

**NEW COVENANT CHARTER SCHOOL
FINANCIAL REPORT
JUNE 30, 2009**

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	6-15
SCHEDULE OF FUNCTIONAL EXPENSES	16
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	17
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	18
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>GOVERNMENT AUDITING STANDARDS</i>	19-20

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, 2009 and 2008, 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, 2009 and 2008, 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 30, 2009, 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.

Email:

contact@marvincpa.com

Web:

<http://www.marvincpa.com>

Our audits were 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 16 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 17 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.

Marwin and Company, P.C.

October 30, 2009

**NEW COVENANT CHARTER SCHOOL
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008**

ASSETS

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and cash equivalents	\$ 211,963	\$ 514,175
Due from school districts, net	40,624	92,626
Due from governments	427,920	502,687
Prepaid expenses and other	29,466	41,746
Total Current Assets	<u>709,973</u>	<u>1,151,234</u>
Property, Plant and Equipment		
Land	3,100	3,100
Building and improvements	13,380,743	13,356,858
Equipment and textbooks	275,113	177,975
Total	<u>13,658,956</u>	<u>13,537,933</u>
Less accumulated depreciation	2,990,637	2,609,447
Net Property, Plant and Equipment	<u>10,668,319</u>	<u>10,928,486</u>
Other Assets		
Deferred financing costs, net	1,711,538	1,814,402
Bond trust accounts - restricted	912,547	1,372,098
Cash reserved	270,000	-
Total Other Assets	<u>2,894,085</u>	<u>3,186,500</u>
TOTAL ASSETS	<u><u>\$ 14,272,377</u></u>	<u><u>\$ 15,266,220</u></u>

LIABILITIES AND NET DEFICIT

Current Liabilities		
Accounts payable	\$ 827,009	\$ 633,475
Current portion of bonded mortgage	190,000	175,000
Accrued expenses	815,406	819,748
Total Current Liabilities	<u>1,832,415</u>	<u>1,628,223</u>
Other Liabilities		
Due to management company - Edison Schools, Inc.	2,501,850	2,501,850
Bonded mortgage payable	15,780,000	15,970,000
Total Other Liabilities	<u>18,281,850</u>	<u>18,471,850</u>
TOTAL LIABILITIES	<u>20,114,265</u>	<u>20,100,073</u>
Net Deficit		
Unrestricted	(5,998,348)	(4,956,201)
Temporarily restricted	156,460	122,348
Total Net Deficit	<u>(5,841,888)</u>	<u>(4,833,853)</u>
TOTAL LIABILITIES AND NET DEFICIT	<u><u>\$ 14,272,377</u></u>	<u><u>\$ 15,266,220</u></u>

See accompanying notes to financial statements.

**NEW COVENANT CHARTER SCHOOL
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Revenue		
Public School Districts		
Resident student enrollment	\$ 7,178,407	\$ 6,295,967
Students with disabilities	67,891	107,348
Grants		
Federal	595,778	651,111
State	40,889	52,761
Net assets released from restrictions	122,348	85,528
Other	113,005	184,763
Total Revenue	<u>8,118,318</u>	<u>7,377,478</u>
Expenses		
Program Expenses		
Regular education	3,980,677	4,291,674
Special education	163,583	174,508
Other program	988,807	773,543
Supporting Services		
Management and general	4,027,398	3,822,449
Total Expenses	<u>9,160,465</u>	<u>9,062,174</u>
Change In Unrestricted Net Assets	<u>(1,042,147)</u>	<u>(1,684,696)</u>
Change In Temporarily Restricted Net Assets		
Grants	156,460	122,348
Net assets released from restrictions	(122,348)	(85,528)
Increase (Decrease) In Temporarily Restricted Net Assets	<u>34,112</u>	<u>36,820</u>
Change In Net Assets	(1,008,035)	(1,647,876)
Net Deficiency, Beginning of Year	<u>(4,833,853)</u>	<u>(3,185,977)</u>
Net Deficit, End of Year	<u>\$ (5,841,888)</u>	<u>\$ (4,833,853)</u>

See accompanying notes to financial statements.

**NEW COVENANT CHARTER SCHOOL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (1,008,035)	\$ (1,647,876)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	381,191	353,891
Bad debt expense	160,090	117,815
Amortization of bond closing costs	30,294	30,295
Amortization of bond discount	72,570	67,544
(Increase) decrease in assets:		
Due from school districts	(108,089)	(115,847)
Due from governments	74,767	44,859
Prepaid expenses	12,280	(30,905)
Increase (decrease) in liabilities:		
Accounts payable	193,534	244,644
Accrued expenses	(4,342)	75,889
Net Cash Provided (Used) By Operating Activities	<u>(195,740)</u>	<u>(859,691)</u>
Cash Flows From Investing Activities		
Cash reserved	(270,000)	89,382
Purchase of property and equipment	(121,023)	(5,522)
Net Cash Provided (Used) By Investing Activities	<u>(391,023)</u>	<u>83,860</u>
Cash Flows From Financing Activities		
Principal payments on long-term debt	(175,000)	(160,000)
Deposits to bond trust accounts	(6,308,589)	(1,079,321)
Proceeds from release of bond trust accounts	6,768,140	1,605,219
Net Cash Provided (Used) By Financing Activities	<u>284,551</u>	<u>365,898</u>
Net Decrease in Cash and Cash Equivalents	(302,212)	(409,933)
Cash and Cash Equivalents, Beginning of Year	<u>514,175</u>	<u>924,108</u>
Cash and Cash Equivalents, End of Year	<u>\$ 211,963</u>	<u>\$ 514,175</u>
Supplemental Data		
Cash paid for interest	<u>\$ 1,154,750</u>	<u>\$ 1,094,175</u>

See accompanying notes to financial statements.

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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. On March 24, 2009, the State University issued a renewed provisional charter through July 31, 2010.

During the 2008/09 school year NCCS’s operations, covering grades K to 6, with an enrollment of approximately 610 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, 2010. 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 \$1,003,241 and \$957,041 for the years ended June 30, 2009 and 2008, respectively.

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, 2009 and 2008.

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. At times, such cash may exceed federally insured limits.

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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	3-5

Depreciation expense was \$381,191 and \$353,891 for the years ended June 30, 2009 and 2008, 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 \$160,090 and \$117,815 for the years ended June 30, 2009 and 2008, respectively.

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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 \$79,469 and \$58,493 for the years ended June 30, 2009 and 2008, 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.

Subsequent Events

During the year ended June 30, 2009, NCCS adopted SFAS No. 165 *Subsequent Events*, NCCS has evaluated all events subsequent to the statement of financial position date of June 30, 2009, through October 30, 2009 which is the date these financial statements were issued, and have determined that except as set forth below, there are no subsequent events that require disclosure.

On September 11, 2009, NCCS and U.S. Bank National Association amended the Forbearance and Amendment Agreement entered into by both parties on January 16, 2008.

Under this amendment NCCS's scheduled purchase payments are reduced to the minimum required payments for the period ending May 15, 2010.

	<u>Scheduled Purchase Payment</u>	<u>Minimum Required Payment</u>
Through May 15, 2010	\$ 1,330,800	\$ 904,944

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsequent Events

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

Commencing on July 15, 2010 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.

Except as specifically modified in the amendment of September 11, 2009, the terms of the Forbearance and Amendment Agreement of January 16, 2008 shall continue in full force and effect, and, from September 11, 2009 these agreements shall constitute one instrument.

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, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Due from school districts	\$ 289,749	\$ 182,296
Less allowance for doubtful accounts	<u>249,125</u>	<u>89,670</u>
 Total	 <u><u>\$ 40,624</u></u>	 <u><u>\$ 92,626</u></u>

Due from governments at June 30, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
New York State Department of Education	\$ 379,958	\$ 455,872
Albany Industrial Development Agency	<u>47,962</u>	<u>46,815</u>
 Total	 <u><u>\$ 427,920</u></u>	 <u><u>\$ 502,687</u></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 \$30,294 for the years ended June 30, 2009 and 2008, respectively.

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

4. DEFERRED FINANCING COSTS

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

2010	\$	30,295
2011		30,295
2012		30,295
2013		30,295
2014		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 \$72,570 and \$67,544 for the years ended June 30, 2009 and 2008, respectively.

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

2010	\$	78,493
2011		84,898
2012		91,826
2013		99,319
2014		107,423

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.

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, 2009 and 2008 consist of cash invested in money market.

Bond trust accounts restricted at June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Project fund	\$ 161,156	\$ 160,055
Bond fund	155,280	144,719
Reserve fund	595,235	1,066,454
Custody account	<u>876</u>	<u>870</u>
Total	<u>\$ 912,547</u>	<u>\$ 1,372,098</u>

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

5. BOND TRUST ACCOUNTS - RESTRICTED

Interest income earned on the bond trust accounts was \$9,714 and \$61,070 for the years ended June 30, 2009 and 2008, 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.

7. CASH - RESERVED

During the year ended June 30, 2009, as part of the renewal of NCCS's provisional charter the New York State Charter School Institute required cash reserve accounts be established.

Cash reserved at June 30, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Litigation reserve fund with the use restricted for the settlement of any judgments or existing litigation.	\$ 145,000	\$ -
Dissolution reserve fund established in a third party escrow account and the funds shall not be disbursed except upon approval of the New York State Charter School Institute.	<u>125,000</u>	<u>-</u>
Total	<u>\$ 270,000</u>	<u>\$ -</u>

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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

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.

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>2009</u>	<u>2008</u>
Total	\$ 15,970,000	\$ 16,145,000
Current portion of bonded mortgage payable	<u>190,000</u>	<u>175,000</u>
Long-Term Portion of Bonded Mortgage Payable	<u>\$ 15,780,000</u>	<u>\$ 15,970,000</u>

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

2010	\$ 190,000
2011	205,000
2012	220,000
2013	240,000
2014	255,000

Interest expense was \$1,225,008 and \$1,232,939 for the years ended June 30, 2009 and 2008, respectively.

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

10. GRANTS

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

	<u>2009</u>		<u>2008</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	\$ 116,531	\$ 345,399	\$ 81,861	\$ 441,360
Title II A - Improving Teacher Quality State Grants	37,769	47,314	38,234	16,764
Title II D - Education Technology State Grants	-	4,394	-	5,012
Title IV - Safe and Drug-Free Schools and Communities State Grants	2,160	5,066	2,253	4,301
Title V - State Grants for Innovative Programs	-	-	-	1,923
Child Nutrition Program	-	315,953	-	267,279
New York Department of Education				
Child Nutrition Program	-	2,106	-	11,272
New York State Library Program	-	3,975	-	4,000
New York State Textbook Law	-	25,281	-	27,902
New York State Software Law	-	9,527	-	9,587
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Grant Support and Revenue	<u>\$ 156,460</u>	<u>\$ 759,015</u>	<u>\$ 122,348</u>	<u>\$ 789,400</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, 2009 AND 2008**

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 \$97,220 and \$100,045 for the years ended June 30, 2009 and 2008, 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 \$208,705 and \$388,393 for the years ended June 30, 2009 and 2008, 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 \$2,726 and \$3,233 for the years ended June 30, 2009 and 2008, respectively.

**NEW COVENANT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

14. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Department of Education Grant Contributions Not Yet Expended	\$ <u>156,460</u>	\$ <u>122,348</u>

15. MANAGEMENT PLANS

For the year ended June 30, 2010, NCCS's management has developed a plan whereby the budgeted student enrollment is consistent with the June 30, 2009 enrollment and management will continue to closely monitoring on monthly basis actual results as compared to the NCCS budget. The June 30, 2010 budget was developed based upon 613 enrolled students and has a projected deficit of approximately \$396,000 and has budgeted cash flow to be approximately negative \$7,600. Management's plan incorporates concessions received from both 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 2010 (see Note 2). 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 that NCCS will be making.

Management has greatly expanded its comprehensive marketing campaign, which commenced during 2009, with the sole intention of increasing student enrollment for the year ended June 30, 2010. Preliminary enrollment figures for the year ending June 30, 2010 have increased 10% over the 2010 budgeted enrollment. This increased enrollment will increase revenue by \$720,000 and will result in only a marginal increase in operating costs for 2010. Management plans on continuing the comprehensive marketing plans for future enrollment periods.

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, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

	<u>Program Services</u>				<u>2009 Totals</u>	<u>2008 Totals</u>
	<u>Regular Education</u>	<u>Special Education</u>	<u>Other Program</u>	<u>Management and General</u>		
Functional Expenses						
Personnel service	\$ 2,119,625	\$ 102,157	\$ -	\$ 739,067	\$ 2,960,849	\$ 2,755,334
Fringe benefits	643,807	31,029	-	157,783	832,619	1,002,458
Contracted services	354,842	9,530	-	142,015	506,387	536,399
Contracted services Victory Schools, Inc.	-	-	-	1,003,241	1,003,241	957,041
Rent	-	-	-	14,546	14,546	55,388
Food service	-	-	346,115	-	346,115	301,438
Insurance	54,827	1,473	-	3,469	59,769	91,184
Travel	-	-	-	12,934	12,934	5,265
Staff development	15,070	381	-	-	15,451	12,307
Telephone	6,218	167	-	22,775	29,160	31,842
Pupil services	8,929	226	-	-	9,155	17,624
Supplies and materials	108,920	2,756	-	69,398	181,074	112,416
Repairs and maintenance	9,356	251	-	592	10,199	24,660
Advertising and promotion	-	-	-	79,469	79,469	58,493
Miscellaneous	177	5	-	18,275	18,457	58,278
Student activities	14,537	368	-	-	14,905	18,232
Textbooks	77,156	-	-	-	77,156	89,807
Printing	-	-	-	5,047	5,047	11,679
Student transportation	-	-	642,692	-	642,692	472,105
Utilities	217,538	5,845	-	13,762	237,145	347,621
Audit	-	-	-	26,690	26,690	37,012
Legal	-	-	-	280,822	280,822	330,651
Interest	-	-	-	1,225,008	1,225,008	1,232,939
Bad debt	-	-	-	160,090	160,090	117,815
Amortization	-	-	-	30,294	30,294	30,295
Depreciation	349,675	9,395	-	22,121	381,191	353,891
Total Functional Expenses	<u>\$ 3,980,677</u>	<u>\$ 163,583</u>	<u>\$ 988,807</u>	<u>\$ 4,027,398</u>	<u>\$ 9,160,465</u>	<u>\$ 9,062,174</u>

**NEW COVENANT CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

<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	0021-09-4005	\$ 256,043
Title I Grants to Local Educational Agencies	84.010	0021-08-4005	89,356
Improving Teacher Quality - State Grants	84.367	0147-09-4005	10,605
Improving Teacher Quality - State Grants	84.367	0147-08-4005	36,709
Education Technology State Grants	84.318	0292-09-4005	4,394
Safe and Drug-Free Schools and Communities - State Grant	84.186	0180-09-4005	2,813
Safe and Drug-Free Schools and Communities - State Grant	84.186	0180-08-4005	2,253
Special Education Grants to States	84.027	-	<u>13,116</u>
Total U.S. Department of Education			<u>415,289</u>
U.S. Department of Agriculture			
Passed through New York State Education Department			
School Breakfast Program	10.553	Not Applicable	88,765
National School Lunch Program	10.555	Not Applicable	<u>227,188</u>
Total U.S. Department of Agriculture			<u>315,953</u>
Total Expenditures of Federal Awards			<u>\$ 731,242</u>

**NEW COVENANT CHARTER SCHOOL
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

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.

3. SCHOOLWIDE PROGRAM

NCCS has elected to consolidate the following grant programs into a schoolwide program. The schoolwide program consists of the following at June 30, 2009:

Title I Grants to Local Educational Agencies	\$ 345,399
Improving Teacher Quality - State Grants	47,314
Education Technology - State Grants	7,207
Safe and Drug-Free Schools and Communities - State Grant	2,253
Special Education Grants to States	<u>13,116</u>
Total	<u>\$ 415,289</u>

**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, 2009, and have issued our report thereon dated October 30, 2009. 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

11 British American Blvd.
Latham, NY 12110
Ph: 518-785-0134
Fx: 518-785-0299

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.

Email:
contact@marvincpa.com
Web:
<http://www.marvincpa.com>

¶ 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.

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*.

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 30, 2009