TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

TROY, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2013
(With Comparative Totals for 2012)

MMB
MENGEL METZGER BARR & CO. LLP
Certified Public Accountants

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MENGEL METZGER BARR & CO. LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
True North Troy Preparatory Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of True North Troy Preparatory Charter School, which comprise the statement of financial position as of June 30, 2013, 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.

100 Chestnut Street | Suite 1200 | Rochester, NY 14604 | P 585.423.1860 | F 585.423.5966 | mengelmetzgerbarr.com
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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 Troy Preparatory Charter School as of June 30, 2013, 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.

Report on Summarized Comparative Information

We have previously audited True North Troy Preparatory Charter School's June 30, 2012 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 15, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the financial statements from which it has been derived.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2013 on our consideration of True North Troy 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, Barr & Co. LLP

Rochester, New York
October 24, 2013

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TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2013
(With Comparative Totals for 2012)

ASSETS	June 30, 2013	June 30, 2012
CURRENT ASSETS		
Cash	$ 709,752	$ 152,602
Grants and other receivables	447,182	986,792
Prepaid expenses	3,125	16,255
TOTAL CURRENT ASSETS	1,160,059	1,155,649
OTHER ASSETS		
Property and equipment, net	480,841	285,380
TOTAL ASSETS	$ 1,640,900	$ 1,441,029
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 458,120	$ 571,789
Deferred revenue	25,000	100,000
TOTAL CURRENT LIABILITIES	483,120	671,789
NET ASSETS, unrestricted	1,157,780	769,240
TOTAL LIABILITIES AND NET ASSETS	$ 1,640,900	$ 1,441,029

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, 2013
(With Comparative Totals for 2012)

	Year ended June 30,	
	2013	2012
Operating revenue and support:		
State and local per pupil operating revenue	$ 4,936,493	$ 3,284,411
Government grants	930,623	793,686
Contributions	104,240	455,250
Other income	14,507	28,638
TOTAL OPERATING REVENUE AND SUPPORT	5,985,863	4,561,985
Expenses:		
Program services - education	4,842,615	3,822,858
General and administrative	754,708	534,911
TOTAL EXPENSES	5,597,323	4,357,769
CHANGE IN NET ASSETS	388,540	204,216
Unrestricted net assets at beginning of year	769,240	565,024
UNRESTRICTED NET ASSETS AT END OF YEAR	$ 1,157,780	$ 769,240

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, 2013
(With Comparative Totals for 2012)

	Program services - education	General and administrative	Total Year ended June 30, 2013	Total Year ended June 30, 2012
Salaries	$ 2,126,183	$ 280,878	$ 2,407,061	$ 1,759,518
Payroll taxes and employee benefits	431,257	51,866	483,123	357,063
Occupancy	565,287	-	565,287	509,173
Repairs and maintenance	114,088	12,562	126,650	179,887
Textbooks	34,792	-	34,792	67,874
Instructional supplies and assessments	67,512	-	67,512	88,690
Computer and technology support	171,463	-	171,463	196,457
Student enrichment and services	559,877	-	559,877	403,931
Professional development	121,060	-	121,060	101,010
Professional services	-	110,796	110,796	24,328
Telephone	-	71,666	71,666	46,151
Insurance	-	54,065	54,065	31,845
Management fees	415,360	73,299	488,659	337,683
Office expense	52,554	86,452	139,006	107,993
Depreciation and amortization	180,633	2,826	183,459	125,275
Other	-	10,298	10,298	7,230
Bad debt expense	2,549	-	2,549	13,661
	$ 4,842,615	$ 754,708	$ 5,597,323	$ 4,357,769

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, 2013
(With Comparative Totals for 2012)

	June 30, 2013	June 30, 2012
CASH FLOWS - OPERATING ACTIVITIES		
Change in net assets	$ 388,540	$ 204,216
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Bad debt expense	2,549	13,661
Depreciation and amortization	183,459	125,275
Changes in certain assets and liabilities affecting operations:		
Grants and other receivables	537,061	(875,768)
Prepaid expenses	13,130	67,194
Accounts payable and accrued expenses	(113,669)	447,158
Deferred revenue	(75,000)	100,000
NET CASH PROVIDED FROM OPERATING ACTIVITIES	936,070	81,736
CASH FLOWS - INVESTING ACTIVITIES		
Purchases of property and equipment	(378,920)	(224,067)
NET CASH USED FOR INVESTING ACTIVITIES	(378,920)	(224,067)
NET INCREASE (DECREASE) IN CASH	557,150	(142,331)
Cash at beginning of year	152,602	294,933
CASH AT END OF YEAR	$ 709,752	$ 152,602

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

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. During the year ended June 30, 2013, the charter was extended through July 31, 2014.

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, 2013 or 2012.

Temporarily restricted – Net assets resulting from contributions and other inflows of assets whose use by the Charter School is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Charter School pursuant to those stipulations. The Charter School had no temporarily restricted net assets at June 30, 2013 or 2012.

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

Revenue and support recognition

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

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

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

Cash balances are maintained at a financial institution located in New York and are insured by the FDIC up to $250,000 at each institution. 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.

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, 2013 or 2012.

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. With few exceptions, as of June 30, 2013, the Charter School is no longer subject to U.S. Federal income tax examinations by tax authorities for the years ended prior to June 30, 2010. The tax returns for the years ended June 30, 2010 through June 30, 2013 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.

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, 2012

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, 2012, 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 24, 2013, 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, 2013 and 2012 were approximately $489,000 and $338,000, respectively. At June 30, 2013, approximately $99,000 and $85,000 were included in accounts receivable and accounts payable, respectively, relating to USI. At June 30, 2012, approximately $20,000 and $362,000 were included in accounts receivable and accounts payable, respectively, relating to USI.

NOTE B: RELATED PARTY TRANSACTIONS, Cont'd

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:

Year ending June 30,	Amount
2014	$ 506,100
2015	506,100
2016	506,100
2017	506,100
2018	506,100
Thereafter	9,151,975
	$ 11,682,475

Rent expense incurred for the years ended June 30, 2013 and 2012 was $506,100 and $463,926, respectively.

NOTE C: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30, 2013	June 30, 2012
Furniture and fixtures	$ 156,423	$ 125,247
Computers and software	664,597	367,764
Leasehold improvements	69,696	18,785
	890,716	511,796
Less accumulated depreciation and amortization	409,875	226,416
	$ 480,841	$ 285,380

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 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. The Charter School's total contribution to the Plan for the years ended June 30, 2013 and 2012 approximated $57,300 and $29,700, 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, 2013 approximately 19% and 46% of accounts receivable are due from New York State and two school districts, respectively.

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

During the years ended June 30, 2013 and 2012, 82% and 72%, 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 approximately as follows:

Year ending June 30,	Amount
2014	$ 20,700
2015	12,400
2016	2,000
	$ 35,100

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

OTHER FINANCIAL INFORMATION

MENGEL METZGER BARR & CO. LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S 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, 2013, and we have issued our report thereon dated October 24, 2013, which expressed an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the 2013 financial statements as a whole. The 2013 financial information hereinafter is presented for purposes of additional analysis and is not a required part of the 2013 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 2013 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2013 financial statements or to the 2013 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, 2013, 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, 2012, and our report thereon dated October 15, 2012, expressed an unmodified opinion on those financial statements. Our audit was performed 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 2012 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.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
October 24, 2013

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SCHEDULE OF ELEMENTARY SCHOOL AND MIDDLE SCHOOL ACTIVITIES

YEAR ENDED JUNE 30, 2013

	Middle School	Elementary School	Total
State and local per pupil operating revenue	3,074,450	$ 1,862,043	$ 4,936,493
Government grants	416,838	513,785	930,623
Contributions	178	104,062	104,240
Other income	11,194	3,313	14,507
TOTAL OPERATING REVENUE AND SUPPORT	3,502,660	2,483,203	5,985,863
Salaries	1,496,763	910,298	2,407,061
Payroll taxes and employee benefits	348,700	134,423	483,123
Occupancy	279,244	286,043	565,287
Repairs and maintenance	39,863	86,787	126,650
Textbooks	6,790	28,002	34,792
Instructional supplies and assessments	20,517	46,995	67,512
Computer and technology supplies	82,991	88,472	171,463
Student enrichment and services	352,776	207,101	559,877
Professional development	64,075	56,985	121,060
Professional services	56,806	53,990	110,796
Telephone	33,138	38,528	71,666
Insurance	29,446	24,619	54,065
Management fees	305,252	183,407	488,659
Office expense	66,144	72,862	139,006
Depreciation and amortization	145,231	38,228	183,459
Other	5,491	4,807	10,298
Bad debt expense	2,258	291	2,549
TOTAL EXPENSES	3,335,485	2,261,838	5,597,323
CHANGE IN NET ASSETS	$ 167,175	$ 221,365	$ 388,540

TRUE NORTH TROY PREPARATORY CHARTER SCHOOL

SCHEDULE OF ELEMENTARY SCHOOL AND MIDDLE SCHOOL ACTIVITIES

YEAR ENDED JUNE 30, 2012

	Middle School	Elementary School	Total
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
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
TOTAL EXPENSES	2,837,159	1,520,610	4,357,769
CHANGE IN NET ASSETS	$ 83,597	$ 120,619	$ 204,216