

**TRUE NORTH ROCHESTER PREPARATORY
CHARTER SCHOOL**

ROCHESTER, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2013

(With Comparative Totals for 2012)



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
True North Rochester Preparatory Charter School

Report on the Financial Statements

We have audited the accompanying statement of financial position of True North Rochester Preparatory Charter School as of June 30, 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended and the related notes to the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 entity'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 entity'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 True North Rochester Preparatory Charter School as of June 30, 2013, and 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.

Report on Summarized Comparative Information

We have previously audited True North Rochester Preparatory Charter School's June 30, 2012 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 15, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the financial statements from which it has been derived.

Other Report Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2013 on our consideration of True North Rochester Preparatory 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 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 23, 2013

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013

(With Comparative Totals for 2012)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 1,765,418	\$ 1,104,306
State and local per pupil receivable	69,296	28,650
Grants and other receivables	264,602	306,938
Prepaid expenses and other current assets	<u>6,648</u>	<u>11,180</u>
TOTAL CURRENT ASSETS	2,105,964	1,451,074
 <u>PROPERTY AND EQUIPMENT</u> , net of accumulated depreciation of \$1,150,040 and \$800,113, respectively		
	<u>1,070,623</u>	<u>1,081,418</u>
TOTAL ASSETS	<u>\$ 3,176,587</u>	<u>\$ 2,532,492</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 421,885	\$ 375,972
<u>NET ASSETS</u> , unrestricted	<u>2,754,702</u>	<u>2,156,520</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,176,587</u>	<u>\$ 2,532,492</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, 2013
(With Comparative Totals for 2012)

	<u>Year ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Operating revenue and support:		
State and local per pupil operating revenue	\$ 8,280,354	\$ 6,792,315
Government grants	1,160,270	1,229,142
Contributions	10,215	113,684
Other income	12,893	3,013
TOTAL OPERATING REVENUE AND SUPPORT	<u>9,463,732</u>	<u>8,138,154</u>
Expenses:		
Program services - education	7,735,485	6,572,805
General and administrative	1,130,065	894,278
TOTAL EXPENSES	<u>8,865,550</u>	<u>7,467,083</u>
CHANGE IN NET ASSETS	598,182	671,071
Unrestricted net assets at beginning of year	<u>2,156,520</u>	<u>1,485,449</u>
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 2,754,702</u>	<u>\$ 2,156,520</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, 2013
(With Comparative Totals for 2012)

	Year ended June 30,			2012
	2013			
Program services - education	General and administrative	Total	Total	
Salaries	\$ 4,000,516	\$ 314,849	\$ 4,315,365	\$ 3,649,393
Payroll taxes and employee benefits	773,906	59,728	833,634	688,576
Occupancy	280,354	-	280,354	276,936
Grant pass-through	-	-	-	5,500
Repairs and maintenance	276,532	42,782	319,314	234,105
Textbooks	19,286	-	19,286	35,622
Instructional supplies and assessments	132,212	-	132,212	122,355
Computer and technology support	246,826	-	246,826	280,808
Student enrichment and services	679,950	-	679,950	545,144
Professional development	292,391	-	292,391	243,666
Professional services	-	29,182	29,182	21,880
Telephone	-	104,502	104,502	82,458
Insurance	-	90,002	90,002	73,380
Management fees	588,529	103,858	692,387	604,166
Office expense	97,577	226,976	324,553	230,868
Depreciation and amortization	347,406	2,521	349,927	295,085
Bad debt expense	-	98,128	98,128	8,239
Other	-	57,537	57,537	68,902
	<u>\$ 7,735,485</u>	<u>\$ 1,130,065</u>	<u>\$ 8,865,550</u>	<u>\$ 7,467,083</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, 2013
(With Comparative Totals for 2012)

	<u>Year ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 598,182	\$ 671,071
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation and amortization	349,927	295,085
Bad debt expense	98,128	8,239
Changes in certain assets and liabilities affecting operations:		
State and local per pupil receivable	(40,646)	11,325
Grants and other receivables	(55,792)	(42,269)
Pledge receivable	-	29,317
Prepaid expenses and other current assets	4,532	131,309
Accounts payable and accrued expenses	45,913	(103,152)
Deferred revenue	-	(100,000)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	1,000,244	900,925
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(339,132)	(353,940)
NET CASH USED FOR INVESTING ACTIVITIES	(339,132)	(353,940)
NET INCREASE IN CASH	661,112	546,985
Cash at beginning of year	1,104,306	557,321
CASH AT END OF YEAR	<u>\$ 1,765,418</u>	<u>\$ 1,104,306</u>

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

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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 (GAAP). 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, 2013 or 2012.

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, 2013 or 2012.

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, 2013 AND 2012

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

Cash balances are maintained at a financial institution located in New York and are insured by the FDIC up to \$250,000 at each institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Receivables

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, 2013 or 2012.

Property and equipment

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

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013 AND 2012

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 in the U.S. federal jurisdiction. With few exceptions, as of June 30, 2013, 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, 2010. The tax returns for the years ended June 30, 2010 through June 30, 2013 are still subject to potential audit by the IRS. 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.

Comparatives for the year ended from June 30, 2012

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, 2012, from which the summarized information was derived.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 23, 2013, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted other than those discussed in Note H.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013 AND 2012

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 which was renewed for an additional five years effective July 1, 2011, 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 8.5% for 2012, and 8% for years 2013 through 2016. The fee incurred for the years ended June 30, 2013 and 2012 was \$692,387 and \$604,166, respectively. At June 30, 2013 and 2012 approximately \$7,200 and \$11,900, respectively, are included in accounts receivable relating to USI, primarily from grants passed through USI. At June 30, 2013 and 2012, approximately \$112,100 and \$75,400, respectively, are included in accounts payable relating to USI.

The Charter School is related to True North Rochester Preparatory Charter School – West Campus through common Board representation. As neither of the schools have economic interest in the net assets of the other, the facts do not require consolidation of this school with the Charter school in accordance with GAAP. At June 30, 2013 approximately \$4,200 is included in accounts receivable from True North Rochester Preparatory Charter School – West Campus.

The Charter School leases its Middle School facilities from True North Rochester Real Estate LLC, a wholly-owned subsidiary of USI. The lease agreement expired 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. At June 30, 2013, approximately \$47,800 is included in accounts receivable relating to true up of rent from True North Rochester Real Estate LLC.

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, 2013 and 2012, the Charter School was in compliance with its financial covenant.

Rent expense incurred for the years ended June 30, 2013 and 2012 was \$191,711 and \$204,695, respectively.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013 AND 2012

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>
2014	\$ 131,000
2015	132,000
2016	133,000
2017	101,000
	<u>\$ 497,000</u>

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Furniture and fixtures	\$ 141,048	\$ 118,162
Computer equipment and software	779,641	642,015
Leasehold improvements	<u>1,299,974</u>	<u>1,121,354</u>
	2,220,663	1,881,531
Less accumulated depreciation and amortization	<u>1,150,040</u>	<u>800,113</u>
	<u>\$ 1,070,623</u>	<u>\$ 1,081,418</u>

NOTE D: COMMITMENTS

The Charter School leases office equipment under non-cancelable lease agreements expiring at various dates through September 2017. The approximate future minimum payments on these agreements are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2014	\$ 50,000
2015	37,000
2016	26,000
2017	10,000
2018	6,000
	<u>\$ 129,000</u>

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2013 AND 2012

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 the lesser of 3% of gross payroll or \$3,500. Effective July 1, 2012, for employees who have 3 years of service or more the Charter School will match up to the lesser of 4% of gross payroll or \$4,000. The Charter School's total contribution to the Plan for the years ended June 30, 2013 and 2012 approximated \$90,400 and \$76,500, 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: CONCENTRATIONS

At June 30, 2013 and 2012, approximately 37% and 14% of accounts receivable are due from New York State, respectively. At June 30, 2013 and 2012, approximately 21% and 46% of accounts receivable are due from a grantor, respectively. At June 30, 2012, approximately 35% of accounts receivable are due from the Rochester City School District.

During the years ended June 30, 2013 and 2012, 87% and 83%, 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.

NOTE H: SUBSEQUENT EVENT

Effective July 1, 2013, True North Rochester Preparatory Charter School and True North Rochester Preparatory Charter School – West Campus merged in accordance with the approval of the Charter School's Board of Trustees and the New York State Board of Regents.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

OTHER FINANCIAL INFORMATION



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
True North Rochester Preparatory Charter School

We have audited the financial statements of True North Rochester Preparatory Charter School as of and for the year ended June 30, 2013, and we have issued our report thereon dated October 23, 2013, which expressed an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the 2013 financial statements as a whole. The 2013 financial information hereinafter is presented for purposes of additional analysis and is not a required part of the 2013 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2013 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2013 financial statements or to the 2013 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements for the year ended June 30, 2013, as a whole.

We have also audited the financial statements of True North Rochester Preparatory Charter School as of and for the year ended June 30, 2012, and our report thereon dated October 15, 2012, expressed an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the 2012 financial statements as a whole. The 2012 financial information hereinafter is presented for purposes of additional analysis and is not a required part of the 2012 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2012 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 financial statements or to the 2012 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements for the year ended June 30, 2012, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 23, 2013

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TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

SCHEDULE OF MIDDLE SCHOOL AND ELEMENTARY SCHOOL ACTIVITIES

YEAR ENDED JUNE 30, 2013

	<u>Middle School</u>	<u>Elementary School</u>	<u>Total</u>
State and local per pupil operating revenue	\$ 4,019,073	\$ 4,261,281	\$ 8,280,354
Government grants	484,562	675,708	1,160,270
Contributions	8,145	2,070	10,215
Other income	<u>10,935</u>	<u>1,958</u>	<u>12,893</u>
TOTAL OPERATING REVENUE AND SUPPORT	4,522,715	4,941,017	9,463,732
Salaries	2,171,283	2,144,082	4,315,365
Payroll taxes and employee benefits	432,241	401,393	833,634
Occupancy	86,076	194,278	280,354
Repairs and maintenance	152,657	166,657	319,314
Textbooks	6,364	12,922	19,286
Instructional supplies and assessments	43,369	88,843	132,212
Computer and technology supplies	128,940	117,886	246,826
Student enrichment and services	336,984	342,966	679,950
Professional development	137,214	155,177	292,391
Professional services	18,048	11,134	29,182
Telephone	55,056	49,446	104,502
Insurance	43,894	46,108	90,002
Management fees	335,068	357,319	692,387
Office expense	173,831	150,722	324,553
Depreciation and amortization	208,961	140,966	349,927
Bad debt expense	70,289	27,839	98,128
Other	<u>20,262</u>	<u>37,275</u>	<u>57,537</u>
TOTAL EXPENSES	<u>4,420,537</u>	<u>4,445,013</u>	<u>8,865,550</u>
CHANGE IN NET ASSETS	<u>\$ 102,178</u>	<u>\$ 496,004</u>	<u>\$ 598,182</u>

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

SCHEDULE OF MIDDLE SCHOOL AND ELEMENTARY SCHOOL ACTIVITIES

YEAR ENDED JUNE 30, 2012

	<u>Middle School</u>	<u>Elementary School</u>	<u>Total</u>
State and local per pupil operating revenue	\$ 3,725,621	\$ 3,066,694	\$ 6,792,315
Government grants	542,766	686,376	1,229,142
Contributions	13,684	100,000	113,684
Other income	<u>1,627</u>	<u>1,386</u>	<u>3,013</u>
TOTAL OPERATING REVENUE AND SUPPORT	4,283,698	3,854,456	8,138,154
Salaries	2,107,615	1,541,778	3,649,393
Payroll taxes and employee benefits	404,791	283,785	688,576
Occupancy	91,925	185,011	276,936
Grant pass-through	5,500	-	5,500
Repairs and maintenance	112,782	121,323	234,105
Textbooks	1,935	33,687	35,622
Instructional supplies and assessments	64,327	58,028	122,355
Computer and technology supplies	102,573	178,235	280,808
Student enrichment and services	286,269	258,875	545,144
Professional development	104,102	139,564	243,666
Professional services	10,821	11,059	21,880
Telephone	32,824	49,634	82,458
Insurance	39,767	33,613	73,380
Management fees	335,842	268,324	604,166
Office expense	119,707	111,161	230,868
Depreciation and amortization	201,779	93,306	295,085
Bad debt expense	8,239	-	8,239
Other	<u>22,531</u>	<u>46,371</u>	<u>68,902</u>
TOTAL EXPENSES	<u>4,053,329</u>	<u>3,413,754</u>	<u>7,467,083</u>
CHANGE IN NET ASSETS	<u>\$ 230,369</u>	<u>\$ 440,702</u>	<u>\$ 671,071</u>

**TRUE NORTH ROCHESTER PREPARATORY
CHARTER SCHOOL**

ROCHESTER, NEW YORK

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

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2013



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S 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, 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, the financial statements of True North Rochester Preparatory Charter School, which comprise the statement of financial position as of June 30, 2013 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered True North Rochester Preparatory Charter 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 True North Rochester Preparatory Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of True North Rochester Preparatory Charter 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 entity'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 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 True North Rochester Preparatory 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 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 other matters that we reported to management of True North Rochester Preparatory Charter School in a separate letter dated October 23, 2013.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Restricted Use

This report is intended solely for the information and use of the Board of Trustees, management, federal, state and local awarding agencies, the State University of New York, the New York State Education Department 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 23, 2013



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Board of Trustees
True North Rochester Preparatory Charter School

Report on Compliance for Each Major Federal Program

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 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, 2013. True North Rochester Preparatory Charter School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of True North Rochester Preparatory Charter School's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of True North Rochester Preparatory Charter School's compliance.

Opinion on Each Major Federal Program

In our opinion, True North Rochester Preparatory Charter School complied, in all material respects, with the types of 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, 2013.

Report on 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 types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered True North Rochester Preparatory Charter School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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 True North Rochester Preparatory 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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-001 to be a material weakness.

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.

True North Rochester Preparatory Charter School's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. True North Rochester Preparatory Charter School's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of True North Rochester Preparatory Charter School as of and for the year ended June 30, 2013, and have issued our report thereon dated October 23, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 23, 2013

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's 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	1000004543	140,312
National School Lunch Program	10.555	1000004543	<u>293,261</u>
Total U.S. Department of Agriculture			433,573
U.S. Department of Education:			
<u>Passed through New York State Education Department:</u>			
Title I - Grants to Local Educational Agencies	84.010	0021	326,046
Title IIA - Improving Teacher Quality	84.367	0147	9,074
<u>Passed through Uncommon Schools, Inc.:</u>			
CSP Grants for the Replication and Expansion of High-Quality Charter Schools	84.282M	U282M100013	<u>250,000</u>
Total U.S. Department of Education			585,120
TOTAL ALL PROGRAMS			<u>\$ 1,018,693</u>

NOTE A: BASIS OF PRESENTATION

The accompanying 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, 2013

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

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? x yes _____ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes x none reported

Type of auditor's report issued on compliance for major programs: Unmodified

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 program:

<i>CFDA Number:</i>	<i>Name of Federal Program or Cluster:</i>
84.010	Title I - Grants to Local Educational Agencies
84.367	Title IIA - Improving Teacher Quality
84.282M	CSP Grants for the Replication and Expansion of High-Quality Charter Schools

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, 2013

FINDINGS – FINANCIAL STATEMENT AUDIT

None.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding 2013-001

CSP Grants for the Replication and Expansion of High-Quality Charter Schools, CFDA Number 84.282M, Award Number U282M100013, Department of Education

Statement of condition

True North Rochester Preparatory Charter School's controls in place did not adequately verify that expenses allocated to the program were allowable costs under the grant agreement in accordance with the guidelines of the CSP Grant and 20 USC 7221c(f)(3).

Criteria and effect of conditions

During our audit procedures over compliance, we noted that there was an instance of unallowable construction costs of approximately \$75,700 charged to the grant. In accordance with the guidelines of the CSP grant, eligible usages of program funds are as follows: (1) post-award planning and design of the educational program, which may include (a) refinement of the desired educational results and of the methods for measuring progress toward achieving those results; and (b) professional development of teachers and other staff who will work in the charter school; and (2) initial implementation of the charter school, which may include (a) informing the community about the school; (b) acquiring necessary equipment and educational materials and supplies; (c) acquiring or developing curriculum materials; and (d) other initial operational costs that cannot be met from State or local sources. Improvements to facilities are not allowable costs and should not be charged to the CSP award programs in accordance with the terms of the award contract and federal guidelines for the program. Due to the nature of the CSP Grant program, management was able to allocate additional costs to the grant to replace the unallowable costs, bringing the program into compliance with the grant agreement as of June 30, 2013. However, controls over compliance did not identify the unallowable costs charged to the grant award. We consider this a material weakness in internal control over compliance.

Recommendation

We recommend management allocate expenditures throughout the year and institute a review process during the year end close process to ensure the allocation of expenses are allowable under the grant agreement.

Management's response

This mistake occurred because the general description on the Purchase Order did not indicate the full extent of the construction costs that were included in the invoice and Uncommon Schools, Inc. did not properly follow its internal process of reviewing invoice details to ensure the allocation of expenses were allowable under the grant agreement. Uncommon Schools, Inc. will modify its process so that both the grants manager and the Director of Finance is reviewing expenses allocated to grants.

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None.

**TRUE NORTH ROCHESTER PREPARATORY
CHARTER SCHOOL**

ADVISORY COMMENT LETTER

JUNE 30, 2013



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

October 23, 2013

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 (the “Charter School”) as of and for the year ended June 30, 2013, 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 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 Charter School’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Charter 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 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 was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

During the course of our audit of the financial statements of True North Rochester Preparatory Charter School as of June 30, 2013 and for year then ended, 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:

Competitive Bids

The Charter School’s policy on obtaining price comparisons is vague in that it is unclear if the identified \$2,000 threshold relates to total purchases or unit prices. During the performance of our audit procedures, we noted nine relevant purchase transactions that exceeded, in total, the \$2,000 threshold and for which there was not documented evidence of price comparison/bidding.

Recommendation

We recommend the purchasing policy be amended to more clearly identify whether the identified threshold limit reflects a per-unit basis or a total purchase cost. DOOs should maintain evidence that documents the bidding or price comparison/research process for items that exceed the unit cost threshold or purchases that exceed the total threshold.

Management’s response:

Uncommon Schools, Inc. will review its competitive bidding policy and amend the language such that the policy clearly identifies which purchases require quotes and/or bids.

Cash Transfers

The Charter School’s internal policy requires that all cash transfers be approved by the Director of Operations and Business Manager prior to the transfer taking place. We noted seven dates where transfers were made to Uncommon Schools Inc., and five dates where transfers were made True North Real Estate during the fiscal year. We haphazardly selected ten of these dates for testing. For three of the ten transfers tested, we noted signed forms were not included in the reconciliation packets. Upon further inquiry, signed forms were provided; however, we were unable to determine the timeliness of the control. None of the transfers examined were indicative of fraudulent or improper activity but were relieving liabilities generated by expenses driven by written agreements. We were able to substantiate management fee expense and rental expense during performance of other audit procedures.

Recommendation

We recommend approval of all cash transfers by the Charter School are documented prior to the transfer occurring.

Management’s Response:

Uncommon Schools, Inc. will implement an approval system by which Directors of Operations provide approval of cash transfers through electronic mail. This will provide evidence of the timeliness of the control.

* * * * *

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 Lee.

Very truly yours,

Mengel, Metzger, Barr & Co. LLP

MENGEL, METZGER, BARR & CO. LLP