

**TRUE NORTH ROCHESTER PREPARATORY  
CHARTER SCHOOL**

**ROCHESTER, NEW YORK**

**AUDITED FINANCIAL STATEMENTS**

**OTHER FINANCIAL INFORMATION**

**SCHEDULES REQUIRED BY GOVERNMENT  
AUDITING STANDARDS AND OMB CIRCULAR A-133**

**AND**

**INDEPENDENT AUDITORS' REPORTS**

**JUNE 30, 2011**

**(With Comparative Totals for 2010)**

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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, 2011, 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, 2010 and for the year then ended and, in our report dated October 29, 2010, 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 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, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011, 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, Barw & Co. LLP*

Rochester, New York  
October 26, 2011

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011

(With Comparative Totals for 2010)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 557,321	\$ 198,751
Grants and other receivables	312,883	954,048
Pledge receivable	29,317	57,966
Prepaid expenses and other current assets	<u>142,489</u>	<u>4,794</u>
TOTAL CURRENT ASSETS	1,042,010	1,215,559
 <u>PROPERTY AND EQUIPMENT</u> , net of accumulated depreciation of \$505,028 and \$295,016, respectively		
	<u>1,022,563</u>	<u>751,183</u>
TOTAL ASSETS	<u>\$ 2,064,573</u>	<u>\$ 1,966,742</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 479,124	\$ 493,921
Deferred revenue	100,000	-
Note payable to related party	<u>-</u>	<u>350,000</u>
TOTAL CURRENT LIABILITIES	579,124	843,921
 <u>NET ASSETS</u> , unrestricted	 <u>1,485,449</u>	 <u>1,122,821</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,064,573</u>	<u>\$ 1,966,742</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, 2011  
(With Comparative Totals for 2010)

	<u>Year ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Operating revenue and support:		
State and local per pupil operating revenue	\$ 5,534,029	\$ 2,984,082
Government grants	1,056,296	442,693
Contributions	236,210	524,103
Other income	4,846	1,893
TOTAL OPERATING REVENUE AND SUPPORT	<u>6,831,381</u>	<u>3,952,771</u>
Expenses:		
Program services - education	5,464,404	3,330,211
General and administrative	1,004,349	544,829
TOTAL EXPENSES	<u>6,468,753</u>	<u>3,875,040</u>
CHANGE IN NET ASSETS	362,628	77,731
Unrestricted net assets at beginning of year	<u>1,122,821</u>	<u>1,045,090</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 1,485,449</u>	<u>\$ 1,122,821</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, 2011  
(With Comparative Totals for 2010)

	Year ended June 30,			2010
	2011			
Program services - education	General and administrative	Total	Total	
Salaries	\$ 2,606,108	\$ 266,959	\$ 2,873,067	\$ 1,949,696
Payroll taxes and employee benefits	500,346	51,253	551,599	370,952
Occupancy	272,414	-	272,414	165,932
Grant pass-through	16,850	-	16,850	-
Repairs and maintenance	234,058	27,494	261,552	98,745
Textbooks	46,733	-	46,733	4,587
Instructional supplies and assessments	146,057	-	146,057	63,810
Computer and technology support	158,917	-	158,917	38,640
Student enrichment and services	597,736	-	597,736	365,469
Professional development	168,911	-	168,911	147,847
Professional services	-	27,545	27,545	13,465
Telephone	-	49,825	49,825	22,786
Insurance	-	61,230	61,230	30,637
Management fees	448,407	79,131	527,538	308,003
Office expense	60,231	117,488	177,719	160,754
Depreciation and amortization	207,636	2,376	210,012	133,493
Bad debts	-	289,598	289,598	-
Other	-	31,450	31,450	224
	<u>\$ 5,464,404</u>	<u>\$ 1,004,349</u>	<u>\$ 6,468,753</u>	<u>\$ 3,875,040</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, 2011  
(With Comparative Totals for 2010)

	<u>Year ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 362,628	\$ 77,731
Adjustments to reconcile change in net assets to net cash provided from (used for) operating activities:		
Depreciation and amortization	210,012	133,493
Bad debt expense	289,598	-
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	351,567	(640,386)
Pledge receivable	28,649	27,997
Prepaid expenses and other current assets	(137,695)	(4,150)
Accounts payable and accrued expenses	(14,797)	307,982
Deferred revenue	<u>100,000</u>	<u>-</u>
NET CASH PROVIDED FROM (USED FOR) OPERATING ACTIVITIES	1,189,962	(97,333)
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	<u>(481,392)</u>	<u>(144,082)</u>
NET CASH USED FOR INVESTING ACTIVITIES	(481,392)	(144,082)
<u>CASH FLOWS - FINANCING ACTIVITIES</u>		
(Repayment of) proceeds from note payable to related party	<u>(350,000)</u>	<u>350,000</u>
NET CASH (USED FOR) PROVIDED FROM FINANCING ACTIVITIES	<u>(350,000)</u>	<u>350,000</u>
NET INCREASE IN CASH	358,570	108,585
Cash at beginning of year	<u>198,751</u>	<u>90,166</u>
CASH AT END OF YEAR	<u>\$ 557,321</u>	<u>\$ 198,751</u>

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



TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

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. On January 10, 2011, the Charter School was granted a five year charter renewal good through June 27, 2016.

The Charter School’s mission is to prepare all students to enter and succeed in college through effort, achievement and the content of their character.

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 or 2010.

*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 or 2010.

*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, 2011 AND 2010

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 and certain money market 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 any significant risk in cash.

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 or 2010.

Pledge receivable

Pledge receivable represents an unconditional promise to give of \$30,000 per year over 4 years, through June 30, 2012. The amount to be collected in future years is recorded at the present value of estimated future collections. A discount of \$683 at June 30, 2011 on those amounts is computed using an interest rate applicable to the year in which the promise is received (2.33%). Discount amortization is included in contribution revenue. There was no allowance for uncollectible pledge receivable at June 30, 2011 or 2010.

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 seven 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.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011 AND 2010

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

Cont'd

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.

The Charter School has filed for and received 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. With few exceptions, as of June 30, 2011, the Charter School is no longer subject to U.S. federal income tax examinations by tax authorities for the years ended prior to June 30, 2008. The tax returns for the years ended June 30, 2008 through June 30, 2011 are still subject to potential audit by the IRS. The Charter School adopted the provisions of FASB ASC 740-10 *Accounting for Uncertainty in Income Taxes* and its related amendment on July 1, 2009. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it has not recognized 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 26, 2011, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

Comparatives for period from June 30, 2010

The financial statements include certain prior year summarized comparative information in total but not by functional classification. 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 year ended June 30, 2010, from which the summarized information was derived.

Reclassifications

Certain 2010 amounts have been reclassified to conform with the 2011 presentation.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011 AND 2010

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 years ended June 30, 2011 and 2010 was \$527,538 and \$308,003, respectively. This agreement was renewed for an additional five years effective July 1, 2011. The fee will decrease to 8.5% for year one, decreasing to 8% for years two through five.

The Charter School entered into two line of credit agreements with USI during fiscal 2010 totaling \$350,000. The lines of credit were interest free and payable in full when the School's cash flow was deemed high enough to cover two months of annual expenses. At June 30, 2010, \$350,000 was outstanding on these lines of credit. The total was paid in full as of June 30, 2011.

The Charter School leases its Middle School facilities from True North Rochester Real Estate LLC, a wholly-owned subsidiary of USI. The lease agreement expires in July 2011 and is renewable in four successive periods of five years. Rent for this lease is calculated based on a formula of certain expenses of the landlord. The Charter School is currently in the process of renewing the lease.

The Charter School leases its Elementary School facilities from True North Rochester Real Estate Ames Street, LLC, a wholly-owned subsidiary of USI. The lease agreement expires in March 2025, but will terminate if the Charter School's charter is not renewed. Rent for this lease is approximately \$10,600 per month and will increase annually until it reaches approximately \$11,300 per month in February 2017, at which point the monthly rental payment will be reset as defined in the lease. The Charter School is also responsible for all other expenses relating to the property. At June 30, 2011, the Charter School was in compliance with its financial covenant.

Rent expense incurred for the years ended June 30, 2011 and 2010 was \$195,958 and \$86,727, respectively.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011 AND 2010

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

The future minimum lease payments for the Elementary School are approximately as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2012	\$ 128,000
2013	129,000
2014	131,000
2015	132,000
2016	133,000
Thereafter	<u>101,000</u>
	<u>\$ 754,000</u>

At June 30, 2011 and 2010 approximately \$5,300 and \$164,000, respectively, are included in accounts receivable relating to USI, primarily from grants passed through USI. At June 30, 2011 and 2010, approximately \$61,800 and \$232,000, respectively, are included in accounts payable relating to USI.

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Furniture and fixtures	\$ 116,121	\$ 89,848
Computer equipment and software	420,114	156,252
Leasehold improvements	<u>991,356</u>	<u>800,099</u>
	1,527,591	1,046,199
Less accumulated depreciation and amortization	<u>505,028</u>	<u>295,016</u>
	<u>\$ 1,022,563</u>	<u>\$ 751,183</u>

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2011 AND 2010

NOTE D: COMMITMENTS

The Charter School leases office equipment under non-cancelable lease agreements expiring at various dates through October 2014. The approximate future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2012	\$ 25,000
2013	22,000
2014	10,000
2015	2,000
	<u>\$ 59,000</u>

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, not to exceed \$3,500. The Charter School's total contribution to the Plan for the years ended June 30, 2011 and 2010 approximated \$53,600 and \$33,000, respectively.

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 and 2010, approximately 36% and 53% of accounts receivable are due from New York State, respectively.

During the years ended June 30, 2011 and 2010, 81% and 75%, respectively, 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's students are located.

**TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL**

**OTHER FINANCIAL INFORMATION**



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees  
True North Rochester Preparatory Charter School

Our report on our audit of the basic financial statements of True North Rochester Preparatory Charter School as of June 30, 2011 and for the year then ended 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 26, 2011



TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

SCHEDULE OF MIDDLE SCHOOL AND ELEMENTARY SCHOOL ACTIVITIES

YEAR ENDED JUNE 30, 2011

	<u>Middle School</u>	<u>Elementary School</u>	<u>Total</u>
State and local per pupil operating revenue	\$ 3,503,739	\$ 2,030,290	\$ 5,534,029
Government grants	582,771	473,525	1,056,296
Contributions	42,440	193,770	236,210
Other income	<u>3,639</u>	<u>1,207</u>	<u>4,846</u>
TOTAL OPERATING REVENUE AND SUPPORT	4,132,589	2,698,792	6,831,381
Salaries	1,799,430	1,073,637	2,873,067
Payroll taxes and employee benefits	376,911	174,688	551,599
Occupancy	96,520	175,894	272,414
Grant pass-through	-	16,850	16,850
Repairs and maintenance	104,620	156,932	261,552
Textbooks	2,645	44,088	46,733
Instructional supplies and assessments	68,119	77,938	146,057
Computer and technology supplies	72,666	86,251	158,917
Student enrichment and services	377,969	219,767	597,736
Professional development	84,234	84,677	168,911
Professional services	19,495	8,050	27,545
Telephone	28,180	21,645	49,825
Insurance	44,615	16,615	61,230
Management fees	334,952	192,586	527,538
Office expense	121,891	55,828	177,719
Depreciation and amortization	181,584	28,428	210,012
Bad debts	289,598	-	289,598
Other	<u>14,869</u>	<u>16,581</u>	<u>31,450</u>
TOTAL EXPENSES	<u>4,018,298</u>	<u>2,450,455</u>	<u>6,468,753</u>
CHANGE IN NET ASSETS	<u>\$ 114,291</u>	<u>\$ 248,337</u>	<u>\$ 362,628</u>

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

SCHEDULE OF MIDDLE SCHOOL AND ELEMENTARY SCHOOL ACTIVITIES

YEAR ENDED JUNE 30, 2010

	<u>Middle School</u>	<u>Elementary School</u>	<u>Total</u>
State and local per pupil operating revenue	\$ 2,984,082	\$ -	\$ 2,984,082
Government grants	442,693	-	442,693
Contributions	193,753	330,350	524,103
Other income	<u>1,893</u>	<u>-</u>	<u>1,893</u>
TOTAL OPERATING REVENUE AND SUPPORT	3,622,421	330,350	3,952,771
Salaries	1,748,837	200,859	1,949,696
Payroll taxes and employee benefits	361,691	9,261	370,952
Occupancy	101,889	64,043	165,932
Repairs and maintenance	97,240	1,505	98,745
Textbooks	4,587	-	4,587
Instructional supplies and assessments	63,800	10	63,810
Computer and technology supplies	38,547	93	38,640
Student enrichment and services	365,012	457	365,469
Professional development	106,417	41,430	147,847
Professional services	13,465	-	13,465
Telephone	22,348	438	22,786
Insurance	30,637	-	30,637
Management fees	308,003	-	308,003
Office expense	160,714	40	160,754
Depreciation and amortization	132,568	925	133,493
Other	<u>224</u>	<u>-</u>	<u>224</u>
TOTAL EXPENSES	<u>3,555,979</u>	<u>319,061</u>	<u>3,875,040</u>
CHANGE IN NET ASSETS	<u>\$ 66,442</u>	<u>\$ 11,289</u>	<u>\$ 77,731</u>

**TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL**  
**SCHEDULES REQUIRED BY GOVERNMENT AUDITING STANDARDS**  
**AND OMB CIRCULAR A-133**



# 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  
True North Rochester Preparatory Charter School

We have audited the financial statements of True North Rochester Preparatory Charter School as of June 30, 2011, and have issued our report thereon dated October 26, 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 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 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 26, 2011.

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 26, 2011



# MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133 AND SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS

Board of Trustees  
True North Rochester Preparatory Charter School

Compliance

We have audited True North Rochester Preparatory Charter School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. True North Rochester Preparatory Charter School's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of True North Rochester Preparatory Charter School's management. Our responsibility is to express an opinion on True North Rochester Preparatory Charter School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about True North Rochester Preparatory Charter School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on True North Rochester Preparatory Charter School's compliance with those requirements.

As described in item 2011-1 in the accompanying schedule of findings and questioned costs, True North Rochester Preparatory Charter School did not comply with documentation requirements regarding special tests and provisions that are applicable to its Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion, for True North Rochester Preparatory Charter School to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, True North Rochester Preparatory Charter School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

#### Internal Control Over Compliance

Management of True North Rochester Preparatory Charter School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered True North Rochester Preparatory Charter School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-2 to be a significant deficiency.

True North Rochester Preparatory Charter School's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit True North Rochester Preparatory Charter School's responses and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of True North Rochester Preparatory Charter School as of and for the year ended June 30, 2011, and have issued our report thereon dated October 26, 2011, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments and Non-Profit Organizations* 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 financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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 26, 2011



TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

	<u>Federal CFDA Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Agriculture:		
<u>Passed through New York State Education Department:</u>		
School Breakfast Program	10.553	86,189
National School Lunch Program	10.555	<u>219,940</u>
Total U.S. Department of Agriculture		306,129
 U.S. Department of Education:		
<u>Passed through New York State Education Department:</u>		
Title I Grants to Local Educational Agencies	84.010	288,753
Title IIA Improving Teacher Quality	84.367	12,348
Special Education - Grants to States IDEA Part B	84.027A	\$ 17,333
ARRA - Special Education - Grants to States IDEA Part B	84.391	9,072
<u>Passed through Uncommon Schools, Inc.:</u>		
Grants for the Replication and Expansion of High-Quality Charter Schools	84.282M	<u>200,000</u>
Total U.S. Department of Education		527,506
TOTAL ALL PROGRAMS		<u>\$ 833,635</u>

NOTE A: BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the federal grant activity of True North Rochester Preparatory Charter School and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2011

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness (es) identified? \_\_\_\_\_ yes   x   no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes   x   none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes   x   no

Federal Awards

Internal control over major programs:

- Material weakness (es) identified? \_\_\_\_\_ yes   x   no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?   x   yes \_\_\_\_\_ none reported

Type of auditors' report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?   x   yes \_\_\_\_\_ no

Identification of major programs:

<i>CFDA Number:</i>	<i>Name of Federal Program or Cluster:</i>
10.553	School Breakfast Program
10.555	National School Lunch Program
84.010	Title I Grants to Local Educational Agencies
84.367	Title IIA Improving Teacher Quality

Dollar threshold used to distinguish between type A and type B programs:   \$300,000  

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes   x   no

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Cont'd

YEAR ENDED JUNE 30, 2011

FINDINGS AND QUESTIONED COSTS – FINANCIAL STATEMENT AUDIT

None.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

**Finding 2011-1**

National School Lunch Program, CFDA Number 10.555

Statement of Condition

The Charter School did not retain sufficient documentation of the sample of students selected for verification of eligibility for free and reduced price meals or of changes made to eligibility based on the results of the verification as required by the Child Nutrition program.

Criteria and effect on conditions

The Charter School is required to select a sample of free and reduced price meal applications on file as of October 1st, subject to the sample selection guidance included in the program requirements, and obtain information to verify the income and eligibility status of the applications selected. If the verification process reveals any changes in eligibility, appropriate changes must be made and documented. Based on discussions with management, the Charter School performed the verification as required by the Child Nutrition program, however, a roster of students subject to verification and documentation of any changes made as a result of the verification process were not retained.

Recommendation

We recommend management of the Charter School retains documentation detailing the process of verification as required by the Child Nutrition program, including a roster of students selected for verification and any changes to eligibility made as a result of the verification process.

Management's Response:

True North Rochester Preparatory Charter school will continue to verify the income and eligibility status of the free and reduced price meal applications, as well as maintain the collected documentation, per Child Nutrition Program guidelines. The School will ensure that it keeps the list of students selected for the verification as well as document any changes to application status after verification is performed.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Cont'd

YEAR ENDED JUNE 30, 2011

**Finding 2011-2**

National School Lunch Program, CFDA Number 10.555 and School Breakfast Program, CFDA 10.553

Statement of Condition

True North Rochester Preparatory Charter School does not have a process to ensure vendors are not suspended or debarred when utilizing federal funding for procurement transactions in excess of \$25,000.

Criteria and effect of conditions

Management was unaware of this requirement imposed by applicable cost circulars. This condition increases the risk that the Charter School could have unallowable costs charged to federal programs due to payments made to a debarred or suspended party. During our auditing procedures we did not note any debarred or suspended parties to whom the Charter School disbursed federal funding.

Recommendation

Management should ensure that for Federal programs, all vendors used for procurement transactions in excess of \$25,000 are reviewed and compared to the Federal Debarred Vendor List to determine whether they are a debarred or suspended party prior to awarding a contract or disbursing funds.

Management's Response:

For all Federal programs, True North Rochester Preparatory Charter School will review the Federal Debarred Vendor List to ensure that vendors used for procurement transactions in excess of \$25,000 are not debarred or suspended by the Federal government.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None.