

KING CENTER CHARTER SCHOOL
Financial Statements
June 30, 2015 and 2014
(With Independent Auditors' Report Thereon)

KING CENTER CHARTER SCHOOL

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
King Center Charter School:

Report on the Financial Statements

We have audited the accompanying financial statements of King Center Charter School (the School), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King Center Charter School as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 23, 2015, on our consideration of King Center Charter School's internal control over financial reporting and on 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 in considering the School's internal control over financial reporting and compliance.

Toski & Co., CPAs, P.C.

Williamsville, New York
October 23, 2015

KING CENTER CHARTER SCHOOL
Statements of Financial Position
June 30, 2015 and 2014

<u>Assets</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash	\$ 1,059,754	1,533,001
Certificate of deposit	-	176,448
Grants and other receivables	91,882	56,130
Prepaid expenses	<u>52,681</u>	<u>31,331</u>
Total current assets	<u>1,204,317</u>	<u>1,796,910</u>
Property and equipment, at cost	2,270,055	2,371,581
Less accumulated depreciation	<u>(417,592)</u>	<u>(789,428)</u>
Net property and equipment	<u>1,852,463</u>	<u>1,582,153</u>
Deferred loan fees	1,750	1,750
Less accumulated amortization	<u>(1,663)</u>	<u>(1,313)</u>
Net deferred loan fees	<u>87</u>	<u>437</u>
Total assets	<u>\$ 3,056,867</u>	<u>3,379,500</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable	60,053	85,211
Accrued expenses:		
Payroll and payroll taxes	183,751	121,138
Pension	<u>431,148</u>	<u>314,411</u>
Total accrued expenses	<u>614,899</u>	<u>435,549</u>
Deferred revenue	-	188,451
Current portion of note payable	<u>35,000</u>	<u>70,000</u>
Total current liabilities	<u>709,952</u>	<u>779,211</u>
Note payable, net of current portion	<u>-</u>	<u>35,000</u>
Total liabilities	<u>709,952</u>	<u>814,211</u>
Net assets:		
Unrestricted net assets	2,344,992	2,563,366
Temporarily restricted net assets	<u>1,923</u>	<u>1,923</u>
Total net assets	<u>2,346,915</u>	<u>2,565,289</u>
Contingency (note 9)		
Total liabilities and net assets	<u>\$ 3,056,867</u>	<u>3,379,500</u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL
Statements of Activities
Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted revenue:		
Public school districts:		
Resident student enrollment	\$ 4,434,330	3,700,865
Students with disabilities	215,201	183,400
State aid	67,669	29,078
Contributions	2,422	536
Interest income	602	2,207
Other income	60,402	21,577
Net assets released from restrictions	<u>593,800</u>	<u>2,140,215</u>
Total unrestricted revenue	<u>5,374,426</u>	<u>6,077,878</u>
 Unrestricted expenses:		
Program services:		
Regular education	2,965,269	2,392,545
Special education	292,577	175,170
Other programs	<u>70,977</u>	<u>574,897</u>
Total program services	3,328,823	3,142,612
Management and general	<u>1,159,341</u>	<u>979,020</u>
Total unrestricted expenses	<u>4,488,164</u>	<u>4,121,632</u>
 Other expenses:		
Grants made to other organizations	(10,444)	(1,271,700)
Loss on abandonment of leasehold improvements	(1,075,653)	(4,976)
Loss on disposal of fixed assets	<u>(18,539)</u>	<u>-</u>
Total other expenses	<u>(1,104,636)</u>	<u>(1,276,676)</u>
 Change in unrestricted net assets	<u>(218,374)</u>	<u>679,570</u>
 Changes in temporarily restricted net assets:		
Federal and State grants	405,349	185,985
Local grants	188,451	1,948,510
Restricted contributions	-	7,643
Net assets released from restrictions	<u>(593,800)</u>	<u>(2,140,215)</u>
Change in temporarily restricted net assets	<u>-</u>	<u>1,923</u>
 Increase (decrease) in net assets	(218,374)	681,493
Net assets at beginning of year	<u>2,565,289</u>	<u>1,883,796</u>
Net assets at end of year	<u>\$ 2,346,915</u>	<u>2,565,289</u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL
Statement of Functional Expenses
Years ended June 30, 2015 and 2014

	No. of positions	Program Services			Total	Management and general	Total	
		Regular education	Special education	Other programs			2015	2014
Salaries:								
Instructional	43	\$ 1,609,351	208,140	-	1,817,491	-	1,817,491	1,380,834
Administrative	7	-	-	-	-	662,685	662,685	594,136
Non-instructional	5	-	-	49,890	49,890	-	49,890	48,348
Total salaries and staff	<u>55</u>	<u>1,609,351</u>	<u>208,140</u>	<u>49,890</u>	<u>1,867,381</u>	<u>662,685</u>	<u>2,530,066</u>	<u>2,023,318</u>
Payroll taxes		134,074	17,340	4,156	155,570	55,208	210,778	179,993
Employee benefits		432,176	55,894	13,397	501,467	177,958	679,425	476,268
Instructional consultants		77,151	-	-	77,151	-	77,151	94,800
Instructional materials		26,344	-	-	26,344	-	26,344	27,302
Classroom supplies		39,574	-	-	39,574	-	39,574	21,644
Field trips		16,785	-	-	16,785	-	16,785	14,037
Transportation		20,558	-	-	20,558	-	20,558	26,675
Student activities		15,408	-	-	15,408	-	15,408	17,225
Student testing and assessment		20,818	-	-	20,818	-	20,818	24,020
Special education services		40,332	-	-	40,332	-	40,332	40,914
Technology		61,262	-	-	61,262	-	61,262	11,700
Conferences		5,587	-	-	5,587	-	5,587	2,879
Staff development		5,512	-	-	5,512	-	5,512	8,765
Dues and subscriptions		7,288	-	-	7,288	-	7,288	4,016
Rent		11,311	1,293	323	12,927	3,232	16,159	177,420
Utilities		43,312	4,950	1,237	49,499	12,375	61,874	26,584
Insurance		43,404	4,960	1,240	49,604	12,401	62,005	57,360
Office supplies		-	-	-	-	9,333	9,333	10,011
Telephone		41,578	-	-	41,578	-	41,578	23,998
Postage		1,859	-	-	1,859	-	1,859	1,427
Printing and promotion		7,078	-	-	7,078	-	7,078	27,183
Equipment repair and maintenance		188,528	-	-	188,528	-	188,528	50,102
Contractual services		16,765	-	-	16,765	-	16,765	18,391
Professional fees		-	-	-	-	178,838	178,838	570,971
Events		-	-	-	-	2,513	2,513	5,874
Miscellaneous		8,661	-	-	8,661	-	8,661	20,722
Depreciation		86,018	-	734	86,752	20,803	107,555	150,997
Amortization		-	-	-	-	350	350	350
Moving and storage		-	-	-	-	23,645	23,645	-
Interest expense		4,535	-	-	4,535	-	4,535	6,686
Total unrestricted expenses		<u>\$ 2,965,269</u>	<u>292,577</u>	<u>70,977</u>	<u>3,328,823</u>	<u>1,159,341</u>	<u>4,488,164</u>	<u>4,121,632</u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL
Statement of Functional Expenses
Year ended June 30, 2014

	No. of positions	Program Services			Total	Management	Total
		Regular education	Special education	Other programs		and general	
Salaries:							
Instructional	42	\$ 1,260,722	120,112	-	1,380,834	-	1,380,834
Administrative	7	-	-	-	-	594,136	594,136
Non-instructional	5	-	-	48,348	48,348	-	48,348
Total salaries and staff	<u>54</u>	1,260,722	120,112	48,348	1,429,182	594,136	2,023,318
Payroll taxes		113,395	10,800	3,600	127,795	52,198	179,993
Employee benefits		300,049	28,576	9,525	338,150	138,118	476,268
Instructional consultants		94,800	-	-	94,800	-	94,800
Instructional materials		27,302	-	-	27,302	-	27,302
Classroom supplies		21,644	-	-	21,644	-	21,644
Field trips		14,037	-	-	14,037	-	14,037
Transportation		26,675	-	-	26,675	-	26,675
Student activities		17,225	-	-	17,225	-	17,225
Student testing and assessment		24,020	-	-	24,020	-	24,020
Special education services		40,914	-	-	40,914	-	40,914
Technology		11,700	-	-	11,700	-	11,700
Conferences		2,874	-	5	2,879	-	2,879
Staff development		8,765	-	-	8,765	-	8,765
Dues and subscriptions		4,016	-	-	4,016	-	4,016
Rent		111,775	10,645	3,548	125,968	51,452	177,420
Utilities		16,748	1,595	532	18,875	7,709	26,584
Insurance		36,137	3,442	1,147	40,726	16,634	57,360
Office supplies		-	-	-	-	10,011	10,011
Telephone		23,955	-	43	23,998	-	23,998
Postage		1,427	-	-	1,427	-	1,427
Printing and promotion		27,183	-	-	27,183	-	27,183
Equipment repair and maintenance		50,102	-	-	50,102	-	50,102
Contractual services		18,391	-	-	18,391	-	18,391
Professional fees		-	-	502,031	502,031	68,940	570,971
Events		-	-	-	-	5,874	5,874
Miscellaneous		14,475	-	6	14,481	6,241	20,722
Depreciation		117,528	-	6,112	123,640	27,357	150,997
Amortization		-	-	-	-	350	350
Interest expense		6,686	-	-	6,686	-	6,686
Total unrestricted expenses		<u>\$ 2,392,545</u>	<u>175,170</u>	<u>574,897</u>	<u>3,142,612</u>	<u>979,020</u>	<u>4,121,632</u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL
 Statements of Cash Flows
 Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash receipts from:		
Public school districts	\$ 4,708,827	3,957,387
Federal grants	377,869	161,613
Contributions	2,422	953,494
Other sources	61,004	24,183
Cash payments to/for:		
Employees for services and benefits	(3,240,918)	(2,554,712)
Vendors and suppliers	<u>(1,016,842)</u>	<u>(2,503,170)</u>
Net cash provided by operating activities	<u>892,362</u>	<u>38,795</u>
Cash flows from investing activities:		
Additions to property and equipment	(1,472,057)	(446,544)
Purchase of certificate of deposit	-	(176,448)
Redemption of certificate of deposit	<u>176,448</u>	<u>176,142</u>
Net cash used in investing activities	<u>(1,295,609)</u>	<u>(446,850)</u>
Cash flows from financing activities - principal payments on note payable	<u>(70,000)</u>	<u>(70,000)</u>
Net decrease in cash	(473,247)	(478,055)
Cash at beginning of year	<u>1,533,001</u>	<u>2,011,056</u>
Cash at end of year	<u>\$ 1,059,754</u>	<u>1,533,001</u>
Reconciliation of net assets to net cash provided by operating activities:		
Increase (decrease) in net assets	(218,374)	681,493
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	107,555	150,997
Amortization	350	350
Loss on abandonment of leasehold improvements	1,075,653	4,976
Loss on disposal of fixed assets	18,539	-
Changes in:		
Grants and other receivables	(35,752)	17,799
Prepaid expenses	(21,350)	25,731
Accounts payable	(25,158)	35,777
Accrued expenses	179,350	124,867
Deferred revenue	<u>(188,451)</u>	<u>(1,003,195)</u>
Net cash provided by operating activities	<u>\$ 892,362</u>	<u>38,795</u>
Supplemental schedule of cash flow information - cash paid during the year for interest	<u>\$ 4,535</u>	<u>6,686</u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL

Notes to Financial Statements

June 30, 2015 and 2014

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

King Center Charter School (the School) was chartered by the Board of Regents of the University at the State of New York (the State) on February 1, 2000 for a term of five years pursuant to Article 56 of the New York State Education Law. On February 8, 2013, the State extended the School's Charter through July 31, 2018.

Charter schools receive state and Federal public-school funding and must meet all the same state and Federal testing and learning requirements as public schools, yet they operate independently of the local school district, serving as their own local education agency.

The School is governed by a twelve member, uncompensated Board of Directors and has 368 students in kindergarten through eighth grade. The school offers additional opportunities for enrichment activity including after-school and summer programs.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(c) Basis of Presentation

The 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. The School does not have any permanently restricted net assets. Accordingly, net assets of the School and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations and may be used for any purpose designated by the School's Board of Directors.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the School and/or the passage of time.

(d) Estimates

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

(e) Cash

For purposes of the statements of cash flows, the School considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

KING CENTER CHARTER SCHOOL
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) Concentration of Credit Risk

Financial instruments that potentially subject the School to concentration of credit risk consist principally of cash and certificate of deposit accounts in financial institutions. Although the accounts exceed the federally insured deposit amount, management does not anticipate nonperformance by the financial institution.

(g) Grants and Other Receivables

Grants and other receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

(h) Capitalization and Depreciation

Property and equipment are recorded at cost or fair market value at the date of the gift in the case of donated property and equipment. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property and equipment, the appropriate property and equipment accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statements of activities. Generally, property and equipment which has a cost in excess of \$500 at the date of acquisition and has an expected useful life of five years is capitalized.

(i) Long-Lived Assets

The School reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In determining whether there is an impairment of long-lived assets, the School compares the sum of the expected future net cash flows (undiscounted and without interest charges) to the carrying amount of the assets. At June 30, 2015 and 2014, no impairment in value has been recognized.

(j) Public School District Revenue

The School receives per pupil aid which is passed through the Buffalo Public School District. New York State Education Department mandates the rate per pupil. For the years ended June 30, 2015 and 2014, the per pupil rate was \$12,255 and \$12,005, respectively.

KING CENTER CHARTER SCHOOL
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(k) Deferred Revenue and Revenue Recognition

Grant awards accounted for as exchange transactions are recorded as revenue when expenditures have been incurred in compliance with the grant restrictions. Amounts unspent are recorded in the statements of financial position as deferred revenue.

(l) Donated Equipment, Materials, Supplies and Personnel Services

Donated equipment, materials and supplies are reflected in the financial statements based on the fair market value at the time of donation.

Donated personnel services meeting the requirements for recognition in the financial statements were not material and have not been recorded. However, many individuals volunteer their time and perform a variety of tasks that assist the School.

(m) Promises to Give

Contributions are recognized when the donor makes an unconditional promise to give to the School. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

(n) Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(o) Subsequent Events

The School has evaluated subsequent events through the date of the report which is the date the financial statements were available to be issued.

(p) Income Taxes

The School is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code), therefore, no provision for income taxes is reflected in the financial statements. The School has been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Code. The School presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable that a liability has been incurred for unrecognized income taxes. Management has concluded that the School has taken no uncertain tax positions that require adjustment in its financial statements. U.S. Forms 990 filed by the School are subject to examination by taxing authorities. The School is no longer subject to tax examination for the years ended June 30, 2011, and prior.

(q) Reclassifications

Reclassifications have been made to certain 2014 balances in order to conform them to the 2015 presentation.

KING CENTER CHARTER SCHOOL
Notes to Financial Statements, Continued

(2) Property and Equipment

Property and equipment are recorded at cost. A summary of property and equipment at June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 35,776	2,276
Leasehold and land improvements	-	1,557,019
Building	345,828	-
Building improvements	1,284,045	-
Office equipment	82,213	59,679
Instructional equipment	491,979	351,858
Maintenance equipment	4,172	1,499
Construction in progress	-	373,208
Vehicles	<u>26,042</u>	<u>26,042</u>
	2,270,055	2,371,581
Less accumulated depreciation	<u>(417,592)</u>	<u>(789,428)</u>
Net property and equipment	\$ <u>1,852,463</u>	<u>1,582,153</u>

(3) Certificate of Deposit

At June 30, 2014, the Organization held a certificate of deposit at M&T Bank amounting to \$176,448, with interest at 0.10%, maturing on September 14, 2014. The Organization held no certificates of deposit in 2015.

Fair Value Measurements

A framework has been established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Level 1 assets and liabilities are those whose inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. Investments held by the Organization are classified as level 1 in the fair value hierarchy.

(4) Line of Credit

The School has a \$200,000 line of credit with a local bank with interest payable at 1% above the bank's prime rate (4.25% at June 30, 2015). This is a demand note and substantially all of the School's assets are secured under the loan. At June 30, 2015 and 2014, there was no balance on the line.

KING CENTER CHARTER SCHOOL
Notes to Financial Statements, Continued

(5) Note Payable

Note payable consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
\$350,000 term note due in monthly payments of \$5,833, plus interest currently at 4.25%, maturing December 2015, secured by a certificate of deposit in the amount of \$175,000 and guaranteed by King Urban Life Center, Inc. The School received approval to release the certificate of deposit held as collateral on October 31, 2013.	\$ 35,000	105,000
Less current portion	(35,000)	(70,000)
Note payable, net of current portion	\$ <u> -</u>	<u> 35,000</u>

(6) Related Party Transactions

There are common Directors of the King Urban Life Center, Inc. (a nonprofit organization) (the Center) who also serve on the Board of Directors of the School. The School rented space for instruction from the Center.

The School entered into a lease agreement with the Center to lease two facilities, one at 30 Rich Street and one at 938 Genesee Street. Rent expense for the years ended June 30, 2015 and 2014 amounted to \$16,159 and \$177,420, respectively. The initial lease for 938 Genesee Street was for a term of one year and is automatically renewable unless terminated by either party. The School terminated the lease at 938 Genesee Street on June 30, 2014. The School was released from the lease for 30 Rich Street in February 2015, when they signed a lease termination agreement with the Center.

The School had prepaid rent to the Center of \$16,159 at June 30, 2014 for 30 Rich Street. There was no prepaid rent as of June 30, 2015.

(7) Pension Plan

The School participates in the New York State Teachers' Retirement System (NYSTRS), which is a cost-sharing multiple employer, public employees retirement system. NYSTRS 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.

NYSTRS is administered by the New York State Teachers' Retirement Board and provides retirement, disability, withdrawal and death 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. NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information. The report may be obtained by writing to NYSTRS, 10 Corporate Woods Drive, Albany, New York 12211-2395.

KING CENTER CHARTER SCHOOL
Notes to Financial Statements, Continued

(7) Pension Plan, Continued

NYSTRS is noncontributory, except for employees who joined the System after July 27, 1976 and prior to January 1, 2010, who contribute 3% of their salary, except that employees in NYSTRS more than ten years are no longer required to contribute. Those joining NYSTRS on or after January 1, 2010 are required to contribute 3.5% of their salary throughout their active membership. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

The School is required to contribute at an actuarially determined rate. The rates for NYSTRS were 17.53% and 16.25% of the annual covered payroll as of June 30, 2015 and 2014, respectively. Required annual contributions of \$360,277 and \$259,800 were paid to NYSTRS by the School for the years ended June 30, 2015 and 2014, respectively.

(8) Defined Contribution Plan

The School sponsors a contributory defined contribution plan (the Plan) covering employees who have completed 1,000 hours of service. The employer contribution is calculated based on a pro rata basis of compensation of each eligible participant, but in no event will exceed the lesser of: (a) five percent (5%) of compensation or (b) one-third ($\frac{1}{3}$) of the highest allocation rate for any highly compensated participant for the plan year. The School contributes a percentage of non-instructional employees' salaries to the plan, subject to certain limitations, as determined annually by the Board of Directors. Total expense for the years ended June 30, 2015 and 2014 was \$48,874 and \$15,084, respectively. The School also sponsors a non-contributory tax deferred annuity 403(b) plan. Eligible employees may contribute to the Plan up to the maximum allowed by Internal Revenue Code.

(9) Contingency

The School has received grants which are subject to audit by agencies of the state and federal government. Such audits may result in disallowances and a request for a return of funds. Based on prior years' experience, the School's administration believes that disallowances, if any will be immaterial.

(10) Expansion Plan

The School has an expansion plan to increase student population whereby they will add additional students every year until 2018, adding seventh and eighth grades. Each year students will be added until a student population of 432 is reached in fiscal year ending June 30, 2018.

In June 2014, the School signed an agreement to purchase former School 71 located at 156 Newburgh Avenue in Buffalo, New York for a price of \$330,000. The School was approved for a State Charter Schools Institute Grant in the amount of \$200,000 to assist with the purchase of the building.

KING CENTER CHARTER SCHOOL
Notes to Financial Statements, Continued

(11) Escrow Reserve

As set forth in its charter, the School established an escrow in August 2007, in the amount of \$75,000 for the purpose of funding legal and audit fees in the event of dissolution. The amount in escrow was \$75,000 as of June 30, 2015 and 2014.

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

The Board of Directors
King Center Charter School:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of King Center Charter School (the School), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to financial statements, and have issued our report thereon dated October 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether King Center Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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 an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2015-1.

King Center Charter School's Response to Finding

King Center Charter School's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. King Center Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Toski & Co., CPAs, P.C.

Williamsville, New York
October 23, 2015

KING CENTER CHARTER SCHOOL
Schedule of Findings and Questioned Costs
Year ended June 30, 2015

2015-1 Fire Inspection Documentation

Condition - The current fire inspection could not be located for the Newburgh location.

Criteria - New York State Education Department (NYSED) regulations require that documentation including the School's fire inspection be properly maintained.

Effect - The fire inspection was not properly retained in accordance with NYSED regulations.

Cause - The School personnel did not follow correct procedures or due care in retaining fire inspection records during construction and after the employee responsible for the fire inspection left the School's employment.

Recommendation - Management should take greater care to ensure that they take proper steps to retain required documentation.

Management's Reply - Immediately, upon discovery of the missing documentation, management contacted the local Fire Marshall and obtained the required fire inspection to bring the School into compliance with NYSED regulations.

KING CENTER CHARTER SCHOOL
Status of Prior Year Audit Findings
Year ended June 30, 2015

2014-1 Student Files

Condition - Compliance testing included a review of 45 student files. One instance of noncompliance was noted in the 45 files tested in 2014. One student file was missing the enrollment form.

Status - Management has corrected the noted deficiency and there were no recurring instances of noncompliance relating to student files in 2015.

King Center Charter School
Corrective Action Plan
June 30, 2015

Immediately upon discovery of the missing documentation, management contacted the local Fire Marshall and obtained the fire inspection in order that the School is in compliance with NYSED regulations.

A checklist of annual compliance has been created in order to ensure that a timely fire inspection will be performed annually.