvin and Company, P.C.

October 29, 2008



**Marvin and
company, p.c.**

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Kevin J. McCoy

Thomas W. Donovan

Frank S. Venezia

James E. Amell

Carol A. Hausamann

Benjamin R. Lasher

Daniel J. Litz

To the Board of Trustees of
New Covenant Charter School

Compliance

We have audited the compliance of New Covenant Charter School (NCCS) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to the major federal program for the year ended June 30, 2008. NCCS's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of NCCS's management. Our responsibility is to express an opinion on NCCS's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NCCS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of NCCS's compliance with those requirements.

In our opinion, New Covenant Charter School complied, in all material respects, with the requirements referred to above that are applicable to the major federal program for the year ended June 30, 2008.

11 British American Blvd.

Latham, NY 12110

Ph: 518-785-0134

Fx: 518-785-0299

Email:

webmaster@marvincpa.com

Web:

http://www.marvincpa.com



Internal Control Over Compliance

The management of NCCS is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered NCCS's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NCCS's internal control over compliance.

Our consideration of internal control over compliance 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 as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in NCCS's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects NCCS's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by NCCS's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by NCCS's internal control. We consider the significant deficiency in internal control over compliance item 2008-01 described in the accompanying schedule of findings and questioned costs to be a material weakness.

NCCS's response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit NCCS's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Marvin and Company, P.C.

October 29, 2008

**NEW COVENANT CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of New Covenant Charter School (NCCS).
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of NCCS were disclosed during the audit.
4. One significant deficiency in internal control over major federal award programs disclosed during the audit is reported in this schedule. The condition is reported as a material weakness.
5. The auditor's report on compliance for the major federal award programs for NCCS expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 520(a) of OMB Circular A-133 are reported in this schedule for NCCS.
7. The program tested as a major program was:

<u>Federal Program</u>	<u>CFDA Number</u>
Title I Grants to Local Educational Agencies	84.010

8. The threshold used for distinguishing between Type A and B programs in accordance with OMB Circular A-133 Section __.520(b) was \$300,000.
9. NCCS does not qualify as a low-risk auditee under Section A-133 Section __.530.

**NEW COVENANT CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

2008-01 Payroll

Finding

Our procedures disclosed that an employee's payroll and fringed benefits were incorrectly charged to the Title 1 program after the employee transferred to a non-Title 1 program position.

Effect

The excess payroll and fringe benefits of \$23,577 charged to the Title 1 program is subject to disallowance and is, therefore, considered a questioned cost.

Cause

There was no procedure to inform the grant accountant about employee positions changes affecting the Title 1 program.

Recommendation

We recommend that procedures be implemented for periodic review of employees being charged to the Title 1 program. The review should be completed in conjunction with the grant administrator, grant accountant, and human resources department.

Management's Response

NCCS agrees with the recommendation listed above and will be implementing a detailed review process of expenses charged to all entitlement programs. The review process will encompass a collaboration between the grant administrator and Victory's Human Resources and Accounting Departments.