

**OCEAN HILL COLLEGIATE CHARTER SCHOOL**

**BROOKLYN, NEW YORK**

**AUDITED FINANCIAL STATEMENTS**

**OTHER FINANCIAL INFORMATION**

**REPORT REQUIRED BY**  
**GOVERNMENT AUDITING STANDARDS**

**AND**

**INDEPENDENT AUDITORS' REPORTS**

**JUNE 30, 2011**

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## MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

### INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Ocean Hill Collegiate Charter School

We have audited the accompanying statement of financial position of Ocean Hill Collegiate Charter School as of June 30, 2011, and the related statements of activities and changes in net assets, functional expenses and cash flows for the period from February 23, 2009 (date of inception) to June 30, 2011. These financial statements are the responsibility of the Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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, 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 Ocean Hill Collegiate Charter School as of June 30, 2011, and the changes in its net assets and its cash flows for the period from February 23, 2009 (date of inception) to June 30, 2011 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 October 18, 2011 on our consideration of Ocean Hill Collegiate Charter School's internal control over financial reporting and 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.

*Mengel, Metzger, Barw & Co. LLP*

Rochester, New York  
October 18, 2011

OCEAN HILL COLLEGIATE CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011

ASSETS

CURRENT ASSETS

Cash	\$ 127,269
Grants and other receivables	200,137
Prepaid expenses	<u>26,729</u>
TOTAL CURRENT ASSETS	354,135

PROPERTY AND EQUIPMENT, net

159,272	
TOTAL ASSETS	<u>\$ 513,407</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 93,076
Deferred revenue	<u>100,000</u>
TOTAL CURRENT LIABILITIES	193,076

NET ASSETS, unrestricted

Designated for building fund	120,000
Undesignated	<u>200,331</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 513,407</u>

The accompanying notes are an integral part of the financial statements.

OCEAN HILL COLLEGIATE CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

PERIOD FROM FEBRUARY 23, 2009 (DATE OF INCEPTION) TO JUNE 30, 2011

Operating revenue and support:		
State and local per pupil operating revenue		\$ 1,190,505
Government grants		375,094
Contributions		503,445
Other income		<u>23</u>
	TOTAL OPERATING REVENUE AND SUPPORT	<u>2,069,067</u>
Expenses:		
Program services - education		1,489,014
General and administrative		<u>259,722</u>
	TOTAL EXPENSES	<u>1,748,736</u>
	CHANGE IN NET ASSETS	320,331
Unrestricted net assets at beginning of period		<u>-</u>
	UNRESTRICTED NET ASSETS AT END OF PERIOD	<u><u>\$ 320,331</u></u>

The accompanying notes are an integral part of the financial statements.

OCEAN HILL COLLEGIATE CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

PERIOD FROM FEBRUARY 23, 2009 (DATE OF INCEPTION) TO JUNE 30, 2011

	Program services - education	General and administrative	Total
Salaries	\$ 930,093	\$ 124,191	\$ 1,054,284
Payroll taxes and employee benefits	129,961	17,353	147,314
Repairs and maintenance	42,111	22,069	64,180
Textbooks	2,163	-	2,163
Instructional supplies and assessments	58,608	-	58,608
Computer and technology support	76,280	-	76,280
Student enrichment and services	42,558	-	42,558
Professional development	60,617	-	60,617
Professional services	-	16,700	16,700
Telephone	-	17,506	17,506
Insurance	-	14,035	14,035
Management fees	114,115	20,138	134,253
Office expense	4,074	24,567	28,641
Depreciation and amortization	28,434	46	28,480
Other	-	3,117	3,117
	<u>\$ 1,489,014</u>	<u>\$ 259,722</u>	<u>\$ 1,748,736</u>

The accompanying notes are an integral part of the financial statements.

OCEAN HILL COLLEGIATE CHARTER SCHOOL

STATEMENT OF CASH FLOWS

PERIOD FROM FEBRUARY 23, 2009 (DATE OF INCEPTION) TO JUNE 30, 2011

CASH FLOWS - OPERATING ACTIVITIES

Change in net assets	\$ 320,331
Adjustments to reconcile change in net assets to net cash provided from operating activities:	
Depreciation and amortization	28,480
Changes in certain assets and liabilities affecting operations:	
Grants and other receivables	(200,137)
Prepaid expenses	(26,729)
Accounts payable and accrued expenses	93,076
Deferred revenue	<u>100,000</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	315,021

CASH FLOWS - INVESTING ACTIVITIES

Purchases of property and equipment	<u>(187,752)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(187,752)</u>
NET INCREASE IN CASH	127,269
Cash at beginning of period	-
CASH AT END OF PERIOD	<u>\$ 127,269</u>

The accompanying notes are an integral part of the financial statements.



OCEAN HILL COLLEGIATE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Charter School

Ocean Hill Collegiate Charter School (the “Charter School”), is an educational corporation operating as a charter school in the borough of Brooklyn, New York City. On February 23, 2009, the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration.

The Charter School’s mission is to prepare students to enter, succeed in, and graduate from college.

Financial Statement presentation

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

These classes of net assets are defined as follows:

*Permanently restricted* – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2011.

*Temporarily restricted* – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School had no temporarily restricted net assets at June 30, 2011.

*Unrestricted* – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School’s operations in accordance with the guidelines established by the Charter School. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

Revenue and support recognition

Revenue from state and local governments resulting from the Charter School’s charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable.

OCEAN HILL COLLEGIATE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Contributions

Contributions received are recorded as unrestricted, temporarily or permanently restricted support depending on the existence of any donor restrictions. A contribution that is received and expended in the same year for a specific purpose is classified as unrestricted revenue.

Contributions are recorded as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash

The Charter School maintains its cash balances at a financial institution located in New York. Cash account balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at the institution. In addition, certain non-interest bearing transaction accounts at the financial institution are 100% insured through December 31, 2012. In the normal course of business, the interest bearing account balance at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash and cash equivalents.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2011.

Property and equipment

Property and equipment are recorded at cost. Depreciation and amortization is computed using the straight-line method on a basis considered adequate to depreciate the assets over their estimated useful lives, which range from three to ten years.

Deferred revenue

The Charter School records grant revenue as deferred revenue until it is expended for the purpose of the grant, at which time it is recognized as revenue.

OCEAN HILL COLLEGIATE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

NOTE A: THE CHARTER SCHOOL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,

Cont'd

Tax exempt status

The Charter School has applied for and is currently awaiting tax-exempt status under section 501(c)(3) of the Internal Revenue Code and applicable state regulations. The Charter School believes it will be awarded tax-exempt status and, therefore, has not recorded any income tax expense for the period ended June 30, 2011.

The Charter School has filed for income tax exemptions in the jurisdictions where it is required to do so. The Charter School files Form 990 tax returns in the U.S. federal jurisdiction. The tax return for the years ended June 30, 2010 and 2011 are still subject to potential audit by the IRS. There was no tax return filed for the period ended June 30, 2009. The Charter School adopted the provisions of FASB ASC 740-10 *Accounting for Uncertainty in Income Taxes* (formerly FIN 48), and its related amendment on July 1, 2009. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits.

Contributed services

The Charter School receives contributed services from volunteers to develop its academic program and to serve on the Board of Trustees. These services are not valued in the financial statements because they do not require "specialized skills" and would typically not be purchased if they were not contributed.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 18, 2011, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

OCEAN HILL COLLEGIATE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

NOTE B: RELATED PARTY TRANSACTIONS

Uncommon Schools, Inc. ("USI"), a not-for-profit organization dedicated to helping start and run charter schools, provides management and other administrative support services to the Charter School. The Charter School entered into a five year agreement with USI, dated July 1, 2010, under which the Charter School pays USI a service fee of a set percentage of the average number of students enrolled at the Charter School during the school year multiplied by the approved per pupil operating expenses for the school year, and a percentage of all other public entitlement funding receivable during the fiscal year, excluding in-kind contributions and funds from competitive public grants. This percentage is fixed at 10% for years 1-3, decreasing to 9.5% in year 4 and 9% in year 5. The fee incurred for the period from February 23, 2009 (date of inception) to June 30, 2011 was \$134,253. At June 30, 2011, approximately \$300 is included in accounts receivable and \$39,000 is included in accounts payable, relating to USI.

The Charter School is related to Kings Collegiate Charter School, Brownsville Collegiate Charter School, Brooklyn East Collegiate Charter School, Williamsburg Collegiate Charter School and Bedford Stuyvesant Collegiate Charter School through common Board representation. As none of the schools have an economic interest in the net assets of any other school, the facts do not require consolidation of any of these schools with the Charter School in accordance with FASB ASC 958-810 (formerly SOP 94-3 "Reporting of Related Entities by Not-For-Profit Organizations").

NOTE C: SCHOOL FACILITY

The Charter School is located in a New York City Department of Education facility. At June 30, 2011, the Board of Trustees has designated \$120,000 as a building fund to meet future needs of the Charter School. During the period from February 23, 2009 (date of inception) to June 30, 2011, the Charter School paid no fee to the New York City Department of Education for additional after-school and weekend usage.

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Furniture and fixtures	\$ 2,151
Computers and software	54,414
Leasehold improvements	<u>131,187</u>
	187,752
Less accumulated depreciation and amortization	<u>28,480</u>
	<u><u>\$ 159,272</u></u>

OCEAN HILL COLLEGIATE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011

NOTE E: RETIREMENT PLAN

The Charter School sponsors a defined contribution 403(b) plan covering most employees. The Charter School matches employees' contributions up to 3% of gross payroll. The Charter School's total contribution to the Plan for the period from February 23, 2009 (date of inception) to June 30, 2011 approximated \$8,400.

NOTE F: CONTINGENCY

Certain grants and contracts may be subject to audit by funding sources. Such audits might result in disallowance of costs submitted for reimbursement by the Charter School. Management is of the opinion that such disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been provided in the accompanying financial statements for such potential claims.

NOTE G: CONCENTRATION

At June 30, 2011, 36% of accounts receivable are due from New York State.

During the period from February 23, 2009 (date of inception) to June 30, 2011, 58% of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School is located.

NOTE H: OPERATING LEASE

The Charter School leases office equipment under a non-cancelable lease agreement expiring in November 2013. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2012	7,082
2013	7,082
2014	2,951
	<u>\$ 17,115</u>

**OCEAN HILL COLLEGIATE CHARTER SCHOOL**

**OTHER FINANCIAL INFORMATION**



# MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees  
Ocean Hill Collegiate Charter School

Our report on our audit of the basic financial statements of Ocean Hill Collegiate Charter School as of June 30, 2011 and for the period from February 23, 2009 (date of inception) to June 30, 2011 appears on page 3. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information hereinafter is presented for purposes of additional analysis and is 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.

*Mengel, Metzger, Barr & Co. LLP*

Rochester, New York  
October 18, 2011

OCEAN HILL COLLEGIATE CHARTER SCHOOL

SCHEDULE OF ACTIVITIES

YEAR ENDED JUNE 30, 2011 AND THE PERIOD FROM  
FEBRUARY 23, 2009 (DATE OF INCEPTION) TO JUNE 30, 2010

	<u>Year ended June 30, 2011</u>	<u>Period from February 23, 2009 (date of inception) to June 30, 2010</u>	<u>Total</u>
State and local per pupil operating revenue	\$ 1,190,505	\$ -	\$ 1,190,505
Government grants	375,094	-	375,094
Contributions	268,445	235,000	503,445
Other income	<u>21</u>	<u>2</u>	<u>23</u>
TOTAL OPERATING REVENUE AND SUPPORT	1,834,065	235,002	2,069,067
Salaries	890,198	164,086	1,054,284
Payroll taxes and employee benefits	136,594	10,720	147,314
Repairs and maintenance	64,030	150	64,180
Textbooks	2,163	-	2,163
Instructional supplies and assessments	58,608	-	58,608
Computer and technology supplies	76,165	115	76,280
Student enrichment and services	42,558	-	42,558
Professional development	34,467	26,150	60,617
Professional services	15,500	1,200	16,700
Telephone	16,752	754	17,506
Insurance	14,035	-	14,035
Management fees	134,253	-	134,253
Office expense	26,926	1,715	28,641
Depreciation and amortization	28,480	-	28,480
Other	<u>2,897</u>	<u>220</u>	<u>3,117</u>
TOTAL EXPENSES	<u>1,543,626</u>	<u>205,110</u>	<u>1,748,736</u>
CHANGE IN NET ASSETS	<u>\$ 290,439</u>	<u>\$ 29,892</u>	<u>\$ 320,331</u>



**OCEAN HILL COLLEGIATE CHARTER SCHOOL**

**REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS**



## MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

### 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

Board of Trustees  
Ocean Hill Collegiate Charter School

We have audited the financial statements of Ocean Hill Collegiate Charter School (the "Charter School") as of June 30, 2011 and for the period from February 23, 2009 (date of inception) to June 30, 2011, and issued our report thereon dated October 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 Ocean Hill Collegiate 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 on the effectiveness of Ocean Hill Collegiate Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the 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. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses, item 2011-1, to be significant deficiency in internal control over financial reporting. 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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Ocean Hill Collegiate 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Ocean Hill Collegiate Charter School in a separate letter dated October 18, 2011.

The Charter School's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Charter School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, federal, state and local awarding agencies, The Charter Schools Institute of the State University of New York and the State Education Department of the State University of New York and others within the Charter School and is not intended to be and should not be used by anyone other than these specified parties.

*Mengel, Metzger, Barw & Co. LLP*

Rochester, New York  
October 18, 2011

OCEAN HILL COLLEGIATE CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2011

**Finding 2011-1**

Statement of condition

We noted during our audit a significant misstatement of receivables and revenue related to the state and local per pupil operating revenue.

Criteria and effect of conditions

There was an error in calculating the state and local per pupil operating revenue. The General Education Full Time Equivalent was misstated for one student which led to revenue and accounts receivable being overstated. This is considered to be a significant deficiency.

Recommendation

We recommend the state and local per pupil operating revenue be reviewed thoroughly for accuracy on an annual basis.

Management response

Uncommon Schools will refine the year-end student reconciliation process to guide a thorough review by the DOOs and network COOs. Additionally, beginning for the 2011-2012 school year, the New York City Department of Education reconciliation will now be completed online, in an effort to reduce the number of errors found in their previously manual process.