

**TRUE NORTH ROCHESTER PREPARATORY  
CHARTER SCHOOL**

**ROCHESTER, NEW YORK**

**AUDITED FINANCIAL STATEMENTS**

**OTHER FINANCIAL INFORMATION**

**AND**

**INDEPENDENT AUDITOR'S REPORTS**

**JUNE 30, 2018**

**(With Comparative Totals for 2017)**



**MENGEL METZGER BARR & CO. LLP**

Certified Public Accountants

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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, 2018, 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, 2018, 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, 2017 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statement from which they are derived.

**Other Report Required by Governmental Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2018 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, Baw & Co. LLP*

Rochester, New York  
November 27, 2018

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(With Comparative Totals for 2017)

| <u>ASSETS</u>                                                                                                   | <u>June 30,</u>      |                      |
|-----------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
|                                                                                                                 | <u>2018</u>          | <u>2017</u>          |
| <u>CURRENT ASSETS</u>                                                                                           |                      |                      |
| Cash                                                                                                            | \$ 4,698,428         | \$ 3,408,303         |
| Grants and contracts receivable                                                                                 | 1,961,262            | 2,390,012            |
| Accounts receivable                                                                                             | 3,470,654            | 1,498,658            |
| Prepaid expenses and other current assets                                                                       | 449,719              | 138,809              |
| TOTAL CURRENT ASSETS                                                                                            | <u>10,580,063</u>    | <u>7,435,782</u>     |
| <u>PROPERTY AND EQUIPMENT</u> , net of accumulated<br>depreciation of \$4,058,226 and \$3,764,117, respectively | 3,693,453            | 3,629,228            |
| <u>ESCROW ACCOUNT</u>                                                                                           | <u>238,257</u>       | <u>238,206</u>       |
| TOTAL ASSETS                                                                                                    | <u>\$ 14,511,773</u> | <u>\$ 11,303,216</u> |
| <br><u>LIABILITIES AND NET ASSETS</u>                                                                           |                      |                      |
| <u>CURRENT LIABILITIES</u>                                                                                      |                      |                      |
| Accounts payable and accrued expenses                                                                           | \$ 1,699,834         | \$ 1,704,315         |
| Deferred revenue                                                                                                | -                    | 57,710               |
| TOTAL CURRENT LIABILITIES                                                                                       | <u>1,699,834</u>     | <u>1,762,025</u>     |
| <u>NET ASSETS, unrestricted</u>                                                                                 | <u>12,811,939</u>    | <u>9,541,191</u>     |
| TOTAL LIABILITIES AND NET ASSETS                                                                                | <u>\$ 14,511,773</u> | <u>\$ 11,303,216</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, 2018  
(With Comparative Totals for 2017)

|                                              | <u>Year ended June 30,</u> |                     |
|----------------------------------------------|----------------------------|---------------------|
|                                              | <u>2018</u>                | <u>2017</u>         |
| Revenue, gains and other support:            |                            |                     |
| Public school district                       |                            |                     |
| Resident student enrollment                  | \$ 26,698,740              | \$ 23,685,625       |
| Students with disabilities                   | 845,891                    | 757,969             |
| Grants and contracts:                        |                            |                     |
| State and Local                              | 391,895                    | 396,012             |
| Federal - Title and IDEA                     | 1,541,577                  | 1,032,044           |
| Federal - Other                              | 1,002,270                  | 836,669             |
| Food service/child nutrition program         | <u>2,031,872</u>           | <u>1,760,616</u>    |
| TOTAL REVENUE, GAINS AND OTHER SUPPORT       | 32,512,245                 | 28,468,935          |
| Expenses:                                    |                            |                     |
| Program services:                            |                            |                     |
| Regular education                            | 25,341,696                 | 22,608,331          |
| Special education                            | <u>783,762</u>             | <u>699,227</u>      |
| TOTAL PROGRAM SERVICES                       | 26,125,458                 | 23,307,558          |
| General and administrative                   | <u>3,430,144</u>           | <u>3,148,977</u>    |
| TOTAL OPERATING EXPENSES                     | <u>29,555,602</u>          | <u>26,456,535</u>   |
| SURPLUS FROM SCHOOL OPERATIONS               | 2,956,643                  | 2,012,400           |
| Support and other revenue:                   |                            |                     |
| Contributions:                               |                            |                     |
| Foundations                                  | 206,853                    | 303,790             |
| Individuals                                  | 65,156                     | 55,000              |
| Miscellaneous income                         | <u>42,096</u>              | <u>45,150</u>       |
| TOTAL SUPPORT AND OTHER REVENUE              | <u>314,105</u>             | <u>403,940</u>      |
| CHANGE IN NET ASSETS                         | 3,270,748                  | 2,416,340           |
| Unrestricted net assets at beginning of year | <u>9,541,191</u>           | <u>7,124,851</u>    |
| UNRESTRICTED NET ASSETS AT END OF YEAR       | <u>\$ 12,811,939</u>       | <u>\$ 9,541,191</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, 2018  
(With Comparative Totals for 2017)

|                                            | No. of<br>Positions | June 30,             |                      |                      |                                               |                      | 2017<br>Total        |
|--------------------------------------------|---------------------|----------------------|----------------------|----------------------|-----------------------------------------------|----------------------|----------------------|
|                                            |                     | 2018                 |                      |                      | 2017                                          |                      |                      |
|                                            |                     | Regular<br>education | Special<br>education | Total                | Support Services<br>Management<br>and General | Total                |                      |
| Personnel services costs:                  |                     |                      |                      |                      |                                               |                      |                      |
| Administrative staff personnel             | 48                  | \$ 2,839,570         | \$ 87,822            | \$ 2,927,392         | \$ 1,311,630                                  | \$ 4,239,022         | \$ 3,878,674         |
| Instructional personnel                    | 185                 | 8,661,635            | 267,886              | 8,929,521            | -                                             | 8,929,521            | 8,245,670            |
| Non-instructional personnel                | <u>3</u>            | -                    | -                    | -                    | 121,113                                       | 121,113              | 112,722              |
| Total salaries and staff                   | 236                 | 11,501,205           | 355,708              | 11,856,913           | 1,432,743                                     | 13,289,656           | 12,237,066           |
| Fringe benefits and payroll taxes          |                     | 2,085,481            | 64,499               | 2,149,980            | 287,917                                       | 2,437,897            | 2,209,601            |
| Retirement                                 |                     | 281,629              | 8,710                | 290,339              | -                                             | 290,339              | 277,841              |
| Management fees                            |                     | 2,064,118            | 63,839               | 2,127,957            | 375,521                                       | 2,503,478            | 2,226,669            |
| Legal service                              |                     | -                    | -                    | -                    | 35,519                                        | 35,519               | 14,282               |
| Accounting and audit services              |                     | -                    | -                    | -                    | 44,564                                        | 44,564               | 37,685               |
| Other professional and consulting services |                     | 801,176              | 24,779               | 825,955              | 72,778                                        | 898,733              | 607,866              |
| Building and land rent                     |                     | 1,030,821            | 31,881               | 1,062,702            | -                                             | 1,062,702            | 1,068,686            |
| Repairs and maintenance                    |                     | 938,228              | 29,017               | 967,245              | -                                             | 967,245              | 782,411              |
| Insurance                                  |                     | -                    | -                    | -                    | 364,940                                       | 364,940              | 272,493              |
| Utilities                                  |                     | 295,952              | 9,153                | 305,105              | 135,428                                       | 440,533              | 493,736              |
| Supplies and materials                     |                     | 462,145              | 14,293               | 476,438              | -                                             | 476,438              | 452,865              |
| Equipment/Furnishings                      |                     | 25,128               | 777                  | 25,905               | 37,826                                        | 63,731               | 73,251               |
| Professional development                   |                     | 955,237              | 29,543               | 984,780              | -                                             | 984,780              | 885,497              |
| Marketing and recruitment                  |                     | 95,777               | 2,962                | 98,739               | -                                             | 98,739               | 86,517               |
| Technology                                 |                     | 427,875              | 13,233               | 441,108              | 149,938                                       | 591,046              | 489,204              |
| Food service                               |                     | 1,630,519            | 50,428               | 1,680,947            | -                                             | 1,680,947            | 1,421,315            |
| Student services                           |                     | 1,271,276            | 39,318               | 1,310,594            | -                                             | 1,310,594            | 1,086,720            |
| Office expense                             |                     | 401,454              | 12,416               | 413,870              | 424,884                                       | 838,754              | 704,951              |
| Depreciation and amortization              |                     | 1,073,675            | 33,206               | 1,106,881            | 10,198                                        | 1,117,079            | 910,774              |
| Other                                      |                     | -                    | -                    | -                    | 57,888                                        | 57,888               | 117,105              |
|                                            |                     | <u>\$ 25,341,696</u> | <u>\$ 783,762</u>    | <u>\$ 26,125,458</u> | <u>\$ 3,430,144</u>                           | <u>\$ 29,555,602</u> | <u>\$ 26,456,535</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, 2018  
(With Comparative Totals for 2017)

|                                                                                               | June 30,            |                     |
|-----------------------------------------------------------------------------------------------|---------------------|---------------------|
|                                                                                               | <u>2018</u>         | <u>2017</u>         |
| <u>CASH FLOWS - OPERATING ACTIVITIES</u>                                                      |                     |                     |
| Change in net assets                                                                          | \$ 3,270,748        | \$ 2,416,340        |
| Adjustments to reconcile change in net assets to net cash provided from operating activities: |                     |                     |
| Depreciation and amortization                                                                 | 1,117,079           | 910,774             |
| Bad debt expense                                                                              | 5,388               | 18,300              |
| Changes in certain assets and liabilities affecting operations:                               |                     |                     |
| State and local per pupil receivable                                                          | (1,977,384)         | (989,545)           |
| Grants and other receivables                                                                  | 428,750             | (805,935)           |
| Prepaid expenses and other current assets                                                     | (310,910)           | 118,601             |
| Accounts payable and accrued expenses                                                         | 171,693             | 116,759             |
| Deferred revenue                                                                              | <u>(57,710)</u>     | <u>57,710</u>       |
| NET CASH PROVIDED FROM OPERATING ACTIVITIES                                                   | 2,647,654           | 1,843,004           |
| <u>CASH FLOWS - INVESTING ACTIVITIES</u>                                                      |                     |                     |
| Purchases of property and equipment                                                           | (1,357,478)         | (2,061,954)         |
| (Increase) decrease in escrow account                                                         | <u>(51)</u>         | <u>1,128</u>        |
| NET CASH USED FOR INVESTING ACTIVITIES                                                        | (1,357,529)         | (2,060,826)         |
| NET INCREASE (DECREASE) IN CASH                                                               | 1,290,125           | (217,822)           |
| Cash at beginning of year                                                                     | <u>3,408,303</u>    | <u>3,626,125</u>    |
| CASH AT END OF YEAR                                                                           | <u>\$ 4,698,428</u> | <u>\$ 3,408,303</u> |
| <u>NON-CASH INVESTING ACTIVITIES</u>                                                          |                     |                     |
| Purchases of property and equipment in accounts payable                                       | <u>\$ 391,895</u>   | <u>\$ 568,069</u>   |

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

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

(With Comparative Totals for 2017)

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. On February 18, 2014, the Charter School entered into an amended and restated renewal charter agreement which included the addition of Rochester Prep Charter School 3 through July 31, 2019. On January 26, 2016 the Charter School was granted a five year renewal for both True North Rochester Preparatory School (TNRP) and TNRP – West Campus through July 31, 2021.

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.

West Campus Merger

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.

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, 2018 or 2017.

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, 2018 or 2017.

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.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals for 2017)

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

Cont'd

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.

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. 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, 2018 or 2017.

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.

Construction in progress is stated at cost. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals for 2017)

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

Cont'd

Escrow account

The Charter School maintains cash in an escrow account in accordance with the terms of their charter agreement. The escrow is restricted to fund legal and other costs in the event of dissolution of the Charter School.

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 files Form 990 tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2015 through June 30, 2018 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 will not recognize 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. In addition, the Charter School received donated transportation services from certain local school districts. The Charter School was unable to determine a value for these services.

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 year ended June 30, 2017

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, 2017, 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 November 27, 2018, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted except as disclosed in Notes B and I.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals for 2017)

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 and was revised July 1, 2014 and again effective July 1, 2018 for an additional five years, 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 tuition 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 was fixed at 8% for Rochester Prep and 10% for West Campus for the 2014 year and is fixed for the fiscal years 2015 through 2023 for each of the schools ranging from 8% to 10% as outlined in the agreement. In addition, during the year ended June 30, 2017, the Charter School paid USI a 10% service fee for Rochester Prep 3 Elementary School based upon an agreement approved at the September 2016 Board meeting but not signed. Rochester Prep 3 Elementary School was included in an agreement signed subsequent to year end, with an effective date of July 1, 2018. Rochester Prep 3 Elementary School’s fee ranges from 8.5% to 10% through 2023. The fee incurred for the years ended June 30, 2018 and 2017 was \$2,503,478 and \$2,226,669, respectively. At June 30, 2018 and 2017, approximately \$131,000 and \$30,200, respectively, was included in accounts receivable relating to USI, primarily from grants passed through USI. At June 30, 2018 and 2017, approximately \$385,700 and \$574,100, respectively, was included in accounts payable relating to USI.

The Charter School leases its Rochester Prep Middle School facilities from True North Rochester Real Estate LLC, a wholly-owned subsidiary of USI (Brooks Avenue location). 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 leasing the property on a month to month basis. At June 30, 2018, no amount was due from True North Rochester Real Estate LLC. At June 30, 2017, approximately \$171,600 was included in accounts receivable from True North Rochester Real Estate LLC related to this agreement.

The Charter School leases its Rochester Prep Elementary School facilities from True North Rochester Real Estate Ames Street, LLC, a wholly-owned subsidiary of USI (Jay Street location). A new lease agreement was negotiated in March 2016. The lease agreement expires in August 2022, but will terminate if the Charter School’s charter is not renewed. Rent for this lease was initially approximately \$28,300 per month for the initial four months and then decreased to a monthly rate of \$23,268 until the termination of the lease. The Charter School is also responsible for all other expenses relating to the property and must remain in compliance with a certain financial covenant. The lease contains a purchase option whereby the Charter School can purchase the property at any time during the lease term at a purchase price equal to the aggregate outstanding principal amount, and accrued and unpaid interest on all security documents as of the date the Charter School sends the election notice to the landlord.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals for 2017)

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

Effective February 18, 2016, the Charter School began leasing space for its Rochester Prep – West Campus Middle School from Rochester Chili Avenue, LLC, a wholly-owned subsidiary of USI. The agreement requires the School remain in compliance with a financial covenant and expires in August 2022. The Charter School is responsible for all other expenses related to the property. Required monthly payments under the agreement were \$32,894 beginning on May 1, 2016 through June 30, 2016 and then decreased to \$20,394 for the remaining term. The lease contains a purchase option whereby the Charter School can purchase the property at any time during the lease term at a purchase price equal to the aggregate outstanding principal amount, and accrued and unpaid interest on all security documents as of the date the Charter School sends the election notice to the landlord.

Effective July 1, 2016, the Charter School began leasing space for its second Rochester Prep Elementary School and its Rochester Prep – West Campus Elementary School from True North St. Jacob Street, LLC, a wholly-owned subsidiary of USI. The agreement will require the School remain in compliance with a financial covenant and expires in July 2021. The Charter School is responsible for all other expenses related to the property. Required payments vary over the term of the lease ranging from \$10,238 to \$11,190. The lease contains a purchase option whereby the Charter School can purchase the property at any time during the lease term at a purchase price equal to the aggregate outstanding principal amount, and accrued and unpaid interest on all security documents as of the date the Charter School sends the election notice to the landlord.

Effective October 1, 2016, the Charter School began leasing space for a future location of its West Campus Elementary School from True North Andrews Street, LLC, a wholly owned subsidiary of USI. The agreement requires the School remain in compliance with a financial covenant and expires in July 1, 2021. The Charter School is responsible for all other expenses related to the property. Payments under the agreement are \$10,033 from October 1, 2016 through June 1, 2017 then decreasing to monthly payments ranging from \$7,684 to \$8,396 through July 1, 2021. The lease contains a purchase option whereby the Charter School can purchase the property at any time during the lease term at a purchase price equal to the aggregate outstanding principal amount, and accrued and unpaid interest on all security documents as of the date the Charter School sends the election notice to the landlord.

At June 30, 2018 and 2017, the Charter School was in compliance with its financial covenants referred to above.

The Charter School, in connection with the above agreements, have committed to advancing \$200,000 to Rochester Chili Avenue, LLC and \$650,000 to True North St. Jacob Street, LLC to fund construction at the sites in preparation for the occupancy by the Charter School. As of June 30, 2017, the full amount of these payments have been made and they are currently included as leasehold improvements in Note D.

Effective June 1, 2017, the Charter School amended its leases with True North St. Jacob Street, LLC and True North Andrews Street, LLC to include a commitment to advance \$374,089 and \$475,000, to each of the sites respectively. These commitments will be used to fund construction at the sites in preparation for the occupancy by the Charter School. As of June 30, 2017, the full amount of these payments had been made or accrued and they were included in part as construction in progress and as of June 30, 2018, the amounts are included as leasehold improvements in Note D.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals for 2017)

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

Effective August 24, 2018, the Charter School amended its leases with True North St. Jacob Street, LLC and True North Andrews Street, LLC to include additional commitments to advance \$200,000 and \$191,895, to each of the sites respectively. These commitments will be used to fund continued construction and renovations at the sites. As of June 30, 2018, the full amount of these payments have been made or accrued and they are currently included in construction in progress in Note D.

Including certain expenses, rent expense incurred for the years ended June 30, 2018 and 2017 relating to the above leases was approximately \$794,000 and \$786,000, respectively.

The future minimum lease payments for the Charter School to related parties are approximately as follows:

| <u>Year ending June 30,</u> | <u>Amount</u>       |
|-----------------------------|---------------------|
| 2019                        | \$ 745,500          |
| 2020                        | 752,100             |
| 2021                        | 759,000             |
| 2022                        | 543,900             |
| 2023                        | <u>87,300</u>       |
|                             | <u>\$ 2,887,800</u> |

NOTE C: SCHOOL FACILITY

In addition to the related party leased facilities described in Note B, the Charter School leased a facility from an unrelated third party for its West Campus programs (Maple Street location). The lease was renewed at a monthly payment of \$33,333 through August 31, 2016. Rent expense incurred for the year ended June 30, 2016 related to this lease was approximately \$400,800. The Charter School did not renew this lease agreement past August 31, 2016. Rent expense for the year ended June 30, 2017 was approximately \$51,667.

The Charter School also leased space from the Rochester City School District for its high school (Martin Street location). The lease was renewable in one year extensions through June 2019. Rent expense was \$231,250 for the year ended June 30, 2017 which was payable in monthly installments of \$19,271. Rent expense was \$96,534 for the year ended June 30, 2018, due to the Charter School terminating the lease in December 2017.

Effective December 21, 2017, the Charter School leases space from 1001 Lake Ave LLC for its high school. The lease term is from January 1, 2018 through June 30, 2019. Rent expense was \$171,945 for the year ended June 30, 2018, which was payable in monthly installments of \$28,658. The agreement results in future minimum lease payments of approximately \$344,000.

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals for 2017)

NOTE D: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

|                                                | <u>Year Ended June 30,</u> |                     |
|------------------------------------------------|----------------------------|---------------------|
|                                                | <u>2018</u>                | <u>2017</u>         |
| Furniture and fixtures                         | \$ 516,638                 | \$ 471,562          |
| Computer equipment and software                | 2,687,518                  | 2,987,821           |
| Leasehold improvements                         | 3,604,031                  | 2,941,391           |
| Construction in process                        | <u>943,492</u>             | <u>992,571</u>      |
|                                                | 7,751,679                  | 7,393,345           |
| Less accumulated depreciation and amortization | <u>4,058,226</u>           | <u>3,764,117</u>    |
|                                                | <u>\$ 3,693,453</u>        | <u>\$ 3,629,228</u> |

Construction in progress as of June 30, 2017 consists of costs related to two new locations that the Charter School moved into during the 2018 fiscal year and the amounts were transferred to leasehold improvements. No depreciation was taken on these assets until they were placed into service. See Note B for additional comments regarding these costs and future commitments related to the construction at the leased locations. Construction in progress at June 30, 2018 consists of costs related to two future locations for the Charter School. No depreciation will be taken until these assets are placed in service.

NOTE E: COMMITMENTS

The Charter School leases office equipment under non-cancelable lease agreements expiring at various dates through November 2023. The approximate future minimum payments on these agreements are as follows:

| <u>Year ending June 30,</u> | <u>Amount</u>       |
|-----------------------------|---------------------|
| 2019                        | \$ 351,000          |
| 2020                        | 281,000             |
| 2021                        | 217,000             |
| 2022                        | 149,000             |
| 2023                        | 31,000              |
| Thereafter                  | <u>4,000</u>        |
|                             | <u>\$ 1,033,000</u> |

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2018

(With Comparative Totals for 2017)

NOTE F: 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. Effective July 1, 2013, for employees who have 4 years of service or more the Charter School will match up to the lesser of 5% of gross payroll or \$5,000. The Charter School's total contribution to the Plan for the years ended June 30, 2018 and 2017 approximated \$290,000 and \$278,000, respectively.

NOTE G: 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 H: CONCENTRATIONS

At June 30, 2018 and 2017, approximately 36% and 68%, respectively, of receivables are due from New York State, and 34% and 26%, respectively, of accounts receivable are due from the Rochester City School District.

During the years ended June 30, 2018 and 2017, 84% and 86%, respectively, of total revenue, gains and other support came from per-pupil funding provided by New York State through the school districts in which the students reside. 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 I: SUBSEQUENT EVENT

In August 2018, the New York State Education Department (NYSED) notified the Charter School that it had over-allocated approximately \$153,000 in Title IIA funding to the Charter School for the year ended June 30, 2018. NYSED will reduce the Charter School's Title IIA funding for a period of up to five years to recoup the over-allocated funding. The Charter School has not accounted for this over-allocated funding as a liability as of June 30, 2018.

**TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL**

**OTHER FINANCIAL INFORMATION**

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, 2018, and we have issued our report thereon dated November 27, 2018, which expressed an unmodified opinion on those financial statements. Our audit was performed 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 year ended June 30, 2018, as a whole.

*Mengel, Metzger, Barr & Co. LLP*

Rochester, New York  
November 27, 2018

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

SCHEDULE OF ROCHESTER PREP AND WEST CAMPUS ACTIVITIES

YEAR ENDED JUNE 30, 2018

|                                             | <u>Rochester<br/>Prep</u> | <u>West<br/>Campus</u> | <u>Rochester<br/>Prep<br/>School 3</u> | <u>Total</u>        |
|---------------------------------------------|---------------------------|------------------------|----------------------------------------|---------------------|
| Revenue, gains and other support:           |                           |                        |                                        |                     |
| Public school district                      |                           |                        |                                        |                     |
| Resident student enrollment                 | \$ 14,116,179             | \$ 10,290,996          | \$ 2,291,565                           | \$ 26,698,740       |
| Students with disabilities                  | 484,194                   | 354,207                | 7,490                                  | 845,891             |
| Grants and contracts                        |                           |                        |                                        |                     |
| State and Local                             | -                         | 191,895                | 200,000                                | 391,895             |
| Federal - Title and IDEA                    | 792,342                   | 553,310                | 195,925                                | 1,541,577           |
| Federal - Other                             | 801,223                   | 149,746                | 51,301                                 | 1,002,270           |
| Food service/child nutrition program        | <u>1,117,937</u>          | <u>817,015</u>         | <u>96,920</u>                          | <u>2,031,872</u>    |
| TOTAL REVENUE, GAINS,<br>AND OTHER SUPPORT  | 17,311,875                | 12,357,169             | 2,843,201                              | 32,512,245          |
| Personnel services costs:                   |                           |                        |                                        |                     |
| Administrative staff personnel              | 2,299,126                 | 1,460,261              | 479,635                                | 4,239,022           |
| Instructional personnel                     | 4,671,076                 | 3,488,966              | 769,479                                | 8,929,521           |
| Non-instructional personnel                 | <u>36,396</u>             | <u>79,595</u>          | <u>5,122</u>                           | <u>121,113</u>      |
| TOTAL STAFF AND SALARIES                    | 7,006,598                 | 5,028,822              | 1,254,236                              | 13,289,656          |
| Fringe benefits and payroll taxes           | 1,252,370                 | 1,009,659              | 175,868                                | 2,437,897           |
| Retirement                                  | 150,337                   | 111,739                | 28,263                                 | 290,339             |
| Management fees                             | 1,290,845                 | 963,157                | 249,476                                | 2,503,478           |
| Legal service                               | 21,010                    | 9,884                  | 4,625                                  | 35,519              |
| Accounting and audit services               | 22,457                    | 15,236                 | 6,871                                  | 44,564              |
| Other professional and consulting services  | 624,008                   | 202,672                | 72,053                                 | 898,733             |
| Building and land rent                      | 542,549                   | 425,504                | 94,649                                 | 1,062,702           |
| Repairs and maintenance                     | 527,629                   | 283,655                | 155,961                                | 967,245             |
| Insurance                                   | 167,924                   | 141,046                | 55,970                                 | 364,940             |
| Utilities                                   | 236,027                   | 170,598                | 33,908                                 | 440,533             |
| Supplies and materials                      | 198,137                   | 192,600                | 85,701                                 | 476,438             |
| Equipment/Furnishings                       | 21,551                    | 30,696                 | 11,484                                 | 63,731              |
| Professional development                    | 537,242                   | 352,357                | 95,181                                 | 984,780             |
| Marketing and recruitment                   | 45,202                    | 35,316                 | 18,221                                 | 98,739              |
| Technology                                  | 370,343                   | 156,218                | 64,485                                 | 591,046             |
| Food service                                | 882,315                   | 650,652                | 147,980                                | 1,680,947           |
| Student services                            | 834,530                   | 427,673                | 48,391                                 | 1,310,594           |
| Office expense                              | 507,169                   | 254,608                | 76,981                                 | 838,758             |
| Depreciation and amortization               | 519,485                   | 297,855                | 299,739                                | 1,117,079           |
| Other                                       | <u>50,080</u>             | <u>6,502</u>           | <u>1,302</u>                           | <u>57,884</u>       |
| TOTAL EXPENSES                              | <u>15,807,808</u>         | <u>10,766,449</u>      | <u>2,981,345</u>                       | <u>29,555,602</u>   |
| SURPLUS (DEFICIT) FROM SCHOOL<br>OPERATIONS | <u>1,504,067</u>          | <u>1,590,720</u>       | <u>(138,144)</u>                       | <u>2,956,643</u>    |
| Support and other revenue:                  |                           |                        |                                        |                     |
| Contributions:                              |                           |                        |                                        |                     |
| Foundations                                 | 181,106                   | 25,747                 | -                                      | 206,853             |
| Corporations                                | 65,000                    | -                      | 156                                    | 65,156              |
| Miscellaneous income                        | <u>6,347</u>              | <u>35,106</u>          | <u>643</u>                             | <u>42,096</u>       |
| TOTAL SUPPORT AND OTHER REVENUE             | <u>252,453</u>            | <u>60,853</u>          | <u>799</u>                             | <u>314,105</u>      |
| CHANGE IN NET ASSETS                        | <u>\$ 1,756,520</u>       | <u>\$ 1,651,573</u>    | <u>\$ (137,345)</u>                    | <u>\$ 3,270,748</u> |

TRUE NORTH ROCHESTER PREPARATORY CHARTER SCHOOL

SCHEDULE OF ELEMENTARY SCHOOL, MIDDLE SCHOOL, AND HIGH SCHOOL ACTIVITIES

YEAR ENDED JUNE 30, 2018

|                                            | West Campus   |                   |               | Rochester Prep |               |                   |               | Rochester Prep School 3 |               |
|--------------------------------------------|---------------|-------------------|---------------|----------------|---------------|-------------------|---------------|-------------------------|---------------|
|                                            | Middle School | Elementary School | Total         | High School    | Middle School | Elementary School | Total         | Elementary School       | Total         |
| Revenue, gains and other support           |               |                   |               |                |               |                   |               |                         |               |
| Public school district                     |               |                   |               |                |               |                   |               |                         |               |
| Resident student enrollment                | \$ 4,462,957  | \$ 5,828,039      | \$ 10,290,996 | \$ 3,898,382   | \$ 4,444,159  | \$ 5,773,638      | \$ 14,116,179 | \$ 2,291,565            | \$ 26,698,740 |
| Students with disabilities                 | 233,483       | 120,724           | 354,207       | 122,605        | 268,135       | 93,454            | 484,194       | 7,490                   | 845,891       |
| Grants and contracts                       |               |                   |               |                |               |                   |               |                         |               |
| State and Local                            | -             | 191,895           | 191,895       | -              | -             | -                 | -             | 200,000                 | 391,895       |
| Federal - Title and IDEA                   | -             | 553,310           | 553,310       | 14,623         | 119,124       | 658,595           | 792,342       | 195,925                 | 1,541,577     |
| Federal - Other                            | 109,599       | 40,147            | 149,746       | 404,620        | 301,016       | 95,587            | 801,223       | 51,301                  | 1,002,270     |
| Food service/child nutrition program       | 389,103       | 427,912           | 817,015       | 228,586        | 402,514       | 486,837           | 1,117,937     | 96,920                  | 2,031,872     |
| TOTAL REVENUE, GAINS AND OTHER SUPPORT     | 5,195,142     | 7,162,027         | 12,357,169    | 4,668,816      | 5,534,948     | 7,108,111         | 17,311,875    | 2,843,201               | 32,512,245    |
| Personnel services costs:                  |               |                   |               |                |               |                   |               |                         |               |
| Administrative staff personnel             | 668,446       | 791,815           | 1,460,261     | 762,019        | 656,267       | 880,840           | 2,299,126     | 479,635                 | 4,239,022     |
| Instructional personnel                    | 1,419,720     | 2,069,246         | 3,488,966     | 1,383,960      | 1,324,006     | 1,963,110         | 4,671,076     | 769,479                 | 8,929,521     |
| Non-instructional personnel                | 37,426        | 42,169            | 79,595        | -              | 36,396        | -                 | 36,396        | 5,122                   | 121,113       |
| TOTAL STAFF AND SALARIES                   | 2,125,592     | 2,903,230         | 5,028,822     | 2,145,979      | 2,016,669     | 2,843,950         | 7,006,598     | 1,254,236               | 13,289,656    |
| Fringe benefits and payroll taxes          | 423,384       | 586,275           | 1,009,659     | 348,291        | 323,003       | 581,076           | 1,252,370     | 175,868                 | 2,437,897     |
| Retirement                                 | 39,668        | 72,071            | 111,739       | 42,014         | 33,403        | 74,920            | 150,337       | 28,263                  | 290,339       |
| Management fees                            | 377,872       | 585,285           | 963,157       | 383,383        | 386,513       | 520,949           | 1,290,845     | 249,476                 | 2,503,478     |
| Legal service                              | 4,627         | 5,257             | 9,884         | 10,631         | 4,627         | 5,752             | 21,010        | 4,625                   | 35,519        |
| Accounting and audit services              | 7,410         | 7,826             | 15,236        | 7,284          | 7,410         | 7,763             | 22,457        | 6,871                   | 44,564        |
| Other professional and consulting services | 99,534        | 103,138           | 202,672       | 425,954        | 90,396        | 107,658           | 624,008       | 72,053                  | 898,733       |
| Building and land rent                     | 188,521       | 236,983           | 425,504       | 153,817        | 169,036       | 219,696           | 542,549       | 94,649                  | 1,062,702     |
| Repairs and maintenance                    | 106,163       | 177,492           | 283,655       | 114,441        | 181,563       | 231,625           | 527,629       | 155,961                 | 967,245       |
| Insurance                                  | 55,977        | 85,069            | 141,046       | 55,970         | 55,977        | 55,977            | 167,924       | 55,970                  | 364,940       |
| Utilities                                  | 60,205        | 110,393           | 170,598       | 84,480         | 99,646        | 51,901            | 236,027       | 33,908                  | 440,533       |
| Supplies and materials                     | 96,831        | 95,769            | 192,600       | 65,074         | 58,285        | 74,778            | 198,137       | 85,701                  | 476,438       |
| Equipment/Furnishings                      | 12,922        | 17,774            | 30,696        | 7,009          | 4,309         | 10,233            | 21,551        | 11,484                  | 63,731        |
| Professional development                   | 187,822       | 164,535           | 352,357       | 171,943        | 138,367       | 226,932           | 537,242       | 95,181                  | 984,780       |
| Marketing and recruitment                  | 16,314        | 19,002            | 35,316        | 17,309         | 10,266        | 17,627            | 45,202        | 18,221                  | 98,739        |
| Technology                                 | 77,310        | 78,908            | 156,218       | 219,314        | 41,703        | 109,326           | 370,343       | 64,485                  | 591,046       |
| Food service                               | 282,185       | 368,467           | 650,652       | 208,046        | 308,527       | 365,742           | 882,315       | 147,980                 | 1,680,947     |
| Student services                           | 271,320       | 156,353           | 427,673       | 309,236        | 378,575       | 146,719           | 834,530       | 48,391                  | 1,310,594     |
| Office expense                             | 118,516       | 136,092           | 254,608       | 110,633        | 167,765       | 228,771           | 507,169       | 76,981                  | 838,758       |
| Depreciation and amortization              | 135,625       | 162,230           | 297,855       | 102,714        | 219,904       | 196,867           | 519,485       | 299,739                 | 1,117,079     |
| Other                                      | 3,784         | 2,718             | 6,502         | 35,474         | 6,446         | 8,160             | 50,080        | 1,302                   | 57,884        |
| TOTAL EXPENSES                             | 4,691,582     | 6,074,867         | 10,766,449    | 5,018,996      | 4,702,390     | 6,086,422         | 15,807,808    | 2,981,345               | 29,555,602    |
| SURPLUS (DEFICIT) FROM SCHOOL OPERATIONS   | 503,560       | 1,087,160         | 1,590,720     | (350,180)      | 832,558       | 1,021,689         | 1,504,067     | (138,144)               | 2,956,643     |
| Support and other revenue:                 |               |                   |               |                |               |                   |               |                         |               |
| Contributions:                             |               |                   |               |                |               |                   |               |                         |               |
| Foundations                                | 25,582        | 165               | 25,747        | 124,369        | 21,570        | 35,167            | 181,106       | -                       | 206,853       |
| Corporations                               | -             | -                 | -             | 65,000         | -             | -                 | 65,000        | 156                     | 65,156        |
| Miscellaneous income                       | 3,396         | 31,710            | 35,106        | 33             | 1,295         | 5,019             | 6,347         | 643                     | 42,096        |
| TOTAL SUPPORT AND OTHER REVENUE            | 28,978        | 31,875            | 60,853        | 189,402        | 22,865        | 40,186            | 252,453       | 799                     | 314,105       |
| CHANGE IN NET ASSETS                       | \$ 532,538    | \$ 1,119,035      | \$ 1,651,573  | \$ (160,778)   | \$ 855,423    | \$ 1,061,875      | \$ 1,756,520  | \$ (137,345)            | \$ 3,270,748  |