

**TRUE NORTH TROY PREPARATORY  
CHARTER SCHOOL**

**TROY, NEW YORK**

**AUDITED FINANCIAL STATEMENTS**

**OTHER FINANCIAL INFORMATION**

**AND**

**INDEPENDENT AUDITORS' REPORTS**

**June 30, 2012**

**(With Comparative Totals for 2011)**

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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 (the "Charter School") as of June 30, 2012, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the financial statements of True North Troy Preparatory Charter School as of and for the year ended June 30, 2011 and in our report dated October 18, 2011, 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, 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, 2012, 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 October 15, 2012 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, Barr & Co. LLP*

Rochester, New York  
October 15, 2012

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TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012

(With Comparative Totals for 2011)

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
<u>CURRENT ASSETS</u>		
Cash	\$ 152,602	\$ 294,933
Grants and other receivables	986,792	124,685
Prepaid expenses	16,255	83,449
TOTAL CURRENT ASSETS	<u>1,155,649</u>	<u>503,067</u>
<u>OTHER ASSETS</u>		
Property and equipment, net	285,380	186,588
TOTAL ASSETS	<u>\$ 1,441,029</u>	<u>\$ 689,655</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 571,789	\$ 124,631
Deferred revenue	100,000	-
TOTAL CURRENT LIABILITIES	<u>671,789</u>	<u>124,631</u>
<u>NET ASSETS</u> , unrestricted	<u>769,240</u>	<u>565,024</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,441,029</u>	<u>\$ 689,655</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

YEAR ENDED JUNE 30, 2012  
(With Comparative Totals for 2011)

	<u>Year ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Operating revenue and support:		
State and local per pupil operating revenue	\$ 3,284,411	\$ 1,609,529
Government grants	793,686	389,232
Contributions	455,250	252,450
Other income	28,638	27
TOTAL OPERATING REVENUE AND SUPPORT	<u>4,561,985</u>	<u>2,251,238</u>
Expenses:		
Program services - education	3,822,858	1,784,632
General and administrative	534,911	348,124
TOTAL EXPENSES	<u>4,357,769</u>	<u>2,132,756</u>
CHANGE IN NET ASSETS FROM OPERATIONS	204,216	118,482
Loss on early termination of lease agreement	-	(139,186)
CHANGE IN NET ASSETS	204,216	(20,704)
Unrestricted net assets at beginning of year	565,024	585,728
UNRESTRICTED NET ASSETS AT END OF YEAR	<u>\$ 769,240</u>	<u>\$ 565,024</u>

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

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2012  
(With Comparative Totals for 2011)

	Program services - education	General and administrative	Total	
			Year ended June 30,	
			2012	2011
Salaries	\$ 1,539,328	\$ 220,190	\$ 1,759,518	\$ 972,427
Payroll taxes and employee benefits	313,699	43,364	357,063	216,020
Occupancy	509,173	-	509,173	143,350
Grant passthrough	-	-	-	20,000
Repairs and maintenance	139,642	40,245	179,887	65,885
Textbooks	67,874	-	67,874	4,678
Instructional supplies and assessments	88,690	-	88,690	20,113
Computer and technology support	196,457	-	196,457	47,483
Student enrichment and services	403,931	-	403,931	229,853
Professional development	101,010	-	101,010	51,782
Professional services	-	24,328	24,328	21,613
Telephone	-	46,151	46,151	30,228
Insurance	-	31,845	31,845	15,638
Management fees	287,030	50,653	337,683	167,928
Office expense	39,640	68,353	107,993	53,087
Depreciation and amortization	122,723	2,552	125,275	70,345
Other	-	7,230	7,230	2,326
Bad debt expense	13,661	-	13,661	-
	<u>\$ 3,822,858</u>	<u>\$ 534,911</u>	<u>\$ 4,357,769</u>	<u>\$ 2,132,756</u>

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

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2012  
(With Comparative Totals for 2011)

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS - OPERATING ACTIVITIES</u>		
Change in net assets	\$ 204,216	\$ (20,704)
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Bad debt expense	13,661	-
Depreciation and amortization	125,275	70,345
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	(875,768)	(56,070)
Prepaid expenses	67,194	179,034
Accounts payable and accrued expenses	447,158	52,331
Deferred revenue	<u>100,000</u>	<u>(104,656)</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	81,736	120,280
<u>CASH FLOWS - INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(224,067)	(77,324)
Proceeds from sale of property and equipment	<u>-</u>	<u>2,782</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(224,067)</u>	<u>(74,542)</u>
NET (DECREASE) INCREASE IN CASH	(142,331)	45,738
Cash at beginning of year	<u>294,933</u>	<u>249,195</u>
CASH AT END OF YEAR	<u>\$ 152,602</u>	<u>\$ 294,933</u>

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

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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 (GAAP). The Charter School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

These classes of net assets are defined as follows:

*Permanently restricted* – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Charter School. The Charter School had no permanently restricted net assets at June 30, 2012 or 2011.

*Temporarily restricted* – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School had no temporarily restricted net assets at June 30, 2012 or 2011.

*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, 2012 AND 2011

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

Cont'd

Contributions

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

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

Cash

The Charter School maintains its cash balances at a financial institution located in New York. Cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 at the institution. In addition, certain non-interest bearing transaction accounts at the financial institution are 100% insured through December 31, 2012. In the normal course of business, the interest bearing account balance at any given time may exceed insured limits. However, the Charter School has not experienced any losses in such accounts and does not believe it is exposed to 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 as bad debt expense or against the allowance for doubtful accounts. There was no allowance for doubtful accounts at June 30, 2012 or 2011.

Property and equipment

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

Deferred revenue

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

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 has filed for and received income tax exemptions in the jurisdictions where it is required to do so. The Charter School files the Form 990 in the U.S. federal jurisdiction. The tax returns for the years ended June 30, 2009 through June 30, 2012 are still subject to potential audit by the IRS. Management of the Charter School believes it has no material uncertain tax positions and, accordingly it has not recognized any liability for unrecognized tax benefits.

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2012 AND 2011

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

Cont'd

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.

Comparatives for the year ended June 30, 2011

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, 2011, 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 October 15, 2012, which is the date the financial statements are available to be issued. No subsequent events requiring disclosure were noted.

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 fees incurred for the years ended June 30, 2012 and 2011 were approximately \$338,000 and \$168,000, respectively. At June 30, 2012, approximately \$20,000 and \$362,000 were included in accounts receivable and accounts payable, respectively, relating to USI. At June 30, 2011, approximately \$15,800 was included in accounts payable, relating to USI.

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2012 AND 2011

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

The Charter School leased its facilities from True North Troy Real Estate, LLC, a wholly-owned subsidiary of USI. The lease agreement was 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 were due. As of June 30, 2011, the Charter School relocated to another space and in accordance with the terms of the lease with True North Troy Real Estate, forfeited the remaining portion of prepaid rent. This amount has been shown as loss on early termination of lease in the accompanying statement of activities and changes in net assets for the year ended June 30, 2011. At June 30, 2011, approximately \$6,750 was included in accounts payable relating to True North Troy Real Estate, LLC for occupancy charges.

Effective August 1, 2011, the Charter School signed a lease agreement with True North Tyler Street, LLC, a wholly-owned subsidiary of USI. The lease requires monthly payments of \$42,175 through July 2036.

Future minimum payments on this lease are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2013	\$ 506,100
2014	506,100
2015	506,100
2016	506,100
2017	506,100
Thereafter	<u>9,658,075</u>
	<u>\$ 12,188,575</u>

Rent expense incurred for the years ended June 30, 2012 and 2011 was \$463,926 and \$111,349, respectively.

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
Furniture and fixtures	\$ 125,247	\$ 81,454
Computers and software	367,764	199,890
Leasehold improvements	<u>18,785</u>	<u>6,385</u>
	511,796	287,729
Less accumulated depreciation and amortization	<u>226,416</u>	<u>101,141</u>
	<u>\$ 285,380</u>	<u>\$ 186,588</u>

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS, Cont'd

JUNE 30, 2012 AND 2011

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, not to exceed \$3,500. The Charter School's total contribution to the Plan for the years ended June 30, 2012 and 2011 approximated \$29,700 and \$11,700, respectively.

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: CONCENTRATIONS

At June 30, 2012 approximately 17% and 73% of accounts receivable are due from a grantor and two School Districts, respectively.

At June 30, 2011 approximately 14% and 73% of accounts receivable are due from a grantor and New York State, respectively.

During the years ended June 30, 2012 and 2011, 72% and 71%, respectively, of total operating revenue and support came from per-pupil funding provided by New York State. The per-pupil rate is set annually by the State based on the school district in which the Charter School's students are located.

NOTE G: OPERATING LEASE

The Charter School leases office equipment under a non-cancelable lease agreement expiring in September 2015. The future minimum payments on this agreement are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2013	\$ 13,136
2014	11,616
2015	11,616
2016	<u>1,936</u>
	<u>\$ 38,304</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

We have audited the financial statements of True North Troy Preparatory Charter School as of and for the year ended June 30, 2012, and our report thereon dated October 15, 2012, which expressed an unqualified opinion on those financial statements, appears on page 3. Our audit was conducted for the purpose of forming an opinion on the 2012 financial statements as a whole. The 2012 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 2012 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 financial statements or to the 2012 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, 2012, as a whole.

We have also audited the financial statements of True North Troy Preparatory Charter School as of and for the year ended June 30, 2011, and our report thereon dated October 18, 2011, expressed an unqualified opinion on those financial statements. Our report as of the same date, on the 2011 other financial information stated that, in our opinion, such information was fairly stated in all material respects in relation to the financial statements for the year ended June 30, 2011, as a whole.

*Mengel, Metzger, Barr & Co. LLP*

Rochester, New York  
October 15, 2012

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

SCHEDULE OF ELEMENTARY SCHOOL AND MIDDLE SCHOOL ACTIVITIES

YEAR ENDED JUNE 30, 2012

	<u>Middle School</u>	<u>Elementary School</u>	<u>Total</u>
State and local per pupil operating revenue	2,410,248	\$ 874,163	\$ 3,284,411
Government grants	498,929	294,757	793,686
Contributions	-	455,250	455,250
Other income	11,579	17,059	28,638
	<u>11,579</u>	<u>17,059</u>	<u>28,638</u>
TOTAL OPERATING REVENUE AND SUPPORT	2,920,756	1,641,229	4,561,985
Salaries	1,165,011	594,507	1,759,518
Payroll taxes and employee benefits	243,807	113,256	357,063
Occupancy	251,711	257,462	509,173
Repairs and maintenance	104,659	75,228	179,887
Textbooks	10,362	57,512	67,874
Instructional supplies and assessments	75,652	13,038	88,690
Computer and technology supplies	116,077	80,380	196,457
Student enrichment and services	295,530	108,401	403,931
Professional development	69,987	31,023	101,010
Professional services	15,046	9,282	24,328
Telephone	28,291	17,860	46,151
Insurance	21,806	10,039	31,845
Management fees	248,452	89,231	337,683
Office expense	78,397	29,596	107,993
Depreciation and amortization	92,806	32,469	125,275
Other	5,904	1,326	7,230
Bad debt expense	13,661	-	13,661
	<u>13,661</u>	<u>-</u>	<u>13,661</u>
TOTAL EXPENSES	2,837,159	1,520,610	4,357,769
CHANGE IN NET ASSETS	<u>\$ 83,597</u>	<u>\$ 120,619</u>	<u>\$ 204,216</u>

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

SCHEDULE OF ELEMENTARY SCHOOL AND MIDDLE SCHOOL ACTIVITIES

YEAR ENDED JUNE 30, 2011

	<u>Middle School</u>	<u>Elementary School</u>	<u>Total</u>
State and local per pupil operating revenue	\$ 1,609,529	\$ -	\$ 1,609,529
Government grants	312,792	76,440	389,232
Contributions	107,450	145,000	252,450
Other income	<u>27</u>	<u>-</u>	<u>27</u>
TOTAL OPERATING REVENUE AND SUPPORT	2,029,798	221,440	2,251,238
Salaries	850,394	122,033	972,427
Payroll taxes and employee benefits	194,589	21,431	216,020
Occupancy	143,350	-	143,350
Contributions	-	20,000	20,000
Repairs and maintenance	65,885	-	65,885
Textbooks	4,678	-	4,678
Instructional supplies and assessments	20,113	-	20,113
Computer and technology supplies	47,483	-	47,483
Student enrichment and services	219,754	10,099	229,853
Professional development	43,918	7,864	51,782
Professional services	21,613	-	21,613
Telephone	28,619	1,609	30,228
Insurance	15,638	-	15,638
Management fees	167,928	-	167,928
Office expense	53,054	32	53,086
Depreciation and amortization	70,345	-	70,345
Other	2,327	-	2,327
Bad debt expense	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENSES	<u>1,949,688</u>	<u>183,068</u>	<u>2,132,756</u>
CHANGE IN NET ASSETS FROM OPERATIONS	80,110	38,372	118,482
Loss on early termination of lease agreement	<u>139,186</u>	<u>-</u>	<u>139,186</u>
CHANGE IN NET ASSETS	<u>\$ (59,076)</u>	<u>\$ 38,372</u>	<u>\$ (20,704)</u>