

KING CENTER CHARTER SCHOOL  
Financial Statements  
June 30, 2012 and 2011  
(With Independent Auditors' Report Thereon)

KING CENTER CHARTER SCHOOL

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 12
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	13 - 14

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INDEPENDENT AUDITORS' REPORT

The Board of Directors  
King Center Charter School:

We have audited the accompanying statements of financial position of King Center Charter School as of June 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years 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 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 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 King Center Charter School as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years 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 September 26, 2012 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 audits.

*Toski & Co., CPAs, P.C.*

Williamsville, New York  
September 26, 2012

KING CENTER CHARTER SCHOOL  
 Statements of Financial Position  
 June 30, 2012 and 2011

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash	\$ 893,959	613,531
Certificate of deposit	175,000	-
Grants and other receivables	85,404	36,594
Prepaid expenses	63,472	82,612
Total current assets	<u>1,217,835</u>	<u>732,737</u>
Property and equipment, at cost	1,596,049	1,294,359
Less accumulated depreciation	(511,201)	(393,120)
Net property and equipment	<u>1,084,848</u>	<u>901,239</u>
Deferred loan fees	1,750	1,750
Less accumulated amortization	(613)	(263)
Net deferred loan fees	<u>1,137</u>	<u>1,487</u>
Certificate of deposit	-	175,000
Total assets	<u>\$ 2,303,820</u>	<u>1,810,463</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	106,032	104,614
Accrued expenses:		
Payroll and payroll taxes	104,777	77,844
Pension	159,293	107,165
Total accrued expenses	<u>264,070</u>	<u>185,009</u>
Deferred revenue	-	882
Current portion of notes payable	70,000	70,000
Total current liabilities	440,102	360,505
Notes payable, net of current portion	175,000	245,000
Total liabilities	<u>615,102</u>	<u>605,505</u>
Net assets:		
Unrestricted net assets	1,688,661	1,204,958
Temporarily restricted net assets	57	-
Total net assets	<u>1,688,718</u>	<u>1,204,958</u>
Total liabilities and net assets	<u>\$ 2,303,820</u>	<u>1,810,463</u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL  
Statements of Activities  
Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted revenue:		
Public School Districts:		
Resident student enrollment	\$ 2,840,882	2,124,820
Students with disabilities	133,336	136,913
State Aid	30,705	-
Contributions	10,448	22,871
Interest income	736	904
Other income	26,596	13,111
Net assets released from restrictions	<u>139,023</u>	<u>125,848</u>
Total unrestricted revenue	<u>3,181,726</u>	<u>2,424,467</u>
Unrestricted expenses:		
Program services:		
Regular education	1,842,136	1,333,820
Special education	123,989	227,076
Other programs	<u>46,106</u>	<u>20,244</u>
Total program services	2,012,231	1,581,140
Management and general	<u>613,459</u>	<u>476,313</u>
Total unrestricted expenses	2,625,690	2,057,453
Loss from abandonment of leasehold improvements	<u>72,134</u>	<u>-</u>
Change in unrestricted net assets	<u>483,902</u>	<u>367,014</u>
Changes in temporarily restricted net assets:		
Federal and State grants	138,881	125,498
Net assets released from restrictions	<u>(139,023)</u>	<u>(125,848)</u>
Change in temporarily restricted net assets	<u>(142)</u>	<u>(350)</u>
Increase in net assets	483,760	366,664
Net assets at beginning of year	<u>1,204,958</u>	<u>838,294</u>
Net assets at end of year	<u>\$ 1,688,718</u>	<u>1,204,958</u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL  
 Statements of Functional Expenses  
 Years ended June 30, 2012 and 2011

	<u>Program Services</u>			<u>Total</u>	<u>Management and general</u>	<u>Total</u>	
	<u>Regular education</u>	<u>Special education</u>	<u>Other programs</u>			<u>2012</u>	<u>2011</u>
Salaries	\$ 907,009	81,473	31,933	1,020,415	357,660	1,378,075	1,064,372
Payroll taxes	78,871	7,170	2,390	88,431	31,071	119,502	80,170
Employee benefits	155,019	14,093	4,698	173,810	61,068	234,878	190,042
Instructional consultants	82,400	-	-	82,400	-	82,400	69,937
Instructional materials	35,990	-	-	35,990	-	35,990	23,968
Classroom supplies	15,914	-	-	15,914	-	15,914	13,287
Field trips	6,754	-	-	6,754	-	6,754	3,850
Transportation	23,766	-	-	23,766	-	23,766	16,889
Student activities	5,561	-	-	5,561	-	5,561	2,087
Student testing and assessment	8,745	-	-	8,745	-	8,745	16,631
Special education services	133,340	-	-	133,340	-	133,340	100,843
Technology	18,088	-	-	18,088	-	18,088	7,407
Conferences	3,015	-	-	3,015	-	3,015	5,060
Staff development	7,778	-	-	7,778	-	7,778	7,333
Dues and subscriptions	3,741	-	-	3,741	-	3,741	2,829
Rent	111,813	10,165	3,388	125,366	44,047	169,413	165,697
Utilities	19,301	1,755	585	21,641	7,603	29,244	32,019
Insurance	23,809	2,164	722	26,695	9,379	36,074	28,344
Office supplies	-	-	-	-	5,223	5,223	5,392
Telephone	16,702	-	-	16,702	-	16,702	12,775
Postage	1,371	-	-	1,371	-	1,371	908
Printing and promotion	4,287	-	-	4,287	-	4,287	14,814
Equipment repair and maintenance	60,611	-	-	60,611	-	60,611	41,502
Contractual services	10,472	-	-	10,472	-	10,472	5,280
Professional fees	-	-	-	-	63,338	63,338	43,627
Events	-	-	-	-	3,005	3,005	9,494
Miscellaneous	16,055	-	-	16,055	-	16,055	10,918
Depreciation	78,627	7,148	2,383	88,158	30,974	119,132	70,809
Amortization	231	21	7	259	91	350	263
Interest expense	12,866	-	-	12,866	-	12,866	10,906
Total expenses	<u>\$ 1,842,136</u>	<u>123,989</u>	<u>46,106</u>	<u>2,012,231</u>	<u>613,459</u>	<u>2,625,690</u>	<u>2,057,453</u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL  
Statement of Functional Expenses  
Year ended June 30, 2011

	Program Services			Total	Management	Total
	Regular education	Special education	Other programs		and general	
Salaries	\$ 696,293	82,342	13,205	791,840	272,532	1,064,372
Payroll taxes	52,446	6,202	995	59,643	20,527	80,170
Employee benefits	124,322	14,702	2,358	141,382	48,660	190,042
Instructional consultants	69,937	-	-	69,937	-	69,937
Instructional materials	23,968	-	-	23,968	-	23,968
Classroom supplies	13,287	-	-	13,287	-	13,287
Field trips	3,850	-	-	3,850	-	3,850
Transportation	16,889	-	-	16,889	-	16,889
Student activities	2,087	-	-	2,087	-	2,087
Student testing and assessment	16,631	-	-	16,631	-	16,631
Special education services	-	100,843	-	100,843	-	100,843
Technology	7,407	-	-	7,407	-	7,407
Conferences	5,060	-	-	5,060	-	5,060
Staff development	7,333	-	-	7,333	-	7,333
Dues and subscriptions	2,829	-	-	2,829	-	2,829
Rent	108,396	12,819	2,056	123,271	42,426	165,697
Utilities	20,946	2,477	397	23,820	8,199	32,019
Insurance	18,542	2,193	352	21,087	7,257	28,344
Office supplies	-	-	-	-	5,392	5,392
Telephone	12,775	-	-	12,775	-	12,775
Postage	908	-	-	908	-	908
Printing and promotion	14,814	-	-	14,814	-	14,814
Equipment repair and maintenance	41,502	-	-	41,502	-	41,502
Contractual services	5,280	-	-	5,280	-	5,280
Professional fees	-	-	-	-	43,627	43,627
Events	-	-	-	-	9,494	9,494
Miscellaneous	10,918	-	-	10,918	-	10,918
Depreciation	46,322	5,478	878	52,678	18,131	70,809
Amortization	172	20	3	195	68	263
Interest expense	10,906	-	-	10,906	-	10,906
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>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL  
Statements of Cash Flows  
Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Increase in net assets	\$ 483,760	366,664
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	119,132	70,809
Amortization	350	263
Loss from abandonment of leasehold improvements	72,134	-
Changes in:		
Grants and other receivables	(48,810)	29,040
Prepaid expenses	19,140	10,011
Accounts payable	1,418	76,446
Accrued expenses	79,061	69,677
Deferred revenue	(882)	882
Net cash provided by operating activities	<u>725,303</u>	<u>623,792</u>
Cash flows from investing activities:		
Additions to property and equipment	(374,875)	(789,349)
Purchase of certificate of deposit	-	(175,000)
Net cash used in investing activities	<u>(374,875)</u>	<u>(964,349)</u>
Cash flows from financing activities:		
Payment of deferred loan fees	-	(1,750)
Proceeds from notes payable	-	350,000
Principal payments on notes payable	(70,000)	(35,000)
Net cash provided by (used in) financing activities	<u>(70,000)</u>	<u>313,250</u>
Net increase (decrease) in cash	280,428	(27,307)
Cash at beginning of year	<u>613,531</u>	<u>640,838</u>
Cash at end of year	<u>\$ 893,959</u>	<u>613,531</u>
Supplemental schedule of cash flow information - cash paid during the year for interest	<u>\$ 12,866</u>	<u>10,906</u>

See accompanying notes to financial statements.



KING CENTER CHARTER SCHOOL  
Notes to Financial Statements  
June 30, 2012 and 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 240 students in kindergarten through sixth 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 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 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 years ended June 30, 2012 and 2011, the per pupil rate was \$12,005.

(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 statements 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 were not material and have 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 statements of activities and in the statements 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, 2012, and through September 26, 2012, 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 uncertain tax positions that require adjustment or disclosure in the financial statements. The School is no longer subject to examination by taxing authorities for the years prior to 2009.

(2) Property and Equipment

Property and equipment are recorded at cost. A summary of property and equipment at June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Land	\$ 950	26,515
Leasehold and land improvements	1,246,273	979,731
Office equipment	43,282	35,439
Instructional equipment	279,502	252,674
Vehicles	<u>26,042</u>	<u>-</u>
	1,596,049	1,294,359
Less accumulated depreciation	<u>(511,201)</u>	<u>(393,120)</u>
Net property and equipment	\$ <u>1,084,848</u>	<u>901,239</u>

KING CENTER CHARTER SCHOOL  
Notes to Financial Statements, Continued

(2) Property and Equipment, Continued

During the year ended June 30, 2012, the Board of Directors passed resolutions deeming land and buildings known as Knox Tavern and Slaughter House as having no realizable value. These have been written down to zero resulting in a loss of \$72,134 on abandonment of leasehold improvements.

(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, 2012). This is a demand note and substantially all of the School's assets are secured under the loan. At June 30, 2012 and 2011 there was no balance on the line.

(4) Notes Payable

Notes payable consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</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.	\$ 245,000	315,000
Less current portion	<u>(70,000)</u>	<u>(70,000)</u>
Total long-term notes payable	\$ <u>175,000</u>	<u>245,000</u>

Maturities of notes payable for the years following June 30, 2012, are as follows:

2013	\$ 70,000
2014	70,000
2015	70,000
2016	<u>35,000</u>
	\$ <u>245,000</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.

KING CENTER CHARTER SCHOOL  
Notes to Financial Statements, Continued

(5) Related Party Transactions, Continued

The School entered into a lease agreement with the Center to lease facilities. Rent expense for the years ended June 30, 2012 and 2011 amounted to \$169,413 and \$165,697, 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 \$58,708 and \$71,711 at June 30, 2012 and 2011, respectively.

(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 11.11% and 8.62% of the annual covered payroll as of June 30, 2012 and 2011, respectively. Required annual contributions of \$120,971 and \$76,294 were paid to TRS by the School for the years ended June 30, 2012 and 2011, respectively.

(7) Expansion Plan and Building Lease

The School has an expansion plan to increase student population whereby they will add an additional 41 students every year beginning in the year ending June 30, 2013. This expansion is primarily due to the expected addition of the seventh and eighth grades. Each year additional students will be added until a student population of 445 is reached in fiscal year ending June 30, 2017.

KING CENTER CHARTER SCHOOL  
Notes to Financial Statements, Continued

(7) Expansion Plan and Building Lease, Continued

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.

(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.

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, 2012, and have issued our report thereon dated September 26, 2012. 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

Management of King Center Charter School is responsible for establishing and maintaining effective 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 & Co., CPAs, P.C.

Williamsville, New York  
September 26, 2012