

**TRUE NORTH ROCHESTER PREPARATORY
CHARTER SCHOOL**

ROCHESTER, NEW YORK

AUDITED FINANCIAL STATEMENTS

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2008

(With Comparative Totals for 2007)

OCT 8 3 2008

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
True North Rochester Preparatory Charter School

We have audited the accompanying statement of financial position of True North Rochester Preparatory Charter School as of June 30, 2008, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. 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. The prior year summarized comparative information has been derived from the financial statements of True North Rochester Preparatory Charter School as of June 30, 2007 and for the period from June 27, 2006 (date of inception) to June 30, 2007 and, in our report dated October 29, 2007, we 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 True North Rochester Preparatory Charter School as of June 30, 2008, 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 October 16, 2008, on our consideration of True North Rochester Preparatory 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, Barr & Co. LLP

Rochester, New York
October 16, 2008



TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2008

(With Comparative Totals for 2007)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 112,279	\$ 292,336
Grants and other receivables	605,559	107,254
Prepaid expenses and other current assets	-	12,074
TOTAL CURRENT ASSETS	<u>717,838</u>	<u>411,664</u>
<u>PROPERTY AND EQUIPMENT, net</u>	<u>532,703</u>	<u>355,775</u>
TOTAL ASSETS	<u>\$ 1,250,541</u>	<u>\$ 767,439</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 173,249	\$ 300,479
Deferred revenue	350,100	295,134
Note payable to related party	125,000	-
TOTAL CURRENT LIABILITIES	<u>648,349</u>	<u>595,613</u>
<u>NET ASSETS, unrestricted</u>	<u>602,192</u>	<u>171,826</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,250,541</u>	<u>\$ 767,439</u>

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

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2008
(With Comparative Totals for 2007)

	Year ended June 30, 2008	Period from June 27, 2006 (date of inception) to June 30, 2007
Operating revenue and support:		
State and local per pupil operating revenue	\$ 1,462,567	\$ 743,071
Government grants	671,856	619,158
Contributions	120,113	288,500
Other income	4,859	4,877
TOTAL OPERATING REVENUE AND SUPPORT	<u>2,259,395</u>	<u>1,655,606</u>
Expenses:		
Program services - education	1,585,640	1,318,455
General and administrative	243,389	165,325
TOTAL EXPENSES	<u>1,829,029</u>	<u>1,483,780</u>
CHANGE IN NET ASSETS	430,366	171,826
Unrestricted net assets at beginning of year	<u>171,826</u>	<u>-</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 602,192</u>	<u>\$ 171,826</u>

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

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2008
 (With Comparative Totals for 2007)

	Year ended June 30, 2008			Period from June 27, 2006 (date of inception) to June 30, 2007
	Program services - education	General and administrative	Total	Total
Salaries	\$ 873,865	\$ 117,213	\$ 991,078	\$ 598,084
Payroll taxes and employee benefits	169,009	22,676	191,685	105,321
Occupancy	116,938	-	116,938	120,895
Repairs and maintenance	49,960	199	50,159	43,325
Textbooks	6,462	-	6,462	8,164
Instructional supplies and assessments	37,403	-	37,403	33,032
Computer and technology support	15,246	-	15,246	15,133
Student enrichment and services	80,122	-	80,122	56,511
Professional development	40,848	-	40,848	26,836
Contributions	-	-	-	300,000
Professional services	-	9,610	9,610	28,200
Telephone	-	19,487	19,487	9,407
Insurance	-	16,092	16,092	15,000
Management fees	132,728	23,423	156,151	79,824
Office expense	13,072	27,994	41,066	29,307
Depreciation	49,987	244	50,231	9,403
Other	-	6,451	6,451	5,338
	<u>\$ 1,585,640</u>	<u>\$ 243,389</u>	<u>\$ 1,829,029</u>	<u>\$ 1,483,780</u>

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

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2008
(With Comparative Totals for 2007)

	Year ended June 30, 2008	Period from June 27, 2006 (date of inception) to June 30, 2007
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 430,366	\$ 171,826
Adjustments to reconcile change in net assets to net cash (used for) provided from operating activities:		
Depreciation	50,231	9,403
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(498,305)	(107,254)
Prepaid expenses and other current assets	12,074	(12,074)
Accounts payable and accrued expenses	(127,230)	300,479
Deferred revenue	54,966	295,134
NET CASH (USED FOR) PROVIDED FROM OPERATING ACTIVITIES	(77,898)	657,514
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(277,159)	(365,178)
Proceeds from disposal of property and equipment	50,000	-
NET CASH USED FOR INVESTING ACTIVITIES	(227,159)	(365,178)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
Proceeds from note payable to related party	125,000	-
NET CASH PROVIDED FROM FINANCING ACTIVITIES	125,000	-
NET (DECREASE) INCREASE IN CASH	(180,057)	292,336
Cash at beginning of year	292,336	-
CASH AT END OF YEAR	\$ 112,279	\$ 292,336

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

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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

The Charter School

True North Rochester Preparatory Charter School (the "Charter School"), is an educational corporation operating as a charter school in Rochester, New York. On June 27, 2006, 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 all students to enter, succeed in and graduate from outstanding college preparatory high schools and 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, 2008 or 2007.

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, 2008 or 2007.

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.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2008 AND 2007

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 in bank deposit accounts which, at times, may exceed federally insured limits. Uninsured balances at June 30, 2008 approximated \$28,000. The Charter School has not experienced any losses in such accounts.

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, 2008 or 2007.

Property and equipment

Property and equipment are recorded at cost. Depreciation 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.

Tax exempt status

The Charter School is a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and applicable state regulations and, accordingly, is exempt from federal and state taxes on income.

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.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2008 AND 2007

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

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.

Comparatives for period from June 27, 2006 (date of inception) to June 30, 2007

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the period from June 27, 2006 (date of inception) to June 30, 2007, from which the summarized information was derived.

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 September 26, 2006, 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 expense 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 year ended June 30, 2008 and the period from June 27, 2006 (date of inception) to June 30, 2007 was \$156,151 and \$79,824, respectively.

The Charter School entered into a line of credit agreement with USI on June 27, 2008 for \$125,000. The line of credit is interest free and payable in full when the School's cash flow is deemed high enough to cover two months of annual expenses. The balance due at June 30, 2008 was \$125,000. The balance was paid in full during July 2008.

The Charter School leases its facilities from True North Rochester Real Estate LLC, a wholly-owned subsidiary of USI, through July 2011 with renewable terms of four successive periods of five years. Rent expense incurred for the year ended June 30, 2008 and the period from June 27, 2006 (date of inception) to June 30, 2007 was \$76,862 and \$94,802, respectively. Rent is calculated based on a formula of certain expenses of the landlord.

At June 30, 2008 and 2007 approximately \$28,000 and \$20,000, respectively, are included in accounts receivable relating to USI. At June 30, 2008 and 2007, approximately \$94,000 and \$137,000, respectively, are included in accounts payable relating to USI.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2008 AND 2007

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
Furniture and fixtures	\$ 73,770	\$ 33,811
Computer software	76,988	27,655
Leasehold improvements	441,579	303,712
	<u>592,337</u>	<u>365,178</u>
Less accumulated depreciation	59,634	9,403
	<u>\$ 532,703</u>	<u>\$ 355,775</u>

NOTE D: COMMITMENTS

The Charter School leases office equipment under non-cancelable lease agreements expiring at various dates through September 2011. The future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2009	\$ 10,161
2010	7,200
2011	3,735
2012	314
	<u>\$ 21,410</u>

During January 2008, the Charter School entered into a contract for capital improvements to their facility for approximately \$350,000. As of June 30, 2008, approximately \$126,000 of the improvements have been completed and recorded as property and equipment in the accompanying statement of financial position.

NOTE E: RETIREMENT PLAN

The Charter School sponsors a defined contribution 403(b) plan covering most employees. The Charter School matches employee's contributions up to 3% of gross payroll. The Charter School's total contribution to the Plan for the year ended June 30, 2008 and the period from June 27, 2006 (date of inception) to June 30, 2007 approximated \$23,800 and \$12,000, respectively.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2008 AND 2007

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: MAJOR GRANTORS

Two public start-up grants accounted for more than ten percent of total operating revenue and support as follows:

<u>Grantor</u>	<u>Percent of operating revenue and support</u>	
	<u>Year ended June 30, 2008</u>	<u>Period from June 27, 2006 (date of inception) to June 30, 2007</u>
A	16%	18%
B	*	16%

* Less than 10% of total operating revenue and support.

NOTE H: CONCENTRATION

At June 30, 2008, approximately 95% of accounts receivable are due from New York State.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL
REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

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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

Board of Trustees
True North Rochester Preparatory Charter School

We have audited the financial statements of True North Rochester Preparatory Charter School as of June 30, 2008, and have issued our report thereon dated October 16, 2008. 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 True North Rochester Preparatory 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 True North Rochester Preparatory 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Charter School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Charter School's financial statements that is more than inconsequential will not be prevented or detected by the Charter School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Charter School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 True North Rochester Preparatory 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 True North Rochester Preparatory Charter School in a separate letter dated October 16, 2008.

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, 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, Barr & Co. LLP

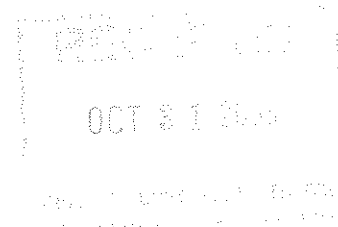
Rochester, New York
October 16, 2008



**TRUE NORTH ROCHESTER PREPARATORY
CHARTER SCHOOL**

ADVISORY COMMENT LETTER

JUNE 30, 2008



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October 16, 2008

To the Board of Trustees
True North Rochester Preparatory Charter School

In planning and performing our audit of the financial statements of True North Rochester Preparatory Charter School as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter School's internal control over financial reporting (internal control) 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 the Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

During the course of our audit of the financial statements of True North Rochester Preparatory Charter School as of and for the year ended June 30, 2008, we observed the Charter School's significant accounting policies and procedures and certain business, financial and administrative practices. As a result of our observations, we suggest you consider the following comments which we do not consider to be significant deficiencies or material weaknesses:

State Aid Reconciliation

We noted that it may be possible for a Charter School to continue to receive state aid for students who have left school, whether due to oversight on the part of management while completing the year-end reconciliation or due to intentional misstatement. The procedures currently in place do not appear to result in any of these errors, but may benefit from an additional check for accuracy.

Recommendation

We recommend that prior to submission to the Rochester City School District, management implement a review and approval process for the year-end reconciliation that involves documented confirmation by two individuals familiar with the students attendance during the applicable school year.

Form 990

The Internal Revenue Service has released a new version of the Form 990 that will be effective for entities filing on or after December 31, 2008 with transitional relief for smaller organizations over a three year period. The stated goals of the revised Form 990 are to enhance transparency and promote compliance. Many questions require additional disclosures, explanations and descriptions and many questions focus on policies and procedures that may or may not be in place.

Recommendation

We recommend that management gain an understanding of the changes to the Form 990 to be prepared to gather the necessary information to be able to complete the revised Form.

Status of matters included in our letter as of June 30, 2007, dated October 29, 2007

Capitalization of Property and Equipment

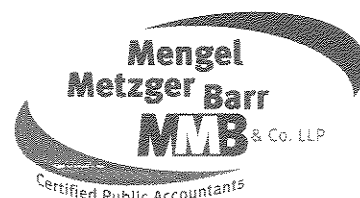
The cost of property and equipment, including installation and delivery costs, where applicable, should be capitalized and depreciated over their estimated useful lives. Due to prior auditor practices, the capitalization of property and equipment is currently being recorded on an annual basis at the end of the fiscal year.

Recommendation

We recommend the Charter School develop a capitalization policy whereby property and equipment purchases exceeding a certain dollar amount are capitalized if their useful life is greater than one year. In addition, we recommend the Charter School capitalize property and equipment as it is being purchased as opposed to preparing an entry on an annual basis. This would aid management in generating more accurate monthly reports and would also improve the ability to monitor property and equipment purchases.

Status as of June 30, 2008

During the current fiscal year management implemented a capitalization policy however management continued to capitalize property and equipment on an annual basis. Based upon discussions with management, they believe that the current method allows for closer monitoring of property and equipment purchases made throughout the year by comparing amounts to the budget, which is prepared based upon cash expenditures rather than expenses incurred under generally accepted accounting principles.



Purchasing Procedures

In accordance with the Uncommon Schools, Inc. (USI) Operations Manual, obtaining multiple quotes for purchases over \$2,000 is generally required. During our audit, we noted that while Management does attempt to obtain multiple bids for large purchases, this information is often not documented and retained with the completed purchase order. In addition, the Board adopted a policy requiring advance approval by the Board Chair or Finance Committee Chair of all payments greater than \$15,000. We noted no evidence that this policy was being followed throughout the year.

Recommendation

We understand management is working to improve the competitive bidding process at the Charter School. We recommend documentation of multiple quotes be retained with the approved purchase order, including rationale for selecting a vendor other than the lowest bidder. In addition, we recommend that Board approval for payments greater than \$15,000 be documented. This documentation can occur in the meeting minutes or on a separate form attached to the approved payment.

Status as of June 30, 2008

Based on discussions with management, it appears the Charter School is complying with their competitive bidding process and obtaining approval from the Board for payments greater than \$15,000, however documentation of these procedures is not regularly prepared. We recommend that written documentation of these actions be retained with the approved purchase order or payment.

Risk Assessment Standards

Statements on Auditing Standards 104-111 (Risk Assessment Standards) will be effective for the audits with periods beginning on or after December 15, 2006; therefore they will be effective for True North Rochester Preparatory Charter School for the year ended June 30, 2008. These standards require additional documentation relating to the Charter School and its operating environment, including its internal control structure. This additional documentation is required to identify the risks of material misstatement in relation to the financial statements and the controls in place to mitigate those risks. This is a significant change in the methodology of how audits have been planned for many organizations. In the past, it was common for audits of most organizations to be planned with a focus on substantive procedures with no testing or reliance on controls. Due to the fact that controls were not being relied upon, there was no requirement to document and assess the controls in place. Internal controls are now required to be documented and assessed on all audit engagements.

Recommendation

In order to prepare for these new auditing standards, we recommend the Charter School document the procedures and controls that are currently in place with regard to financial matters. By documenting these procedures and controls, it will allow the Charter School's financial statements to be audited in accordance with the new risk standards. In addition, the documentation will enable the Charter School to better understand its operating environment and internal controls so that risks can be assessed internally. This documentation may also serve as a guide in the orientation of new employees to help them better understand the operating environment of the Charter School.

Status as of June 30, 2008

During our audit, we noted that the Charter School documented its procedures and controls through the use of the Uncommon Schools, Inc. (USI) Operations Manual.



* * * * *

We believe that the implementation of these recommendations will improve the controls in place and efficiency of the Charter School's internal control.

This communication is intended solely for the information and use of Management, Finance Committee Members and Board Members and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the outstanding cooperation from your staff that our personnel received during the audit of the Charter School's financial statements. Should you have any questions or comments, please contact Michelle Cain or Jackie Boone.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

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