

TRUE NORTH ROCHESTER PREPARATORY
CHARTER SCHOOL – WEST CAMPUS

ROCHESTER, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

AND

INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2012

CONTENTS

<u>AUDITED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
Independent Auditors' Report	3
Statement of Financial Position	4
Statement of Activities and Changes in Net Assets	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8
 <u>OTHER FINANCIAL INFORMATION</u>	
Independent Auditors' Report on Other Financial Information	14
Schedule of Activities for the year ended June 30, 2012 and the period from December 14, 2010 (date of inception) to June 30, 2011	15
 <u>REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS</u>	
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 <i>Government Auditing Standards</i>	17



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
True North Rochester Preparatory Charter School - West Campus

We have audited the accompanying statement of financial position of True North Rochester Preparatory Charter School - West Campus (the "Charter School") as of June 30, 2012, and the related statements of activities and changes in net assets, functional expenses and cash flows for the period from December 14, 2010 (date of inception) to June 30, 2012. 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.

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 - West Campus as of June 30, 2012, and the changes in its net assets and its cash flows for the period from December 14, 2010 (date of inception) to June 30, 2012 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 15, 2012 on our consideration of True North Rochester Preparatory Charter School - West Campus's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 15, 2012

- 3 -

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL - WEST CAMPUS

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012

ASSETS

CURRENT ASSETS

Cash	\$	163,756
State and local per pupil receivable		16,116
Grants and other receivables		111,824
Prepaid expenses		<u>10,611</u>
	TOTAL CURRENT ASSETS	302,307

PROPERTY AND EQUIPMENT, net

	<u>66,936</u>
TOTAL ASSETS	<u>\$ 369,243</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$	74,989
Deferred revenue		<u>100,000</u>
	TOTAL CURRENT LIABILITIES	174,989

NET ASSETS, unrestricted

	<u>194,254</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 369,243</u>

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

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL - WEST CAMPUS

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

PERIOD FROM DECEMBER 14, 2010 (DATE OF INCEPTION) TO JUNE 30, 2012

Operating revenue and support:		
State and local per pupil operating revenue		\$ 1,117,256
Federal grants		425,283
Contributions		329,324
Other income		<u>7,297</u>
	TOTAL OPERATING REVENUE AND SUPPORT	1,879,160
Expenses:		
Program services - education		1,408,393
General and administrative		<u>276,513</u>
	TOTAL EXPENSES	<u>1,684,906</u>
	CHANGE IN NET ASSETS	194,254
Unrestricted net assets at beginning of period		<u>-</u>
	UNRESTRICTED NET ASSETS AT END OF PERIOD	<u>\$ 194,254</u>

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

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL - WEST CAMPUS

STATEMENT OF FUNCTIONAL EXPENSES

PERIOD FROM DECEMBER 14, 2010 (DATE OF INCEPTION) TO JUNE 30, 2012

	<u>Program services - education</u>	<u>General and administrative</u>	<u>Total</u>
Salaries	\$ 671,446	\$ 107,500	\$ 778,946
Payroll taxes and employee benefits	136,063	21,646	157,709
Repairs and maintenance	54,051	9,481	63,532
Textbooks	839	-	839
Instructional supplies and assessments	30,277	-	30,277
Computer and technology support	87,276	-	87,276
Student enrichment and services	138,403	-	138,403
Professional development	39,834	-	39,834
Professional services	-	21,097	21,097
Telephone	-	44,974	44,974
Insurance	-	14,297	14,297
Management fees	99,708	17,595	117,303
Office expense	19,774	36,002	55,776
Occupancy	90,157	-	90,157
Depreciation	23,241	128	23,369
Grant pass-through	17,324	-	17,324
Other	-	3,793	3,793
	<u>\$ 1,408,393</u>	<u>\$ 276,513</u>	<u>\$ 1,684,906</u>

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

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL - WEST CAMPUS

STATEMENT OF CASH FLOWS

PERIOD FROM DECEMBER 14, 2010 (DATE OF INCEPTION) TO JUNE 30, 2012

CASH FLOWS - OPERATING ACTIVITIES

Change in net assets	\$	194,254
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation		23,369
Changes in certain assets and liabilities affecting operations:		
State and local per pupil receivable		(16,116)
Grants and other receivables		(111,824)
Prepaid expenses		(10,611)
Accounts payable and accrued expenses		74,989
Deferred revenue		<u>100,000</u>
	NET CASH PROVIDED FROM OPERATING ACTIVITIES	254,061

CASH FLOWS - INVESTING ACTIVITIES

Purchases of property and equipment		<u>(90,305)</u>
	NET CASH USED FOR INVESTING ACTIVITIES	<u>(90,305)</u>
	NET INCREASE IN CASH	163,756
Cash at beginning of period		<u>-</u>
	CASH AT END OF PERIOD	<u>\$ 163,756</u>

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

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL - WEST CAMPUS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

The Charter School

True North Rochester Preparatory Charter School - West Campus (the "Charter School"), is an educational corporation operating as a charter school in Rochester, New York. On December 14, 2010, 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 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, 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, 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 - WEST CAMPUS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 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

The Charter School maintains its cash balances at a financial institution located in New York. Cash 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 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, 2012.

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 - WEST CAMPUS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 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 or income.

The Charter School files Form 990 in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2011 through June 30, 2012 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.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 15, 2012, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL - WEST CAMPUS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 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 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 expenses 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 period from December 14, 2010 (date of inception) to June 30, 2012 was \$117,303. At June 30, 2012, approximately \$16,000 was included in accounts payable relating to USI.

The Charter School is related to True North Rochester Preparatory Charter School ("Rochester Prep") through common Board representation. As the charter schools have no economic interest in the net assets of the other school, the facts do not require consolidation of Rochester Prep with the Charter School in accordance with GAAP. At June 30, 2012, approximately \$27,000 was included in accounts receivable relating to Rochester Prep.

NOTE C: SCHOOL FACILITY

The Charter School leases its facilities from an unrelated third party. The lease expires June 30, 2013. Rent for this lease was \$2,500 a month through June 30, 2012 and \$3,300 a month through June 30, 2013. Rent expense incurred for the period from December 14, 2010 (date of inception) to June 30, 2012 was \$33,823.

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Furniture and fixtures	\$ 7,775
Computers and software	<u>82,530</u>
	90,305
Less accumulated depreciation	<u>23,369</u>
	<u>\$ 66,936</u>

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL - WEST CAMPUS

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 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 3% of gross payroll. The Charter School's total contribution to the Plan for the period from December 14, 2010 (date of inception) to June 30, 2012 approximated \$15,800.

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, 2012, 17% of accounts receivable are due from New York State, 13% of accounts receivable are due from Rochester City School District and 45% of accounts receivable are due from a grantor.

During the period from December 14, 2010 (date of inception) to June 30, 2012, 59% 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.

NOTE H: OPERATING LEASE

The Charter School leases office equipment under a non-cancelable lease agreement expiring in April 2014. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2013	9,312
2014	<u>7,760</u>
	<u>\$ 17,072</u>

NOTE I: MAJOR GRANTOR

One federal grant accounted for over ten percent of total operating revenue for the period from December 14, 2010 (date of inception) to June 30, 2012.

NOTE J: COMMITMENT

On June 26, 2012, the Charter School's Board of Trustees approved the merger of True North Rochester Preparatory Charter School and True North Rochester Preparatory Charter School – West Campus. They will be applying to the New York State Board of Regents for approval of the merger. The merger is expected to take effect July 1, 2013.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL - WEST CAMPUS

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 - West Campus

We have audited the financial statements of True North Rochester Preparatory Charter School - West Campus as of June 30, 2012 and for the period from December 14, 2010 (date of inception) to June 30, 2012, and our report thereon dated October 15, 2012, which expressed an unqualified opinion on those financial statements, appears on page 3. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial information hereinafter is presented for purposes of additional analysis 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 information is fairly stated in all material respects in relation to the financial statements for the period from December 14, 2010 (date of inception) to June 30, 2012, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 15, 2012

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL - WEST CAMPUS

SCHEDULE OF ACTIVITIES

YEAR ENDED JUNE 30, 2012 AND THE PERIOD FROM
DECEMBER 14, 2010 (DATE OF INCEPTION) TO JUNE 30, 2011

	Year ended June 30, 2012	Period from December 14, 2010 (date of inception) to June 30, 2011	Total
State and local per pupil operating revenue	\$ 1,117,256	\$ -	\$ 1,117,256
Federal grants	349,756	75,527	425,283
Contributions	199,324	130,000	329,324
Other income	<u>7,217</u>	<u>80</u>	<u>7,297</u>
TOTAL OPERATING REVENUE AND SUPPORT	1,673,553	205,607	1,879,160
Salaries	636,446	142,500	778,946
Payroll taxes and employee benefits	134,042	23,667	157,709
Repairs and maintenance	63,355	177	63,532
Textbooks	839	-	839
Instructional supplies and assessments	30,232	45	30,277
Computer and technology support	87,276	-	87,276
Student enrichment and services	127,662	10,741	138,403
Professional development	39,759	75	39,834
Professional services	14,500	6,597	21,097
Telephone	43,985	989	44,974
Insurance	14,297	-	14,297
Management fees	117,303	-	117,303
Office expense	55,409	367	55,776
Occupancy	90,157	-	90,157
Depreciation	23,369	-	23,369
Grant pass-through	17,324	-	17,324
Other	<u>3,793</u>	<u>-</u>	<u>3,793</u>
TOTAL EXPENSES	<u>1,499,748</u>	<u>185,158</u>	<u>1,684,906</u>
CHANGE IN NET ASSETS	<u>\$ 173,805</u>	<u>\$ 20,449</u>	<u>\$ 194,254</u>

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL - WEST CAMPUS

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 - West Campus

We have audited the financial statements of True North Rochester Preparatory Charter School - West Campus (the "Charter School") as of June 30, 2012 and for the period from December 14, 2010 (date of inception) to June 30, 2012, and have issued our report thereon dated October 15, 2012. 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

Management of True North Rochester Preparatory Charter School - West Campus is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered True North Rochester Preparatory Charter School - West Campus' 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 - West Campus' 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 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 - West Campus' 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 - West Campus in a separate letter dated October 15, 2012.

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 15, 2012