

**TRUE NORTH TROY PREPARATORY
CHARTER SCHOOL**

TROY, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

**REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

AND

INDEPENDENT AUDITORS' REPORTS

JUNE 30, 2010

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MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
True North Troy Preparatory Charter School

We have audited the accompanying statement of financial position of True North Troy Preparatory Charter School as of June 30, 2010, and the related statements of activities and changes in net assets, functional expenses and cash flows for the period from March 11, 2008 (date of inception) to June 30, 2010. These financial statements are the responsibility of the Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of True North Troy Preparatory Charter School as of June 30, 2010, and the changes in its net assets and its cash flows for the period from March 11, 2008 (date of inception) to June 30, 2010 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2010 on our consideration of True North Troy Preparatory Charter School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 7, 2010

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010

ASSETS

CURRENT ASSETS

Cash	\$ 249,195
Grants and other receivables	68,615
Prepaid expenses, current portion	<u>123,297</u>
TOTAL CURRENT ASSETS	441,107

OTHER ASSETS

Property and equipment, net	182,391
Prepaid expenses	<u>139,186</u>
	<u>321,577</u>
TOTAL ASSETS	<u>\$ 762,684</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 72,300
Deferred revenue	<u>104,656</u>
TOTAL CURRENT LIABILITIES	176,956

NET ASSETS, unrestricted

	<u>585,728</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 762,684</u>

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

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

PERIOD FROM MARCH 11, 2008 (DATE OF INCEPTION) TO JUNE 30, 2010

Operating revenue and support:	
State and local per pupil operating revenue	\$ 720,259
Government grants	1,122,646
Contributions	499,100
Other income	<u>92</u>
TOTAL OPERATING REVENUE AND SUPPORT	2,342,097
Expenses:	
Program services - education	1,488,616
General and administrative	<u>267,753</u>
TOTAL EXPENSES	<u>1,756,369</u>
CHANGE IN NET ASSETS	585,728
Unrestricted net assets at beginning of period	<u>-</u>
UNRESTRICTED NET ASSETS AT END OF PERIOD	<u><u>\$ 585,728</u></u>

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

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

PERIOD FROM MARCH 11, 2008 (DATE OF INCEPTION) TO JUNE 30, 2010

	Program services - education	General and administrative	Total
Salaries	\$ 657,869	\$ 131,213	\$ 789,082
Payroll taxes and employee benefits	109,496	21,839	131,335
Occupancy	381,285	-	381,285
Repairs and maintenance	54,272	10,125	64,397
Textbooks	1,156	-	1,156
Instructional supplies and assessments	12,143	-	12,143
Computer and technology support	9,437	-	9,437
Student enrichment and services	50,631	-	50,631
Professional development	99,515	-	99,515
Professional services	-	17,936	17,936
Telephone	-	25,068	25,068
Insurance	-	10,816	10,816
Management fees	65,763	11,605	77,368
Office expense	16,712	28,350	45,062
Depreciation	30,337	459	30,796
Other	-	10,342	10,342
	<u>\$ 1,488,616</u>	<u>\$ 267,753</u>	<u>\$ 1,756,369</u>

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

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

PERIOD FROM MARCH 11, 2008 (DATE OF INCEPTION) TO JUNE 30, 2010

CASH FLOWS - OPERATING ACTIVITIES

Change in net assets	\$ 585,728
Adjustments to reconcile change in net assets to net cash provided from operating activities:	
Depreciation	30,796
Changes in certain assets and liabilities affecting operations:	
Grants and other receivables	(68,615)
Prepaid expenses	(262,483)
Accounts payable and accrued expenses	72,300
Deferred revenue	<u>104,656</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	462,382

CASH FLOWS - INVESTING ACTIVITIES

Purchases of property and equipment	<u>(213,187)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(213,187)</u>

NET INCREASE IN CASH 249,195

Cash at beginning of period	-
CASH AT END OF PERIOD	<u>\$ 249,195</u>

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

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

The Charter School

True North Troy Preparatory Charter School (the “Charter School”), is an educational corporation operating as a charter school in Troy, New York. On March 11, 2008, the Board of Regents of the University of the State of New York granted the Charter School a provisional charter valid for a term of five years and renewable upon expiration.

The Charter School’s mission is to prepare all students to enter and succeed in college through effort, achievement, and the content of their character.

Financial Statement presentation

The financial statements of the Charter School have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. 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, 2010.

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, 2010.

Unrestricted – The net assets over which the Governing Board has discretionary control to use in carrying on the Charter School’s operations in accordance with the guidelines established by the Charter School. The Board may designate portions of the current unrestricted net assets for specific purposes, projects or investment.

Revenue and support recognition

Revenue from state and local governments resulting from the Charter School’s charter status and based on the number of students enrolled is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the Charter School when qualifying expenditures are incurred and billable.

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

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

Cont'd

Contributions

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

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

Cash

The Charter School maintains its cash balances in certain financial institutions located in New York. Cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at each institution. Total uninsured balances approximated \$8,000 at June 30, 2010. The Charter School has not experienced any losses in such accounts and management believes it is not exposed to any significant risk in cash.

Grants and other receivables

Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts based on its assessment of the current status of individual receivables from grants, agencies and others. Balances that are still outstanding after management has used reasonable collection efforts are written off against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2010.

Prepaid expenses

Prepaid expenses consist primarily of prepaid rent which is being expensed over the term of the lease.

Property and equipment

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

Deferred revenue

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

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

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

Cont'd

Tax exempt status

The Charter School is tax-exempt under section 501(c)(3) of the Internal Revenue Code. The Charter School has filed for and received income tax exemptions in the jurisdictions where it is required to do so. The Charter School files tax returns in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2009 and June 30, 2010 are still subject to potential audit by the IRS. The Charter School adopted the provisions of FASB ASC 740-10 Accounting for Uncertainty in Income Taxes (formerly FIN 48), and its related amendment on July 1, 2009. 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.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Charter School has conducted an evaluation of potential subsequent events occurring after the statement of financial position date through October 7, 2010, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

NOTE B: RELATED PARTY TRANSACTIONS

Uncommon Schools, Inc. ("USI"), a not-for-profit organization dedicated to helping start and run charter schools, provides management and other administrative support services to the Charter School. The Charter School entered into a five year agreement with USI, dated July 1, 2009, under which the Charter School pays USI a service fee of a set percentage of the average number of students enrolled at the Charter School during the school year multiplied by the approved per pupil operating expenses for the school year, and a percentage of all other public entitlement funding receivable during the fiscal year, excluding in-kind contributions and funds from competitive public grants. This percentage is fixed at 10% for years 1-3, decreasing to 9.5% in year 4 and 9% in year 5. The fee incurred for the period from March 11, 2008 (date of inception) to June 30, 2010 was \$77,368. At June 30, 2010, approximately \$2,500 and \$17,800 are included in accounts receivable and accounts payable, respectively, relating to USI.

The Charter School is related to True North Rochester Preparatory Charter School ("Rochester Prep") through common Board representation. As the Charter School does not have an economic interest in the net assets of any other school, the facts do not require consolidation of Rochester Prep with the Charter School in accordance with FASB ASC 958-810 (formerly SOP 94-3 "Reporting of Related Entities by Not-For-Profit Organizations").

The Charter School leases its facilities from True North Troy Real Estate, LLC, a wholly-owned subsidiary of USI. Rent expense incurred for the period ended June 30, 2010 was \$148,465. The lease agreement is through August 2012 with rent of \$399,000 for the term of the lease, which was paid in full at the inception of the lease, therefore, no further lease payments are due. At June 30, 2010, approximately \$22,700 is included in accounts payable relating to True North Troy Real Estate, LLC for occupancy charges.

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Furniture and fixtures	\$ 22,281
Computers and software	<u>190,906</u>
	213,187
Less accumulated depreciation	<u>30,796</u>
	<u>\$ 182,391</u>

NOTE D: RETIREMENT PLAN

The Charter School sponsors a defined contribution 403(b) plan covering most employees. The Charter School matches employees' contributions up to 3% of gross pay. The Charter School's total contribution to the Plan for the period from March 11, 2008 (date of inception) to June 30, 2010 approximated \$11,200.

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2010

NOTE E: 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 F: CONCENTRATION

At June 30, 2010 approximately 49% and 38% of accounts receivable are due from a school district and New York State, respectively.

During the period from March 11, 2008 (date of inception) to June 30, 2010, 31% of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

NOTE G: MAJOR GRANTOR

Two public grants accounted for approximately 27% and 12%, respectively, of total operating revenue and support for the period ended June 30, 2010.

NOTE H: OPERATING LEASE

The Charter School leases office equipment under a non-cancelable lease agreement expiring in September 2012. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2011	\$ 13,149
2012	13,149
2013	<u>1,096</u>
	<u>\$ 27,394</u>

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

OTHER FINANCIAL INFORMATION



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
True North Troy Preparatory Charter School

Our report on our audit of the basic financial statements of True North Troy Preparatory Charter School as of June 30, 2010 and for the period from March 11, 2008 to June 30, 2010 appears on page 3. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information hereinafter is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 7, 2010

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

SCHEDULE OF ELEMENTARY SCHOOL AND MIDDLE SCHOOL ACTIVITIES

	Elementary School	Middle School		
	For the period from March 11, 2008 (date of inception) to June 30, 2010	For the period from March 11, 2008 (date of inception) to June 30, 2009	Year ended June 30, 2010	Total
State and local per pupil operating revenue	\$ -	\$ -	\$ 720,259	\$ 720,259
Government grants	-	681,534	441,112	1,122,646
Contributions	65,000	91,284	342,816	499,100
Other income	-	70	22	92
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL OPERATING REVENUE AND SUPPORT	65,000	772,888	1,504,209	2,342,097
Salaries	46,667	94,388	648,027	789,082
Payroll taxes and employee benefits	4,240	16,626	110,469	131,335
Occupancy	-	206,028	175,257	381,285
Repairs and maintenance	-	-	64,397	64,397
Textbooks	-	-	1,156	1,156
Instructional supplies and assessments	-	-	12,143	12,143
Computer and technology supplies	-	570	8,867	9,437
Student enrichment and services	-	-	50,631	50,631
Professional development	1,508	38,844	59,163	99,515
Professional services	-	-	17,936	17,936
Telephone	674	1,741	22,653	25,068
Insurance	-	-	10,816	10,816
Management fees	-	-	77,368	77,368
Office expense	-	9,441	35,621	45,062
Depreciation	-	-	30,796	30,796
Other	-	8,508	1,834	10,342
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	53,089	376,146	1,327,134	1,756,369
	<hr/>	<hr/>	<hr/>	<hr/>
CHANGE IN NET ASSETS	\$ 11,911	\$ 396,742	\$ 177,075	\$ 585,728

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS



MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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

Board of Trustees
True North Troy Preparatory Charter School

We have audited the financial statements of True North Troy Preparatory Charter School as of June 30, 2010 and for the period from March 11, 2008 (date of inception) to June 30, 2010, and have issued our report thereon dated October 7, 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 True North Troy Preparatory Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of True North Troy Preparatory Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether True North Troy Preparatory Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of True North Troy Preparatory Charter School in a separate letter dated October 7, 2010.

This report is intended solely for the information and use of the Board of Trustees, management, federal, state and local awarding agencies, The Charter Schools Institute of the State University of New York and the State Education Department of the State University of New York and others within the Charter School and is not intended to be and should not be used by anyone other than these specified parties.

Mengel, Metzger, Barw & Co. LLP

Rochester, New York
October 7, 2010