

KING CENTER CHARTER SCHOOL  
Financial Statements  
June 30, 2018 and 2017  
(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, 2018 and 2017, 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 the 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, 2018 and 2017, 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 17, 2018, 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, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of King Center Charter School's 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.

EFPR Group, CPAs, PLLC

Williamsville, New York  
October 17, 2018

KING CENTER CHARTER SCHOOL  
 Statements of Financial Position  
 June 30, 2018 and 2017

	<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets:			
Cash		\$ 4,251,874	2,632,061
Grants and other receivables		97,368	537,339
Prepaid expenses		9,546	8,617
Total current assets		<u>4,358,788</u>	<u>3,178,017</u>
Property and equipment, at cost		3,095,083	3,041,348
Less accumulated depreciation		<u>(532,695)</u>	<u>(373,239)</u>
Net property and equipment		<u>2,562,388</u>	<u>2,668,109</u>
Total assets		<u><u>\$ 6,921,176</u></u>	<u><u>5,846,126</u></u>
<u>Liabilities and Net Assets</u>			
Current liabilities:			
Accounts payable		46,256	33,542
Accrued expenses:			
Payroll and payroll taxes		275,584	236,271
Pension		349,470	355,106
Total accrued expenses		<u>625,054</u>	<u>591,377</u>
Deferred revenue		43,134	1,200
Capital lease obligation, current portion		<u>88,712</u>	<u>85,341</u>
Total current liabilities		803,156	711,460
Capital lease obligation, less current portion		<u>212,625</u>	<u>301,337</u>
Total liabilities		1,015,781	1,012,797
Net assets - unrestricted net assets		5,905,395	4,833,329
Contingency (note 7)		<u>                    </u>	<u>                    </u>
Total liabilities and net assets		<u><u>\$ 6,921,176</u></u>	<u><u>5,846,126</u></u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL  
Statements of Activities  
Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted revenue:		
Public school districts:		
Resident student enrollment	\$ 5,602,645	5,361,509
Students with disabilities	290,132	282,908
State aid	125,752	94,581
Interest income	3,148	1,970
Other income	6,725	2,155
Net assets released from restrictions	<u>331,080</u>	<u>427,866</u>
Total unrestricted revenue	<u>6,359,482</u>	<u>6,170,989</u>
Unrestricted expenses:		
Program services:		
Regular education	3,787,374	3,330,949
Special education	414,998	408,122
Other programs	<u>56,474</u>	<u>55,289</u>
Total program services	4,258,846	3,794,360
Management and general	<u>1,028,570</u>	<u>1,007,207</u>
Total unrestricted expenses	<u>5,287,416</u>	<u>4,801,567</u>
Other revenue - gain on disposal of fixed assets	<u>-</u>	<u>2,759</u>
Change in unrestricted net assets	<u>1,072,066</u>	<u>1,372,181</u>
Change in temporarily restricted net assets:		
Federal and State grants	331,080	426,180
Local grants	-	1,200
Net assets released from restrictions	<u>(331,080)</u>	<u>(427,866)</u>
Change in temporarily restricted net assets	<u>-</u>	<u>(486)</u>
Increase in net assets	1,072,066	1,371,695
Net assets at beginning of year	<u>4,833,329</u>	<u>3,461,634</u>
Net assets at end of year	<u>\$ 5,905,395</u>	<u>4,833,329</u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL  
Statement of Functional Expenses  
Year ended June 30, 2018  
with comparative totals for 2017

	No. of positions	Program Services				Management and general	Total	
		Regular education	Special education	Other programs	Total		2018	2017
Salaries:								
Instructional	59	\$ 2,500,584	271,791	-	2,772,375	-	2,772,375	2,399,921
Administrative	14	-	-	-	-	746,013	746,013	710,376
Non-instructional	1	-	-	42,436	42,436	-	42,436	41,200
Total salaries	<u>74</u>	2,500,584	271,791	42,436	2,814,811	746,013	3,560,824	3,151,497
Payroll taxes		196,436	21,351	3,334	221,121	58,604	279,725	251,995
Employee benefits		451,406	49,064	7,661	508,131	134,670	642,801	600,639
Instructional consultants		20,750	-	-	20,750	-	20,750	9,530
Instructional materials		19,679	-	-	19,679	-	19,679	43,157
Classroom supplies		31,998	-	-	31,998	-	31,998	26,786
Field trips		22,993	-	-	22,993	-	22,993	8,111
Transportation		37,465	-	-	37,465	-	37,465	59,519
Student activities		21,186	-	-	21,186	-	21,186	21,473
Student testing and assessment		11,655	-	-	11,655	-	11,655	15,286
Special education services		-	48,455	-	48,455	-	48,455	56,395
Technology		94,453	-	-	94,453	-	94,453	90,544
Staff development		29,671	-	-	29,671	-	29,671	32,800
Dues and subscriptions		6,480	-	-	6,480	-	6,480	6,160
Utilities		42,666	4,876	610	48,152	12,800	60,952	55,775
Insurance		58,669	6,705	838	66,212	17,601	83,813	70,352
Office supplies		-	-	-	-	5,518	5,518	8,797
Telephone		19,590	-	-	19,590	-	19,590	9,891
Postage		2,675	-	-	2,675	-	2,675	3,421
Printing and promotion		15,369	-	-	15,369	-	15,369	11,564
Building repair and maintenance		70,273	-	-	70,273	-	70,273	46,198
Contractual services		3,859	-	-	3,859	-	3,859	5,250
Professional fees		-	-	-	-	19,878	19,878	28,166
Miscellaneous		3,947	-	-	3,947	-	3,947	4,446
Depreciation		111,619	12,756	1,595	125,970	33,486	159,456	168,114
Interest expense		13,951	-	-	13,951	-	13,951	15,701
Total unrestricted expenses		<u>\$ 3,787,374</u>	<u>414,998</u>	<u>56,474</u>	<u>4,258,846</u>	<u>1,028,570</u>	<u>5,287,416</u>	<u>4,801,567</u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL  
Statement of Functional Expenses  
Year ended June 30, 2017

	No. of positions	Program Services			Total	Management and	Total
		Regular education	Special education	Other programs		general	
Salaries:							
Instructional	64	\$ 2,141,617	258,304	-	2,399,921	-	2,399,921
Administrative	15	-	-	-	-	710,376	710,376
Non-instructional	1	-	-	41,200	41,200	-	41,200
Total salaries	<u>80</u>	<u>2,141,617</u>	<u>258,304</u>	<u>41,200</u>	<u>2,441,121</u>	<u>710,376</u>	<u>3,151,497</u>
Payroll taxes		171,245	20,654	3,294	195,193	56,802	251,995
Employee benefits		408,167	49,230	7,852	465,249	135,390	600,639
Instructional consultants		9,530	-	-	9,530	-	9,530
Instructional materials		43,157	-	-	43,157	-	43,157
Classroom supplies		26,786	-	-	26,786	-	26,786
Field trips		8,111	-	-	8,111	-	8,111
Transportation		59,519	-	-	59,519	-	59,519
Student activities		21,473	-	-	21,473	-	21,473
Student testing and assessment		15,286	-	-	15,286	-	15,286
Special education services		-	56,395	-	56,395	-	56,395
Technology		90,544	-	-	90,544	-	90,544
Staff development		32,800	-	-	32,800	-	32,800
Dues and subscriptions		6,160	-	-	6,160	-	6,160
Utilities		37,927	4,462	558	42,947	12,828	55,775
Insurance		47,839	5,628	704	54,171	16,181	70,352
Office supplies		-	-	-	-	8,797	8,797
Telephone		9,891	-	-	9,891	-	9,891
Postage		3,421	-	-	3,421	-	3,421
Printing and promotion		11,564	-	-	11,564	-	11,564
Building repair and maintenance		46,198	-	-	46,198	-	46,198
Contractual services		5,250	-	-	5,250	-	5,250
Professional fees		-	-	-	-	28,166	28,166
Miscellaneous		4,446	-	-	4,446	-	4,446
Depreciation		114,317	13,449	1,681	129,447	38,667	168,114
Interest expense		15,701	-	-	15,701	-	15,701
Total unrestricted expenses		<u>\$ 3,330,949</u>	<u>408,122</u>	<u>55,289</u>	<u>3,794,360</u>	<u>1,007,207</u>	<u>4,801,567</u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL  
 Statements of Cash Flows  
 Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash receipts from:		
Public school districts	\$ 6,274,403	5,556,722
Federal, state and local grants	561,776	166,147
Other sources	8,673	8,084
Cash payments to/for:		
Employees for services and benefits	(4,449,673)	(3,949,159)
Vendors and suppliers	<u>(636,290)</u>	<u>(630,925)</u>
Net cash provided by operating activities	<u>1,758,889</u>	<u>1,150,869</u>
Cash flows from investing activities:		
Additions to property and equipment	(53,735)	(520,649)
Proceeds from sale of fixed assets	<u>-</u>	<u>3,901</u>
Net cash used in investing activities	<u>(53,735)</u>	<u>(516,748)</u>
Cash flows from financing activities - payments on capital lease obligation	<u>(85,341)</u>	<u>(79,799)</u>
Net increase in cash	1,619,813	554,322
Cash at beginning of year	<u>2,632,061</u>	<u>2,077,739</u>
Cash at end of year	<u>\$ 4,251,874</u>	<u>2,632,061</u>
		(Continued)

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL  
Statements of Cash Flows, Continued

	<u>2018</u>	<u>2017</u>
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	\$ 1,072,066	1,371,695
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	159,456	168,114
Gain on disposal of fixed assets	-	(2,759)
Changes in:		
Grants and other receivables	439,971	(428,628)
Prepaid expenses	(929)	8,165
Accounts payable	12,714	(21,890)
Accrued expenses	33,677	54,972
Deferred revenue	<u>41,934</u>	<u>1,200</u>
Net cash provided by operating activities	<u>\$ 1,758,889</u>	<u>1,150,869</u>
Supplemental schedule of cash flow information:		
Cash paid during the year for interest	<u>\$ 13,951</u>	<u>15,701</u>
Fully depreciated fixed asset disposals	<u>\$ -</u>	<u>334,379</u>

See accompanying notes to financial statements.

KING CENTER CHARTER SCHOOL

Notes to Financial Statements

June 30, 2018 and 2017

(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 447 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 temporarily or permanently restricted net assets.

(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.

(f) Concentration of Credit Risk

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

KING CENTER CHARTER SCHOOL  
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(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, 2018 and 2017, no impairment in value has been recognized.

(j) Public School District Revenue

The School receives per pupil aid which is passed through several school districts. The Buffalo Public School District provides the largest portion of public school district revenue. New York State Education Department mandates the rate per pupil. For the years ended June 30, 2018 and 2017, the per pupil rate was \$13,005 and \$12,505, respectively, for the Buffalo Public School District.

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.

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, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 35,776	35,776
Building	345,828	345,828
Building improvements	2,344,742	2,317,860
Office equipment	45,579	41,194
Instructional equipment	277,629	261,610
Maintenance equipment	5,897	4,248
Construction in progress	4,800	-
Vehicles	33,750	33,750
Cafeteria equipment	<u>1,082</u>	<u>1,082</u>
	3,095,083	3,041,348
Less accumulated depreciation	<u>(532,695)</u>	<u>(373,239)</u>
Net property and equipment	\$ <u>2,562,388</u>	<u>2,668,109</u>

(3) Capital Lease Obligation

The School leases a boiler under a capital lease agreement. This lease obligation and the related equipment was placed into service on October 1, 2016. The following is a summary of equipment under capital lease obligation at June 30, 2018 and 2017. Depreciation expense reported on the statements of functional expenses of \$31,098 for the equipment under capital lease.

	<u>2018</u>	<u>2017</u>
Capital lease obligation	\$ 321,222	420,059
Less amounts representing interest on capital lease obligation	<u>(19,885)</u>	<u>(33,381)</u>
Capital lease obligation, net of interest	301,337	386,678
Less current portion	<u>(88,712)</u>	<u>(85,341)</u>
Capital lease obligation, excluding current portion	\$ <u>212,625</u>	<u>301,337</u>

The related future minimum lease payments as of June 30, 2018 are as follows:

2019	\$ 98,838
2020	98,838
2021	98,838
2022	<u>24,708</u>
Total minimum lease payments	\$ <u>321,222</u>

KING CENTER CHARTER SCHOOL  
Notes to Financial Statements, Continued

(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 (6% at June 30, 2018). This is a demand note and substantially all of the School's assets are secured under the loan. At June 30, 2018 and 2017, there was no balance on the line.

(5) 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.

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 an actuarially determined rate. The rates for NYSTRS were 9.80% and 11.72% of the annual covered payroll as of June 30, 2018 and 2017, respectively. Required annual contributions of \$279,454 and \$281,356 were paid to NYSTRS by the School for the years ended June 30, 2018 and 2017, respectively.

(6) Defined Contribution Plan

The School sponsors a 401(k) contributory defined contribution plan (the Plan) covering employees who are at least 18 years of age. 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, 2018 and 2017 was \$21,840 and \$19,907, 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.

KING CENTER CHARTER SCHOOL  
Notes to Financial Statements, Continued

(7) 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.

(8) Escrow Reserve

As set forth in its charter, the School established an escrow reserve 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 \$75,028 and \$75,000 as of June 30, 2018 and 2017, respectively, and is included in cash in the accompanying statements of financial position.

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, 2018, 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 17, 2018.

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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

## 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.

EFPR Group, CPAs, PLLC

Williamsville, New York  
October 17, 2018

## REPORT TO THE BOARD

October 17, 2018

The Board of Directors  
King Center Charter School

Dear Board Members:

We have audited the financial statements of King Center Charter School (the School) for the year ended June 30, 2018, and have issued our report thereon dated October 17, 2018. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 11, 2018. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2018. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

For the year ended June 30, 2018, we evaluated the key factors and assumptions used by management in determining that accounting estimates were reasonable in relation to the financial statements taken as a whole.

### Sensitive Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There most sensitive disclosure affecting the financial statements was the disclosure of the contingency in note 7.

### Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no material uncorrected misstatements detected as a result of our audit procedures.

### Disagreements with Management

For purposes of this report, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### Management Representations

We have requested certain representations from management that are included in the management representation letter.

### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Recent Accounting Standards Issued

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14 - "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities." ASU 2016-14 contains several provisions that change the presentation of and disclosures within the financial statements of a not-for-profit entity. These changes include an updated net asset classification scheme from three classes to two classes, changes in underwater endowment accounting, quantitative and qualitative disclosures regarding liquidity, a change in presentation of investment return to a net basis and a requirement to report expenses by function, nature, and an analysis showing the relationship between function and nature and the removal of the requirement for a reconciliation for statements of cash flows done on a direct basis. The guidance is effective for fiscal years beginning after December 15, 2017.

In February 2016, the FASB issued ASU 2016-02 - "Leases (Topic 842)." ASU 2016-02 modifies the current presentation of operating leases. Currently, operating leases are not recorded on the statement of financial position as obligations, rather there is a footnote disclosure that includes the expected future lease payments for operating leases. This update will now require organizations that lease assets to recognize assets and liabilities on their statement of financial position for operating leases with lease terms of more than 12 months. Operating leases will be required to recognize a right-of-use asset and a lease liability, measured at the present value of the lease payment, recognize a single lease cost, generally allocating the lease over a straight-line basis and classify all cash payments within operating activities of cash flows. These changes will require expanded footnote disclosure to enhance the financial statement user's understanding of the amount, timing and uncertainty of cash flows arising from leases. The guidance is effective for fiscal years beginning after December 15, 2019.

In June 2018, the Financial Accounting Standards Board released ASU 2018-08 which provides clarification for properly determining if transactions should be considered contributions or exchange transactions, as well as guidance for determining if a contribution is conditional. This clarification is intended to support a uniform approach for the proper recording of such transactions. For contributions, entities are also required to assess the presence of conditions that must be met as well as the presence of a right of return within the agreement. For most entities, this update will be applicable for reporting periods beginning after December 15, 2018.

\* \* \* \* \*

This information is intended solely for the use of the Board of Directors and management of King Center Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*EFPR Group, CPAs, PLLC*

EFPR GROUP, CPAs, PLLC

October 17, 2018

CONFIDENTIAL

The Board of Directors  
King Center Charter School

Dear Board Members:

We have completed our audit of the financial statements of King Center Charter School (the School) for the year ended June 30, 2018. Considering the test character of our audit, you will appreciate that reliance must be placed on adequate methods of internal control as your principal safeguard against irregularities which a test examination may not disclose. We now present for your consideration our comment and recommendation based upon observations made during our audit.

This report is intended solely for the information and use of the Board of Directors, management and others within the School.

Information Technology

We noted that the Office of the New York State Comptroller (OSC) issued a Report of Examination for Information Technology for King Center Charter School in 2018. We reviewed the results of the OSC report and management's corrective action plan. During our audit, we noted several items in the corrective action plan were in process or already implemented. We recommend that the School continue to implement all items noted in their corrective action plan and monitor compliance with OSC's recommendations going forward.

\* \* \* \* \*

We wish to take this opportunity to express our appreciation for the courtesy and cooperation extended to us by the School's personnel during our audit. If you have any questions regarding the foregoing comment or wish any assistance in its implementation, please contact us at your convenience.

Very truly yours,

EFPR GROUP, CPAs, PLLC



Douglas E. Zimmerman, CPA  
Partner