TIMPANOGOS ACADEMY FOUNDATION

FINANCIAL STATEMENTS
AND OTHER REPORTS

Year Ended June 30, 2010

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Timpanogos Academy Foundation

We have audited the statement of financial position of Timpanogos Academy Foundation (a Utah nonprofit organization) as of June 30, 2010, and the related statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of Timpanogos Academy Foundation'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 Timpanogos Academy Foundation's 2009 financial statements and, in our report dated November 30, 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 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 Timpanogos Academy Foundation 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 November 30, 2010 on our consideration of Timpanogos Academy Foundation's internal control over financial reporting and 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.

Squire + Company, PC

November 30, 2010

TIMPANOGOS ACADEMY FOUNDATION
STATEMENT OF FINANCIAL POSITION
June 30, 2010, with Comparative Totals for 2009

	2010	2009
Assets:		
Cash and cash equivalents	$ 889,597	$ 877,118
Receivables:		
Local	862	801
Federal	48,778	14,728
Prepaid expenses	25,192	22,408
Bond issuance costs, net of accumulated amortization	40,179	47,484
Capital assets:		
Land	747,168	747,168
Buildings, improvements, and equipment and other depreciable assets, net of accumulated depreciation	2,426,046	2,461,279
Total assets	4,177,822	4,170,986
Liabilities:		
Accounts payable	40,361	3,538
Payroll and related benefits payable	61,535	61,021
Unearned revenue:		
State	161,646	142,904
Accrued interest	1,207	1,458
Bonds payable:		
Portion due or payable within one year	105,000	100,000
Portion due or payable after one year	695,000	900,000
Total liabilities	1,064,749	1,208,921
Net Assets:		
Unrestricted:		
Designated for capital assets, net of related debt	2,431,344	2,255,931
Undesignated	681,729	706,134
Total net assets	$ 3,113,073	$ 2,962,065

The accompanying notes are an integral part of this financial statement.

TIMPANOGOS ACADEMY FOUNDATION
STATEMENT OF ACTIVITIES

Year Ended June 30, 2010, with Comparative Totals for 2009

	2010	2009
Unrestricted Net Assets:		
Revenues and support:		
Local:		
Tuitions and fees	$ 194	$ 1,661
Interest	817	1,583
Contributions	1,969	488
Other	13,709	13,118
State	2,383,870	2,586,164
Federal	203,374	218,968
Total revenues and support	2,603,933	2,821,982
Expenses:		
Program services:		
School	2,177,321	2,334,951
Supporting services:		
General	275,604	172,349
Total expenses	2,452,925	2,507,300
Change in Net Assets	151,008	314,682
Net Assets at Beginning of Year	2,962,065	2,647,383
Net Assets at End of Year	$ 3,113,073	$ 2,962,065

The accompanying notes are an integral part of this financial statement.

TIMPANOGOS ACADEMY FOUNDATION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2010, with Comparative Totals for 2009

	2010	2009
Cash Flows from Operating Activities:		
Change in net assets	$ 151,008	$ 314,682
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of capital assets	154,265	158,931
Amortization of bond issuance costs	7,305	6,783
Changes in operating assets and liabilities:		
Receivables	(34,111)	(14,806)
Prepaid expenses	(2,784)	(3,389)
Accounts payable	36,823	(9,194)
Payroll and related benefits payable	514	6,690
Unearned revenue	18,742	(15,839)
Accrued interest	(251)	(5,312)
Total adjustments	180,503	123,864
Net cash provided by operating activities	331,511	438,546
Cash Flows from Investing Activities:		
Purchases of capital assets	(119,032)	(21,391)
Cash Flows from Financing Activities:		
Repayment of bonds payable	(200,000)	(220,000)
Net Change in Cash and Cash Equivalents	12,479	197,155
Cash and Cash Equivalents at Beginning of Year	877,118	679,963
Cash and Cash Equivalents at End of Year	$ 889,597	$ 877,118

Supplemental Data:

Interest paid during 2010 totaled $79,806.

The accompanying notes are an integral part of this financial statement.

TIMPANOGOS ACADEMY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2010, with Comparative Totals for 2009

	Program Services	Supporting Services	Totals	
	School	General	2010	2009
Salaries	$ 1,244,382	$ 130,336	$ 1,374,718	$ 1,361,170
Employee benefits	441,098	47,431	488,529	535,660
Professional and technical services	19,536	29,190	48,726	57,105
Purchased property services	84,516	10,698	95,214	104,635
Other purchased services	18,763	18,556	37,319	47,911
Supplies	125,238	9,954	135,192	140,295
Property	19,056	2,197	21,253	9,031
Other	17,184	970	18,154	17,454
Interest	70,616	8,939	79,555	75,108
Depreciation	136,932	17,333	154,265	158,931
Total expenses	$ 2,177,321	$ 275,604	$ 2,452,925	$ 2,507,300

The accompanying notes are an integral part of this financial statement.

Note 1. Summary of Significant Accounting Policies

Organization and Activities – Timpanogos Academy Foundation (the School) was incorporated in the state of Utah on April 6, 2001 as a nonprofit organization involved in public education. The School operates a public charter school in Lindon, Utah, and serves 483 students from kindergarten through grade eight. The School provides instruction and related *school* program services. Supporting services include *general* (Board-related costs and central services).

Basis of Accounting – These financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, capital assets, payables, debt, and other liabilities in accordance with accounting principles generally accepted in the United States of America. Expenses are recorded when incurred.

Financial Statement 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. Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

Comparative Financial Information – The financial statements include certain prior-year summarized comparative information in total but not by function. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

Income Taxes – The School is exempt from federal income tax under Section 501(a) of the Internal Revenue Code and is classified as a Section 501(c)(3) public charity. Also, the School is not subject to state income taxes.

Accounts Receivable – The School's accounts receivable consists of amounts due from federal and local sources. No allowance for doubtful accounts has been established, as the School deems all amounts to be fully collectible.

Prepaid Expenses – The School has made payments for insurance that will be consumed in a future period.

Bond Issuance Costs – The School has capitalized certain costs associated with the issuance of its bonds payable. These costs are being amortized on a straight-line basis over the 15-year life of the bonds, adjusted for prepayment of the principal balance.

Derivative Financial Instruments – The School makes limited use of derivative instruments for the purpose of managing interest rate risk. Interest rate swap agreements are used to convert the School's variable rate long-term debt to a fixed rate (Note 7). The differences are settled monthly.

Cash and Cash Equivalents – For purposes of the cash flow statement, the School considers all highly liquid investments with a maturity or three months or less when acquired to be cash equivalents.

Capital Assets – Capital assets are recorded at cost (or, if donated, at the estimated fair value at the date of donation). Capital assets valued at $1,000 or more are capitalized and depreciated, using the straight-line depreciation method, over the following estimated useful lives of the assets:

Asset Class	Depreciable Lives (Years)
Land improvements	5 to 10
Buildings and improvements	5 to 30
Equipment and other	3 to 10

Maintenance, repairs, and renewals, which neither materially add value to the property nor prolong its useful economic life, are charged to expense as incurred.

Donated Services – No amounts have been reflected in the financial statements for donated services. However, many individuals volunteer their time and perform a variety of tasks that assist the School with specific programs, administration, fundraising, and Board assignments. The School received approximately 2,400 volunteer hours during the year ended June 30, 2010.

Revenue Recognition – Operating funds for the School are derived principally from federal and state sources. The School receives state funding based on the number of students enrolled in the School. The School also receives federal and state grants on a reimbursement basis. Accordingly, grant revenues are recognized when qualifying expenses have been incurred and all other grant requirements have been met. Amounts of restricted grants received in excess of qualifying expenditures are recorded as unearned revenue. When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted funds first, then unrestricted resources as they are needed.

Expense Allocation – The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses (such as facilities costs, depreciation, and interest expense) related to more than one function are charged to programs and supporting services based on direct costs.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and support and expenses. Actual results could differ from those estimates.

Designation of Unrestricted Net Assets – A designation of net assets shows the School's investment in capital assets net of related debt and adjusted for unspent debt proceeds. Although these net assets are unrestricted, they are not readily convertible to liquid assets due to their long-term nature and use. Further, even though the School's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves will not be used to liquidate these obligations.

Budgetary Information – The School submits a Board-approved annual budget to the Office of the Utah State Auditor in accordance with state requirements. The Board may amend the annual budget prior to year end. The budget is prepared on a modified accrual basis of accounting (similar to the basis of accounting used by governmental funds of a local government). Revenues are budgeted by source. Expenditures are budgeted by function and object and program.

Note 2. Concentrations

Cash Deposits – At June 30, 2010, the School's book balance of cash accounts totaled $889,597 and the bank balance was $1,001,426, of which $278,412 was covered by federal depository insurance.

Revenue and Support – The majority of the School's revenue and support comes from the U.S. Department of Education (passed through the Utah State Office of Education) and the state of Utah. Federal and state revenues are 99 percent of total revenue and support for the year ended June 30, 2010.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2010 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 747,168	$ -	$ -	$ 747,168
Capital assets being depreciated:				
Buildings and improvements	2,869,706	10,085	-	2,879,791
Land improvements	45,353	-	-	45,353
Equipment and other	336,329	108,947	(72,300)	372,976
Total capital assets being depreciated	3,251,388	119,032	(72,300)	3,298,120
Accumulated depreciation for:				
Buildings and improvements	(490,339)	(108,022)	-	(598,361)
Land improvements	(23,126)	(4,299)	-	(27,425)
Equipment and other	(276,644)	(41,944)	72,300	(246,288)
Total accumulated depreciation	(790,109)	(154,265)	72,300	(872,074)
Total capital assets being depreciated, net	2,461,279	(35,233)	-	2,426,046
Total capital assets, net	$ 3,208,447	$ (35,233)	$ -	$ 3,173,214

Depreciation expense was $154,265 for the year ended June 30, 2010.

Note 4. Retirement Plan

The School has established a retirement plan under Section 401(k) of the Internal Revenue Code that is available to all full-time employees. The plan is administered by a third-party entity. The School contributes amounts that equal 6 percent of compensation for eligible employees. During the year ended June 30, 2010, the School made contributions totaling $72,550 to the plan. Employees can make additional contributions; for the year ended June 30, 2010, such contributions totaled $34,243. The 401(k) plan funds are fully vested to the participants at the time of deposit.

Note 5. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	$ 1,000,000	$ -	$ (200,000)	$ 800,000	$ 105,000

Bonds Payable – The School purchased its facilities by issuing $1,950,000 of bonds in November 2005. The bonds were issued through Utah County (a local government) in order to receive tax-exempt status through the industrial bond statutes. Utah County acted as a flow-through conduit in the transaction and is not contingently liable should the School default on the payment of the bonds. The bond agreement requires monthly interest payments based on a variable rate (81 percent of LIBOR + 1.325 percent) and annual principal payments for 15 years. Concurrent with the issuance of the bonds, the School entered into an interest-rate swap agreement with a financial institution (see Note 7).

The future debt service of the bonds is summarized as follows:

Year Ending June 30,	Principal	Interest	Total
2011	$ 105,000	$ 50,767	$ 155,767
2012	115,000	44,844	159,844
2103	120,000	38,357	158,357
2014	125,000	31,588	156,588
2015	135,000	24,537	159,537
2016 - 2017	200,000	25,948	225,948
	$ 800,000	$ 216,042	$ 1,016,042

In conjunction with the bonds, the School incurred issuance costs of $68,705. Amortization expense relating to issuance costs is $7,305 for the year ended June 30, 2010. Accumulated amortization is $28,526 at June 30, 2010.

Note 6. Derivative Instruments

The School has entered into a fixed-interest rate swap agreement on its bonds payable to minimize the effect of changes in interest rates. The School pays interest at the higher of the variable rate on the bonds payable (see Note 5) or 5.5 percent. When the variable rate on the bonds payable exceeds 5.5 percent, the School receives a payment from a financial institution for the difference between interest due on the outstanding bonds payable at the variable rate and at the fixed rate; the interest paid by the School and the swap payments received from the financial institution are settled monthly.

Note 7. Risk Management

The School is exposed to various risks of loss related to torts, errors and omissions, property, employee health, workers' compensation, and unemployment for which the School carries commercial insurance. For these programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for each of the past three years.

Note 8. Subsequent Events

The School has evaluated subsequent events through November 30, 2010, the date the financial statements were available to be issued.

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Independent Auditor's 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 Directors
Timpanogos Academy Foundation

We have audited the financial statements of Timpanogos Academy Foundation (the School) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 30, 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 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 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 certain other matters that we have reported to management of the School in the accompanying letter to management dated November 30, 2010. Management's response to those matters is described in the accompanying letter to management. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, Office of the Utah State Auditor, and Utah State Office of Education and other awarding and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

Squire + Company, PC

November 30, 2010

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Independent Auditor's Report on Legal Compliance in Accordance with the *State of Utah Legal Compliance Audit Guide*

Board of Directors
Timpanogos Academy Foundation

We have audited the compliance of Timpanogos Academy Foundation (the School) with general and major state program compliance requirements described in the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2010.

The general compliance requirements applicable to the School are identified as follows:

Cash Management
Purchasing Requirements
Budgetary Compliance
Other General Issues

The School's major state programs are identified as follows:

Minimum School Program (passed through the Office of Education)

Compliance with the requirements referred to above is the responsibility of the School's management. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *State of Utah Legal Compliance Audit Guide*. Those standards and guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above that could have a material effect on a general compliance requirement identified above or a major state program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School's compliance with those requirements.

In our opinion, Timpanogos Academy Foundation complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended June 30, 2010.

We noted certain other matters which are described in the accompanying letter to management. Management's response to those certain other matters is described in the accompanying letter to management. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, Office of the Utah State Auditor, and Utah State Office of Education and other awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Squire & Company, PC

November 30, 2010

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Letter to Management

November 30, 2010

Board of Directors
Timpanogos Academy Foundation

In planning and performing our audit of the financial statements of Timpanogos Academy Foundation (the School) for the year ended June 30, 2010, we noted certain matters for your consideration. This letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated November 30, 2010 on the financial statements of the School. This letter accompanies our reports dated November 30, 2010 in accordance with *Government Auditing Standards* and the *State of Utah Legal Compliance Audit Guide*.

<u>Certain Other Matters</u>

Insurance Disclosure – The School provided employees with the annual insurance disclosures required under Section 63A-4-204-5 and the liability protection disclosures under Utah Code 53A-1a-510(10). However, the School did not require employees to sign an acknowledgement documenting they received a copy of the disclosures. We recommend that the School require employees to sign the acknowledgement and that this documentation be retained in the employee's file.

Management's Response – Management was unaware of the need to obtain signatures and retain a record of distributing information. The HR benefits coordinator will now obtain signatures when distributing information annually.

Cash Deposits – Bank deposits of $723,014 are not covered by federal depository insurance. We recommend the School review its banking policies and monitor the safety of its accounts.

Management's Response – The School is under bond covenants to do all of its banking with Wells Fargo. We will review the arrangement and determine if it is possible to move some of the deposits to other institutions in order to obtain deposit insurance.

The status of these matters will be reviewed as part of your next audit. Management is responsible for implementing and monitoring internal control. Monitoring includes performing risk assessments and ongoing evaluations, making recommendations for improvement as necessary, providing timely response to findings and deficiencies, and reporting results periodically to the Board.

We appreciated the assistance of School personnel during the audit.

Squire + Company, PC

Squire & Company, PC