

**TRUE NORTH ROCHESTER PREPARATORY  
CHARTER SCHOOL**

**ROCHESTER, NEW YORK**

**AUDITED FINANCIAL STATEMENTS**

**REPORT REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

**AND**

**INDEPENDENT AUDITORS' REPORTS**

**JUNE 30, 2009**  
**(With Comparative Totals for 2008)**

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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, 2009, 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, 2008 and for the year then ended and, in our report dated October 16, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of True North Rochester Preparatory Charter School as of June 30, 2009, 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 November 2, 2009, 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  
November 2, 2009

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2009

(With Comparative Totals for 2008)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 90,166	\$ 112,279
Grants and other receivables	313,662	605,559
Pledge receivable	85,963	-
Prepaid expenses and other current assets	644	-
TOTAL CURRENT ASSETS	<u>490,435</u>	<u>717,838</u>
<u>PROPERTY AND EQUIPMENT, net</u>	<u>740,594</u>	<u>532,703</u>
TOTAL ASSETS	<u>\$ 1,231,029</u>	<u>\$ 1,250,541</u>
 <u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 185,939	\$ 173,249
Deferred revenue	-	350,100
Note payable to related party	-	125,000
TOTAL CURRENT LIABILITIES	<u>185,939</u>	<u>648,349</u>
<u>NET ASSETS, unrestricted</u>	<u>1,045,090</u>	<u>602,192</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,231,029</u>	<u>\$ 1,250,541</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, 2009  
(With Comparative Totals for 2008)

	<u>Year ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Operating revenue and support:		
State and local per pupil operating revenue	\$ 2,390,489	\$ 1,462,567
Government grants	547,494	671,856
Contributions	164,830	120,113
Other income	16,166	4,859
TOTAL OPERATING REVENUE AND SUPPORT	<u>3,118,979</u>	<u>2,259,395</u>
Expenses:		
Program services - education	2,371,157	1,585,640
General and administrative	304,924	243,389
TOTAL EXPENSES	<u>2,676,081</u>	<u>1,829,029</u>
CHANGE IN NET ASSETS	442,898	430,366
Unrestricted net assets at beginning of year	602,192	171,826
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 1,045,090</u>	<u>\$ 602,192</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, 2009  
(With Comparative Totals for 2008)

	Year ended June 30,			2008
	2009		Total	
Program services - education	General and administrative			
Salaries	\$ 1,277,625	\$ 129,750	\$ 1,407,375	\$ 991,078
Payroll taxes and employee benefits	268,047	24,974	293,021	191,685
Occupancy	112,817	-	112,817	116,938
Repairs and maintenance	57,420	156	57,576	50,159
Textbooks	4,222	-	4,222	6,462
Instructional supplies and assessments	52,471	-	52,471	37,403
Computer and technology support	33,585	-	33,585	15,246
Student enrichment and services	163,440	-	163,440	80,122
Professional development	66,962	-	66,962	40,848
Professional services	-	32,538	32,538	9,610
Telephone	-	18,696	18,696	19,487
Insurance	-	23,165	23,165	16,092
Management fees	214,900	37,923	252,823	156,151
Office expense	19,456	34,154	53,610	41,066
Depreciation and amortization	100,212	1,677	101,889	50,231
Other	-	1,891	1,891	6,451
	<u>\$ 2,371,157</u>	<u>\$ 304,924</u>	<u>\$ 2,676,081</u>	<u>\$ 1,829,029</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, 2009  
(With Comparative Totals for 2008)

	<u>Year ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
<b><u>CASH FLOWS - OPERATING ACTIVITIES</u></b>		
Change in net assets	\$ 442,898	\$ 430,366
Adjustments to reconcile change in net assets to net cash provided from (used for) operating activities:		
Depreciation and amortization	101,889	50,231
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	291,897	(498,305)
Pledge receivable	(85,963)	-
Prepaid expenses and other current assets	(644)	12,074
Accounts payable and accrued expenses	12,690	(127,230)
Deferred revenue	<u>(350,100)</u>	<u>54,966</u>
NET CASH PROVIDED FROM (USED FOR) OPERATING ACTIVITIES	412,667	(77,898)
<b><u>CASH FLOWS - INVESTING ACTIVITIES</u></b>		
Purchases of property and equipment	(309,780)	(277,159)
Proceeds from disposal of property and equipment	<u>-</u>	<u>50,000</u>
NET CASH USED FOR INVESTING ACTIVITIES	(309,780)	(227,159)
<b><u>CASH FLOWS - FINANCING ACTIVITIES</u></b>		
(Repayment of) proceeds from note payable to related party	<u>(125,000)</u>	<u>125,000</u>
NET CASH (USED FOR) PROVIDED FROM FINANCING ACTIVITIES	<u>(125,000)</u>	<u>125,000</u>
NET DECREASE IN CASH	(22,113)	(180,057)
Cash at beginning of year	<u>112,279</u>	<u>292,336</u>
CASH AT END OF YEAR	<u>\$ 90,166</u>	<u>\$ 112,279</u>

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



TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

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

The Charter School

True North Rochester Preparatory Charter School (the "Charter School"), is an educational corporation operating as a charter school in Rochester, New York. On June 27, 2006, the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration.

The Charter School's mission is to prepare all students to enter, succeed in and graduate from outstanding college preparatory high schools and college.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The Charter School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

These classes of net assets are defined as follows:

*Permanently restricted* – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2009 or 2008.

*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, 2009 or 2008.

*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, 2009 AND 2008

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

Cont'd

Contributions

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

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

Cash

The Charter School maintains its cash in bank deposit accounts and bank certificates of deposit which, at times, may exceed federally insured limits. Effective October 3, 2008 through December 31, 2009, accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In addition, as of October 14, 2008, unlimited deposit insurance coverage is available through December 31, 2009, for certain non-interest bearing transaction accounts at institutions participating in FDIC's Temporary Liquidity Guarantee Program. There were no uninsured balances at June 30, 2009. The Charter School has not experienced any losses in such accounts.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2009 or 2008.

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 \$4,037 at June 30, 2009 on those amounts is computed using an interest rate applicable to the year in which the promise is received (2.33% for the year ended June 30, 2009). Discount amortization is included in contribution revenue. There was no allowance for uncollectible pledge receivable at June 30, 2009.

Property and equipment

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

Deferred revenue

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

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2009 AND 2008

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.

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 balance sheet date through November 2, 2009, 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, 2008

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Charter School's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

NOTE B: RELATED PARTY TRANSACTIONS

Uncommon Schools, Inc. ("USI"), a not-for-profit organization dedicated to helping start and run charter schools, provides management and other administrative support services to the Charter School. The Charter School entered into a five year agreement with USI, dated September 26, 2006, under which the Charter School pays USI a service fee of a set percentage of the average number of students enrolled at the Charter School during the school year multiplied by the approved per pupil operating expense for the school year, and a percentage of all other public entitlement funding receivable during the fiscal year, excluding in-kind contributions and funds from competitive public grants. This percentage is fixed at 10% for years 1-3, decreasing to 9.5% in year 4 and 9% in year 5. The fee incurred for the years ended June 30, 2009 and 2008 was \$252,823 and \$156,151, respectively.

The Charter School entered into a line of credit agreement with USI on June 27, 2008 for \$125,000. The line of credit was interest free and payable in full when the School's cash flow was deemed high enough to cover two months of annual expenses. There was no balance due at June 30, 2009 as it was paid in full during July 2008.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2009 AND 2008

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

The Charter School leases its facilities from True North Rochester Real Estate LLC, a wholly-owned subsidiary of USI, through July 2011 with renewable terms of four successive periods of five years. Rent expense incurred for the years ended June 30, 2009 and 2008 was \$71,518 and \$72,862, respectively. Rent is calculated based on a formula of certain expenses of the landlord.

At June 30, 2009 and 2008 approximately \$1,300 and \$28,000, respectively, are included in accounts receivable relating to USI. At June 30, 2009 and 2008, approximately \$87,000 and \$94,000, 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>2009</u>	<u>2008</u>
Furniture and fixtures	\$ 81,543	\$ 73,770
Computer software	123,145	76,988
Leasehold improvements	<u>697,429</u>	<u>441,579</u>
	902,117	592,337
Less accumulated depreciation and amortization	<u>161,523</u>	<u>59,634</u>
	<u>\$ 740,594</u>	<u>\$ 532,703</u>

NOTE D: COMMITMENTS

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

<u>Year ending June 30,</u>	<u>Amount</u>
2010	\$ 7,200
2011	3,735
2012	<u>315</u>
	<u>\$ 11,250</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. The Charter School's total contribution to the Plan for the years ended June 30, 2009 and 2008 approximated \$31,000 and \$23,800, respectively.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2009 AND 2008

NOTE F: CONTINGENCY

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

NOTE G: MAJOR GRANTOR

One public start-up grant accounted for 11% and 15% of total operating revenue and support for the years ended June 30, 2009 and 2008, respectively.

NOTE H: CONCENTRATION

At June 30, 2009 and 2008, approximately 82% and 80% of accounts receivable are due from New York State, respectively.

During the years ended June 30, 2009 and 2008, 77% and 65%, 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 is located.

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



## MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

### INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees  
True North Rochester Preparatory Charter School

We have audited the financial statements of True North Rochester Preparatory Charter School as of June 30, 2009, and have issued our report thereon dated November 2, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Charter School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Charter School's financial statements that is more than inconsequential will not be prevented or detected by the Charter School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Charter School's internal control. We consider the deficiency described in the accompanying schedule of findings and responses, item 2009-1, to be a material weakness in internal control over financial reporting.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

**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 November 2, 2009.

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

This report is intended solely for the information and use of the Board of Trustees, management, federal, state and local awarding agencies, The Charter Schools Institute of the State University of New York, 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  
November 2, 2009



TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2009

**Finding 2009-1**

*Statement of condition*

During our audit we noted pledge receivable and contribution revenue were materially misstated as a result of not recording a multi-year pledge made during the current year.

*Criteria and effect of conditions*

In accordance with accounting principles generally accepted in the United States of America, promises to give and associated contribution revenue should be recorded in the period the promise is made rather than when payment is received. Contribution revenue and pledge receivable were misstated and required adjustment. This is considered to be a material weakness.

*Recommendation*

We recommend management review documentation received with contributions to determine if any promises for future payments are indicated. If so, these promises to give should be recorded in the proper period. In addition, management should review a listing of pledges receivable at year-end to be sure all pledges of which they are aware are properly recorded.

*Management response*

Uncommon Schools will amend the handling for multi-year pledges accordingly. The present value of such pledges will be recognized as revenue in the year during which the pledge is made. The collection of these pledges will therefore not be recognized as revenue in the year(s) during which the actual payment(s) occurs.