

KING CENTER CHARTER SCHOOL
Financial Statements
June 30, 2011
(With Independent Auditors' Report Thereon)

KING CENTER CHARTER SCHOOL

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
King Center Charter School:

We have audited the accompanying statement of financial position of King Center Charter School as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the School's 2010 financial statements and were audited by other auditors whose report dated September 28, 2010 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King Center Charter School as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2011 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 and should be considered in assessing the results of our audit.

Toski, Schaefer & Co., P.C.

Williamsville, New York
August 18, 2011

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KING CENTER CHARTER SCHOOL
Statement of Financial Position
June 30, 2011
with comparative totals for 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current assets:		
Cash	\$ 613,531	640,838
Grants and other receivables	36,594	65,634
Prepaid expenses	82,612	92,623
Total current assets	732,737	799,095
Property and equipment, at cost	1,294,359	505,009
Less accumulated depreciation	(393,120)	(322,310)
Net property and equipment	901,239	182,699
Deferred loan fees	1,750	-
Less accumulated amortization	(263)	-
Net deferred loan fees	1,487	-
Certificate of deposit, maturing September 14, 2011	175,000	-
Total assets	\$ 1,810,463	981,794
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	104,614	28,168
Accrued expenses:		
Payroll and payroll taxes	77,844	49,511
Pension	107,165	65,821
Total accrued expenses	185,009	115,332
Deferred revenue	882	-
Current portion of notes payable	70,000	-
Total current liabilities	360,505	143,500
Notes payable, net of current portion	245,000	-
Total liabilities	605,505	143,500
Net assets:		
Unrestricted net assets	1,204,958	837,944
Temporarily restricted net assets	-	350
Total net assets	1,204,958	838,294
Total liabilities and net assets	\$ 1,810,463	981,794

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL
Statement of Activities
Year ended June 30, 2011
with comparative totals for 2010

	<u>2011</u>	<u>2010</u>
Unrestricted revenue:		
Public School Districts:		
Resident student enrollment	\$ 2,124,820	1,362,236
Students with disabilities	136,913	72,525
Contributions	22,871	11,903
Interest income	904	220
Other income	13,111	9,246
Net assets released from restrictions	<u>125,848</u>	<u>138,273</u>
Total unrestricted revenue	<u>2,424,467</u>	<u>1,594,403</u>
 Unrestricted expenses:		
Program services:		
Regular education	1,333,820	982,978
Special education	227,076	102,570
Other programs	<u>20,244</u>	<u>9,279</u>
Total program services	1,581,140	1,094,827
Management and general	<u>476,313</u>	<u>283,554</u>
Total unrestricted expenses	<u>2,057,453</u>	<u>1,378,381</u>
 Change in unrestricted net assets	<u>367,014</u>	<u>216,022</u>
 Changes in temporarily restricted net assets:		
Federal and State grants	125,498	138,273
Net assets released from restrictions	<u>(125,848)</u>	<u>(138,273)</u>
Change in temporarily restricted net assets	<u>(350)</u>	<u>-</u>
 Increase in net assets	366,664	216,022
Net assets at beginning of year	<u>838,294</u>	<u>622,272</u>
Net assets at end of year	<u>\$ 1,204,958</u>	<u>838,294</u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL
Statement of Functional Expenses
Year ended June 30, 2011
with comparative totals for 2010

	Program Services				Management and general	Total	
	Regular education	Special education	Other programs	Total		2011	2010
Salaries	\$ 696,293	82,342	13,205	791,840	272,532	1,064,372	752,443
Payroll taxes	52,446	6,202	995	59,643	20,527	80,170	60,749
Employee benefits	124,322	14,702	2,358	141,382	48,660	190,042	132,010
Instructional consultants	69,937	-	-	69,937	-	69,937	24,881
Instructional materials	23,968	-	-	23,968	-	23,968	19,360
Classroom supplies	13,287	-	-	13,287	-	13,287	4,186
Field trips	3,850	-	-	3,850	-	3,850	5,561
Transportation	16,889	-	-	16,889	-	16,889	35,526
Student activities	2,087	-	-	2,087	-	2,087	1,904
Student testing and assessment	16,631	-	-	16,631	-	16,631	3,449
Special education services	-	100,843	-	100,843	-	100,843	38,798
Technology	7,407	-	-	7,407	-	7,407	3,960
Conferences	5,060	-	-	5,060	-	5,060	4,030
Staff development	7,333	-	-	7,333	-	7,333	1,914
Dues and subscriptions	2,829	-	-	2,829	-	2,829	1,728
Rent	108,396	12,819	2,056	123,271	42,426	165,697	144,120
Utilities	20,946	2,477	397	23,820	8,199	32,019	4,912
Insurance	18,542	2,193	352	21,087	7,257	28,344	20,424
Office supplies	-	-	-	-	5,392	5,392	5,285
Telephone	12,775	-	-	12,775	-	12,775	10,027
Postage	908	-	-	908	-	908	615
Printing and promotion	14,814	-	-	14,814	-	14,814	4,649
Equipment repair and maintenance	41,502	-	-	41,502	-	41,502	25,590
Contractual services	5,280	-	-	5,280	-	5,280	4,279
Professional fees	-	-	-	-	43,627	43,627	38,320
Events	-	-	-	-	9,494	9,494	-
Miscellaneous	10,918	-	-	10,918	-	10,918	10,206
Depreciation	46,322	5,478	878	52,678	18,131	70,809	19,183
Amortization	172	20	3	195	68	263	-
Interest expense	10,906	-	-	10,906	-	10,906	272
Total expenses	<u>\$ 1,333,820</u>	<u>227,076</u>	<u>20,244</u>	<u>1,581,140</u>	<u>476,313</u>	<u>2,057,453</u>	<u>1,378,381</u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL
Statement of Cash Flows
Year ended June 30, 2011
with comparative totals for 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase in net assets	\$ 366,664	216,022
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	70,809	19,183
Amortization	263	-
Changes in:		
Grants and other receivables	29,040	(8,497)
Prepaid expenses	10,011	(77,900)
Accounts payable	76,446	5,607
Accrued expenses	69,677	12,715
Deferred revenue	882	-
Net cash provided by operating activities	<u>623,792</u>	<u>167,130</u>
Cash flows from investing activities:		
Additions to property and equipment	(789,349)	(29,435)
Purchase of certificate of deposit	(175,000)	-
Net cash used in investing activities	<u>(964,349)</u>	<u>(29,435)</u>
Cash flows from financing activities:		
Payment of deferred loan fees	(1,750)	-
Proceeds from notes payable	350,000	-
Principal payments on notes payable	(35,000)	-
Net cash provided by financing activities	<u>313,250</u>	<u>-</u>
Net increase (decrease) in cash	(27,307)	137,695
Cash at beginning of year	640,838	503,143
Cash at end of year	<u>\$ 613,531</u>	<u>640,838</u>
Supplemental schedule of cash flow information - cash paid during the year for interest	<u>\$ 10,906</u>	<u>272</u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL

Notes to Financial Statements

June 30, 2011

(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 January 15, 2008, the State extended the School's Charter through January 2013.

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 an eleven member, uncompensated Board of Directors and has 177 students in kindergarten through fifth 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 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.

(e) Cash

For purposes of the statement 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 Receivable

Receivables are recorded less an allowance for doubtful accounts. The allowance is estimated based upon a periodic review of the receivables by management.

(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 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 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, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities. Generally, 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) 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 year ended June 30, 2011 and 2010, the per pupil rate was \$12,005 and \$10,429, respectively.

(j) 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 statement of financial position as deferred revenue.

(k) Donated Equipment, Materials, Supplies and Personal Services

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

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

KING CENTER CHARTER SCHOOL
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(l) 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.

(m) Expense Allocation

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

(n) Subsequent Events

The School has evaluated events after June 30, 2011, and through August 18, 2011, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(o) Income Taxes

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, therefore, no provision for income taxes is reflected in the financial statements. Management believes there are no uncertainties in income taxes or tax positions that require disclosure in the financial statements.

(p) Reclassifications

Reclassifications have been made to certain 2010 balances in order to conform them to the 2011 presentation.

(2) Property and Equipment

Property and equipment are recorded at cost. A summary of property and equipment at June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Land	\$ 26,515	26,515
Leasehold and land improvements	979,731	247,452
Office equipment	35,439	33,180
Instructional equipment	<u>252,674</u>	<u>197,862</u>
	1,294,359	505,009
Less accumulated depreciation	<u>(393,120)</u>	<u>(322,310)</u>
Net property and equipment	\$ <u>901,239</u>	<u>182,699</u>

KING CENTER CHARTER SCHOOL
Notes to Financial Statements, Continued

(3) 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, 2011). This is a demand note and substantially all of the School's assets are secured under the loan. At June 30, 2011 and 2010 there was no balance on the line.

(4) Notes Payable

\$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.	\$ 315,000
Less current portion	<u>(70,000)</u>
Total long-term notes payable	\$ <u>245,000</u>

Maturities of notes payable for the years following June 30, 2011, are as follows:

2012	\$ 70,000
2013	70,000
2014	70,000
2015	70,000
2016	<u>35,000</u>
	<u>\$ 315,000</u>

(5) Related Party Transactions

The School and King Urban Life Center, Inc. (a nonprofit organization) (the Center) are affiliated with each other by means of overlapping Boards of Directors. Two of the School's eleven directors are persons who are also on the Board of Directors of the Center. The Center provided extensive support with the organizational application for the establishment of the School and it will also sponsor various programs that the students of the School will be eligible to participate in.

The School entered into a lease agreement with the Center to lease facilities. Rent expense for the years ended June 30, 2011 and 2010 amounted to \$165,697 and \$144,120, respectively. The initial lease was for a term of one year and is automatically renewable unless terminated by either party.

The School had prepaid rent to the Center of \$71,711 and \$87,010 at June 30, 2011 and 2010, respectively.

KING CENTER CHARTER SCHOOL
Notes to Financial Statements, Continued

(6) Pension Plan

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

TRS 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. TRS 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 NYSTRS, 10 Corporate Woods Drive, Albany, New York 12211-2395.

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

The School is required to contribute at an actuarially determined rate. The rates for TRS were 8.62% and 6.19% of the annual covered payroll as of June 30, 2011 and 2010, respectively. Required annual contributions of \$76,294 and \$37,145 were paid to TRS by the School for the years ended June 30, 2011 and 2010, respectively.

(7) Expansion Plan and Building Lease

The School has an expansion plan to increase student population whereby they will add an additional grade of 22 students every year beginning in the year ended June 30, 2010. Each year an additional class will be added until a student population of 242 is reached in fiscal year ended June 30, 2014.

Lease terms between the School and the Center for rental of a building from the Center were approved by the Board of Directors in October 2009 and included the School prepaying rent in the amount of \$75,000 for the first five year term. Any improvements are the responsibility of the School. The School is also responsible for utilities, upkeep, and maintenance of the property.

The School signed a contract on June 16, 2011 to begin the first floor interior buildout at 30 Rich Street for a sum of \$349,000.

KING CENTER CHARTER SCHOOL
Notes to Financial Statements, Continued

(8) Contingencies

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.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
King Center Charter School:

We have audited the financial statements of King Center Charter School as of and for the year ended June 30, 2011, and have issued our report thereon dated August 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered King Center Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of King Center Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of King Center Charter School's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 King Center Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial 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 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 management, the Board of Directors, 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.

Toski, Schaefer & Co., P.C.

Williamsville, New York
August 18, 2011