

NIAGARA CHARTER SCHOOL
Financial Statements and
Supplementary Information
June 30, 2010
(With Independent Auditors' Report Thereon)

NIAGARA CHARTER SCHOOL

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TOSKI, SCHAEFER & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

555 INTERNATIONAL DR.
WILLIAMSVILLE, NY 14221
(716) 634-0700

14 CORPORATE WOODS BLVD.
ALBANY, NY 12211
(518) 935-1069

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Niagara Charter School:

We have audited the accompanying statement of financial position of Niagara Charter School as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the 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 School's 2009 financial statements and in our report dated September 18, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Niagara Charter School as of June 30, 2010, 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 September 21, 2010 on our consideration of Niagara Charter School's internal control over financial reporting and on 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.

Toski, Schaefer & Co., P.C.

Williamsville, New York
September 21, 2010

NIAGARA CHARTER SCHOOL
 Statement of Financial Position
 June 30, 2010
 with comparative totals for 2009

	<u>Assets</u>	<u>2010</u>	<u>2009</u>
Current assets:			
Cash		\$ 158,084	62,240
Receivables:			
School districts		-	1,605
Other		15,835	21,473
Total receivables		<u>15,835</u>	<u>23,078</u>
Prepaid expenses		<u>16,895</u>	<u>30,832</u>
Total current assets		<u>190,814</u>	<u>116,150</u>
Property and equipment, at cost		358,533	259,048
Less accumulated depreciation		<u>(171,360)</u>	<u>(117,576)</u>
Net property and equipment		<u>187,173</u>	<u>141,472</u>
Other assets - utility deposit		<u>13,425</u>	<u>13,425</u>
Total assets		<u>\$ 391,412</u>	<u>271,047</u>
	<u>Liabilities and Net Assets</u>		
Current liabilities:			
Accounts payable		79,269	125,190
Accrued expenses:			
Payroll and payroll taxes		156,653	104,772
Pension		133,074	152,682
Interest		-	278
Total accrued expenses		<u>289,727</u>	<u>257,732</u>
Current installments of long-term debt		<u>-</u>	<u>38,733</u>
Total liabilities		<u>368,996</u>	<u>421,655</u>
Net assets:			
Unrestricted net assets (deficit)		12,536	(179,443)
Temporarily restricted		<u>9,880</u>	<u>28,835</u>
Total net assets (deficit)		<u>22,416</u>	<u>(150,608)</u>
Commitments (note 6)			
Total liabilities and net assets		<u>\$ 391,412</u>	<u>271,047</u>

See accompanying notes to financial statements.

NIAGARA CHARTER SCHOOL
Statement of Activities
Year ended June 30, 2010
with comparative totals for 2009

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>	
			<u>2010</u>	<u>2009</u>
Revenue:				
Public School Districts:				
Resident student enrollment	\$ 3,496,721	-	3,496,721	3,357,098
Students with disabilities	146,821	-	146,821	134,253
Other revenue from public school districts	40,110	-	40,110	24,487
Grant income	284,916	-	284,916	236,521
Contributions	903	34,299	35,202	30,371
Uniform income	368	-	368	1,983
Other	17,445	-	17,445	22,393
Net assets released from restrictions	53,254	(53,254)	-	-
Total revenue	<u>4,040,538</u>	<u>(18,955)</u>	<u>4,021,583</u>	<u>3,807,106</u>
Expenses:				
Program services:				
Regular education	2,954,482	-	2,954,482	2,826,728
Special education	157,944	-	157,944	133,199
Total program services	<u>3,112,426</u>	<u>-</u>	<u>3,112,426</u>	<u>2,959,927</u>
Management and general	736,133	-	736,133	680,770
Total expenses	<u>3,848,559</u>	<u>-</u>	<u>3,848,559</u>	<u>3,640,697</u>
Increase (decrease) in net assets	191,979	(18,955)	173,024	166,409
Net assets (deficit) at beginning of year	<u>(179,443)</u>	<u>28,835</u>	<u>(150,608)</u>	<u>(317,017)</u>
Net assets (deficit) at end of year	<u>\$ 12,536</u>	<u>9,880</u>	<u>22,416</u>	<u>(150,608)</u>

See accompanying notes to financial statements.

NIAGARA CHARTER SCHOOL
 Statement of Functional Expenses
 Year ended June 30, 2010
 with comparative totals for 2009

	Program Services			Management and general	Total	
	Regular education	Special education	Total		2010	2009
Salaries	\$ 1,304,598	69,743	1,374,341	365,331	1,739,672	1,872,690
Payroll taxes	114,146	6,102	120,248	31,966	152,214	160,404
Employee benefits	305,903	16,353	322,256	85,664	407,920	404,905
Office expense	10,938	585	11,523	3,063	14,586	12,386
Printing and production	15,038	804	15,842	4,212	20,054	14,433
Telephone	5,020	268	5,288	1,406	6,694	9,010
Meetings and travel	6,424	343	6,767	1,800	8,567	3,284
Consulting fees	125,540	6,711	132,251	35,155	167,406	39,987
Supplies	48,704	2,604	51,308	13,637	64,945	55,524
Interest expense	1,640	88	1,728	459	2,187	7,290
Professional fees	15,665	837	16,502	4,387	20,889	17,480
Advertising	1,348	72	1,420	378	1,798	4,030
Dues and subscriptions	4,254	227	4,481	1,192	5,673	6,187
Insurance	50,872	2,720	53,592	14,246	67,838	41,090
Legal fees	44,544	2,381	46,925	12,476	59,401	55,349
Occupancy	363,557	19,435	382,992	101,809	484,801	471,744
Repairs and maintenance	64,726	3,460	68,186	18,125	86,311	39,797
Staff development	35,777	1,913	37,690	10,020	47,710	35,633
Utilities	55,177	2,950	58,127	15,452	73,579	85,468
Garbage collection	6,729	360	7,089	1,886	8,975	8,773
Health Center costs	1,484	79	1,563	-	1,563	3,620
Security	5,741	307	6,048	1,607	7,655	7,355
Student transportation	288,289	15,412	303,701	-	303,701	223,272
Depreciation	40,333	2,156	42,489	11,295	53,784	46,969
Extracurricular activities	36,187	1,935	38,122	-	38,122	11,450
Miscellaneous	1,848	99	1,947	567	2,514	2,567
	<u>\$ 2,954,482</u>	<u>157,944</u>	<u>3,112,426</u>	<u>736,133</u>	<u>3,848,559</u>	<u>3,640,697</u>
Total expenses						

See accompanying notes to financial statements.

NIAGARA CHARTER SCHOOL
 Statement of Cash Flows
 Year ended June 30, 2010
 with comparative totals for 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase in net assets	\$ 173,024	166,409
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	53,784	46,969
Changes in:		
Receivables	7,243	(7,346)
Prepaid expenses	13,937	(831)
Accounts payable	(45,921)	10,574
Accrued expenses	<u>31,995</u>	<u>27,173</u>
Net cash provided by operating activities	234,062	242,948
Cash flows from investing activities - additions to property and equipment	(99,485)	(43,466)
Cash flows from financing activities - repayment of long-term debt	<u>(38,733)</u>	<u>(190,335)</u>
Net increase in cash	95,844	9,147
Cash at beginning of year	<u>62,240</u>	<u>53,093</u>
Cash at end of year	<u>\$ 158,084</u>	<u>62,240</u>
Supplemental schedule of cash flow information - cash paid during the year for interest	<u>\$ 2,465</u>	<u>7,972</u>

See accompanying notes to financial statements.

NIAGARA CHARTER SCHOOL
Notes to Financial Statements
June 30, 2010

(1) Summary of Significant Accounting Policies

(a) Nature of Activities

Niagara Charter School (the School) was chartered by the Board of Regents of the University at the State of New York on July 21, 2005 for a term of five years pursuant to Article 56 of the New York State Education Law. The School has received a renewal of their charter which will expire on June 30, 2013. The School is a K-6 public school primarily funded through the Board of Education of the City School District at the City of Niagara Falls.

(b) Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(c) Basis of Presentation

The 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. The School does not have any permanently restricted net assets. Accordingly, net assets of the School and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations and may be used for any purpose designated by the School's Board of Trustees.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the School and/or the passage of time.

(d) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(e) Cash

For purposes of the statement of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

(f) Capitalization and Depreciation

Property and equipment are recorded at cost or fair market value at the date of the gift in the case of donated equipment. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of equipment are recorded as unrestricted support.

NIAGARA CHARTER SCHOOL
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(f) Capitalization and Depreciation, Continued

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method. Improvements are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

(g) Deferred Revenue and Revenue Recognition

Grant awards accounted for as exchange transactions are recorded as revenue when expenditures have been incurred in compliance with the grant restrictions. Amounts unspent are recorded in the statement of financial position as deferred revenue.

(h) Donated Equipment, Materials, Supplies and Personal Services

Donated equipment, materials and supplies are reflected in the financial statements based on the fair market value at the time of donation.

Donated personal services meeting the requirements for recognition in the financial statements was not material and has not been recorded. However, many individuals volunteer their time and perform a variety of tasks that assist the School.

(i) Promises to Give

Contributions are recognized when the donor makes an unconditional promise to give to the School. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

(j) Expense Allocation

The costs of providing various programs other than activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NIAGARA CHARTER SCHOOL
Notes to Financial Statements, Continued

(1) Summary of Significant Accounting Policies, Continued

(k) Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Codification (Codification). Effective July 1, 2009, the Codification is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Codification is intended to reorganize, rather than change, existing GAAP. Accordingly, all references to currently existing GAAP have been removed and have been replaced with plain English explanations of the School's accounting policies. The adoption of the Codification did not have a material impact on the School's financial position or results of operations.

(l) Subsequent Events

The School has evaluated events after June 30, 2010, and through September 21, 2010, which is the date the financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these financial statements.

(m) Income Taxes

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, therefore, no provision for income taxes is reflected in the financial statements.

(n) Reclassifications

Reclassifications have been made to certain 2009 balances in order to conform them to the 2010 presentation.

(2) Property and Equipment

Property and equipment are recorded at cost. A summary of property and equipment at June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 19,297	19,297
Furniture and equipment	328,685	229,200
Books	<u>10,551</u>	<u>10,551</u>
	358,533	259,048
Less accumulated depreciation	<u>(171,360)</u>	<u>(117,576)</u>
Net property and equipment	\$ <u>187,173</u>	<u>141,472</u>

NIAGARA CHARTER SCHOOL
Notes to Financial Statements, Continued

(3) Line of Credit

The Organization has an annually renewable \$200,000 bank line-of-credit. Amounts borrowed on this line-of-credit bear interest at the prime rate plus 1.50% (4.75% at June 30, 2010). At June 30, 2010, there were no amounts outstanding under the terms of this line-of-credit agreement.

(4) Long-Term Debt

The School was indebted to a financial institution for an equipment loan, with interest at 8.6%, with an outstanding balance of \$38,733 at June 30, 2009. The loan was paid in full in February 2010.

(5) Temporarily Restricted Net Assets

Temporarily restricted net assets amounting to \$9,880 and \$28,835 at June 30, 2010 and 2009, respectively, are restricted for a playground to be built for the School.

(6) Commitments

(a) Lease Obligation

The School leases its facility under an operating lease which expires in July 2026. The School has the option to extend the term of this lease for one five year interval. The lease will terminate on expiration or non-renewal of the School's charter. Rent expense amounted to \$484,801 and \$471,744 for the years ended June 30, 2010 and 2009, respectively.

Minimum future rental payments under the operating lease for the five years following June 30, 2010 and thereafter are as follows:

2011	\$ 476,067
2012	476,460
2013	476,460
2014	476,460
2015	476,460
Thereafter	<u>5,717,520</u>
	\$ <u>8,099,427</u>

(b) Transportation Services Obligations

The School has an agreement for bus transportation with a private carrier for its students. The agreement expires on July 1, 2013. Minimum future transportation payments due under the agreement are \$299,925 for the year ending June 30, 2011.

NIAGARA CHARTER SCHOOL
Notes to Financial Statements, Continued

(7) Pension Plans

The School participates in the New York State Teachers' Retirement (TRS), which is a cost-sharing multiple employer, public employees retirement system. The System offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability. All benefits generally vest after ten years of service.

TRS is administered by the New York State Teachers' Retirement Board and provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. The TRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to NYSTRS, 10 Corporate Woods Drive, Albany, New York 12211-2395.

The System requires plan member contributions of 3% of their annual salary except for those plan members who joined prior to July 1976 or have greater than 10 years of service. Pursuant to Article 11 of the Education law, employer rates are established annually for TRS by the New York State Teachers' Retirement Board at an actuarially determined rate. The employer rates for TRS were 6.19% and 7.63% of the annual covered payroll as of June 30, 2010 and 2009, respectively. Required annual contributions by the School for the year ended June 30, 2010 and 2009 amounted to \$126,176 and \$152,682, respectively.

(8) Advertising Costs

Advertising costs are expensed as incurred. Advertising expense amounted to \$1,798 and \$4,030 for the years ended June 30, 2010 and 2009, respectively.

TOSKI, SCHAEFER & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

555 INTERNATIONAL DR.
WILLIAMSVILLE, NY 14221
(716) 634-0700

14 CORPORATE WOODS BLVD.
ALBANY, NY 12211
(518) 935-1069

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

The Board of Trustees
Niagara Charter School:

We have audited the financial statements of Niagara Charter School (the School) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 21, 2010. 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 the 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 the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 School's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 a matter that we have reported to the management of Niagara Charter School in a separate letter dated September 21, 2010.

This report is intended solely for the information and use of management, the Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Toski, Schaefer & Co. P.C.

Williamsville, New York
September 21, 2010

TOSKI, SCHAEFER & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

555 INTERNATIONAL DR.
WILLIAMSVILLE, NY 14221
(716) 634-0700

14 CORPORATE WOODS BLVD.
ALBANY, NY 12211
(518) 935-1069

September 21, 2010

The Board of Trustees
Niagara Charter School

Dear Board Members:

We have completed our audit of the financial statements of Niagara Charter School (the School) for the year ended June 30, 2010. Considering the test character of our audit, you will appreciate that reliance must be placed on adequate methods of internal controls as your principal safeguard against irregularities which a test examination might not disclose. We now present for your consideration our recommendation based upon observations made during our audit.

This report is solely for the information and use of the Board of Trustees, management and others within the School.

Internal Control Over Cash Disbursements

During our cash disbursements testwork, we noted that checks for \$6,068 and \$3,166 were only signed by one individual. We also noted a check written for \$750 cleared the bank although it was unsigned. These disbursements were for authorized purposes and adequately supported by the third party documentation. The School's policy is that all checks in excess of \$2,500 require two signatures and all checks below \$2,500 be signed by one individual. In order to maintain proper internal control over cash disbursements, we recommend that the School's policy be properly complied with.

Status of Prior Recommendation

We reviewed the disposition of the recommendation included in our letter dated September 18, 2009. The following is a summary of the action taken by the School with regard to our recommendation.

Signing of Board Minutes - In 2009, we noted that minutes of all meetings of the Board of Directors were not signed. We recommended that the minutes of all meetings of the Board of Directors be signed after they are approved at the next meeting. In 2010, Board minutes were signed by an officer.

Board of Trustees
September 21, 2010
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We wish to take this opportunity to express our appreciation for the courtesy and cooperation extended to us by the School during our audit. If you have any questions regarding the foregoing comments or wish any assistance in their implementation, please contact us at your convenience.

Very truly yours,

TOSKI, SCHAEFER & CO., P.C.



Ronald C. Toski, CPA
Managing Director

TOSKI, SCHAEFER & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

555 INTERNATIONAL DR.
WILLIAMSVILLE, NY 14221
(716) 634-0700

14 CORPORATE WOODS BLVD.
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REPORT TO THE BOARD

September 21, 2010

The Board of Trustees
Niagara Charter School

Dear Board Members:

We have audited the financial statements of Niagara Charter School (the School) for the year ended June 30, 2010, and have issued our report thereon dated September 21, 2010. Professional standards requires that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and, Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated August 25, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

We are responsible for communicating significant matters related to the audit that, in our professional judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

For the year ended June 30, 2010, we evaluated the key factors and assumptions used by management in determining accounting estimates were reasonable in relation to the financial statements taken as a whole.

Significant Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of commitments in note 6.

Difficulties Encountered in Performing the Audit

No difficulties were encountered during the current year audit. No delays were noted in the commencement of the audit or in providing us with needed information. Management and accounting personnel were very helpful in assisting us during our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no material uncorrected misstatements detected as a result of our audit procedures.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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This information is intended solely for the use of the Board of Trustees and management of Niagara Charter School and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve as your auditors. Please contact us at your convenience if you would like to meet with us to discuss our findings in further detail or to review any other questions that you might have.

Very truly yours,

TOSKI, SCHAEFER & CO., P.C.