

**ACADEMY CHARTER SCHOOL**

**FINANCIAL STATEMENTS**

**June 30, 2011**

**Academy Charter School**

**Board of Directors**

Clayton Watson, President

Cindy Hazlehurst, Vice President

Cari Gillespie, Secretary

Todd Warnke, Treasurer

Scot Brooks

Chad Mitchell

Steve Schilffarth

**Castle Rock Lifelong Learning Center**

**Board of Directors**

Lance Patrick, President

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## TABLE OF CONTENTS

### PAGE

Independent Auditors' Report	
Management's Discussion and Analysis	i - v
<b>Basic Financial Statements</b>	
Statement of Net Assets	1
Statement of Activities	2
Balance Sheet - Governmental Fund	3
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	4
Statement of Net Assets - Proprietary Fund	5
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund	6
Statement of Cash Flows - Proprietary Fund	7
Notes to Financial Statements	8 - 15
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule - General Fund	16
Notes to Required Supplementary Information	17



Board of Directors  
Academy Charter School  
Castle Rock, Colorado

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Academy Charter School, component unit of Douglas County School District Re.1, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the Academy Charter School, as listed in the table of contents. These financial statements are the responsibility of the Academy Charter School's management. Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Academy Charter School as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Swanhorst & Company LLC*

September 23, 2011

## **Management's Discussion and Analysis**

As management of the Academy Charter School, we offer readers of the Academy Charter School financial statements this narrative overview and analysis of the financial activities of the Academy Charter School for the fiscal year ended June 30, 2011.

### **Financial Highlights**

The assets of the Academy Charter School exceeded its liabilities at the close of the most recent fiscal year by \$1,643,189 (net assets of the governmental activities).

The general fund ending fund balance decreased to \$1,556,980 from \$1,732,282 a decrease of \$175,302, due to putting in a synthetic turf field.

The Castle Rock Life Long Learning Center Building Corporation was formed in 1999 for the specific purpose to hold title to real and/or personal property for, and to make the same available for use by, the School. The Corporation has separate financial statements from the Academy Charter School.

The Castle Rock Lifelong Learning Center proprietary fund ending net assets were increased from \$538,887 to \$968,300.

### **Overview of Financial Statements**

This discussion and analysis are intended to serve as an introduction to the Academy Charter School's basic financial statements. The Academy Charter School basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Academy Charter School finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Academy Charter School's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Academy Charter School is improving or deteriorating.

The statement of activities presents information showing how the School's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (earned but unpaid salary and benefits).

The government-wide statement of activities distinguishes functions/programs of the Academy Charter School supported primarily by per pupil revenue (PPR) or property taxes passed through from the District (Douglas County School District 1). The governmental activities of the Academy Charter School include instruction and supporting services expense.

The government-wide financial statements can be found on pages 1-2 of this report.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Academy Charter School, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Academy Charter School can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Academy Charter School maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances.

Academy Charter School adopts an annual appropriated budget for the General Fund. A budgetary comparison schedule has been provided to demonstrate compliance with the budget.

**Proprietary Fund.** The Castle Rock Life Long Learning Center, considered a component unit of the charter school has one fund, the Enterprise Fund and is represented with statements of net assets, changes in net assets and a statement of cash flows.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 8-15.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the Academy Charter School, assets exceeded liabilities by \$2,611,489 at the close of the most recent fiscal year.

**Academy Charter School’s Net Assets**

	Governmental And Business Type Activities <u>June 30, 2011</u>	Governmental And Business Type Activities <u>June 30, 2010</u>
Current and other assets	\$2,874,606	\$ 3,123,649
Capital assets	<u>\$6,745,002</u>	<u>\$6,437,474</u>
Total Assets	\$9,619,608	\$9,561,123
Current liabilities	\$219,722	\$289,461
Other liabilities	<u>\$6,788,397</u>	<u>6,901,933</u>
Total Liabilities	\$7,008,119	\$7,191,394
Net assets		
Invested in capital assets,		
Net of related debt	229,594	(180,551)
Restricted	921,369	917,994
Unrestricted	<u>1,460,526</u>	<u>1,632,286</u>
Total Net Assets	<u>\$2,611,489</u>	<u>\$2,369,729</u>

A large portion of the Academy Charter School’s assets 41% is cash and investments. 59% reflects its investment in capital assets. The School’s net assets decreased by \$187,653 in the Eighteenth year of operations. Castle Rock Life long learning center net assets increased by \$429,413 because of the Synthetic field that was contributed by Academy charter school.

**Academy Charter School's Change in Net Assets  
For the Year Ended June 30, 2011 and June 30, 2010**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Program Revenue:		
Charges for Services	\$182,133	\$179,659
General Revenue:		
Per Pupil Operating Revenue	4,005,939	3,852,971
Capital Construction Grant	55,150	54,823
District Funding	207,705	348,134
Interest Income	16,247	42,580
Other	38,726	48,991
	<u>4,505,900</u>	<u>4,527,158</u>
Expenses:		
Instruction	2,837,135	3,002,244
Supporting Services	837,051	735,380
Building Corporation	589,954	546,401
Total Expenses	<u>4,264,140</u>	<u>4,284,025</u>
Change in Net Assets	241,760	243,133
Beginning Net Assets	<u>2,369,729</u>	<u>2,126,596</u>
Ending Net Assets	<u>\$2,611,489</u>	<u>\$2,369,729</u>

This is the Eighteenth full year of operations for Academy Charter School. PPR Operating Revenue decreased from \$6,913 to \$6,544, a decrease of 5.4%. Capital Construction grant funds increased by .05%. There is an increase to PPR operating revenue due to Academy Charter School increased enrollment. Interest Income decreased 38% due to the certificate of deposits interest rates going down to almost nothing.

**Financial Analysis of the Government's Funds**

As noted earlier, the Academy Charter School uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental Funds.** The focus of the Academy Charter School governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Academy Charter School's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the School's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the School's general fund reported an ending fund balance of \$1,556,980, a decrease of \$175,302. Per pupil operating revenue increased

3.9% due to an increase in class size to 22 per class from 20 which is an increase of 40 students. Total General Fund revenue for FY 2010/2011 was \$4,494,244 including capital construction funding of \$55,150.

**Proprietary Fund.** The Castle Rock Life Long Learning Center Building Corporation net assets as of June 30, 2011 were \$968,300. Operating revenues for FY 2010/2011 were \$507,697 and consisted almost entirely of lease revenues for use of the Corporation's building.

### **General Fund Budgetary Highlights**

The School approves a budget in April based on enrollment projections for the following school year. In October after enrollment stabilizes, adjustments are made to the budget and a revised budget is made. Actual expenses exceeded the budgeted expenses by \$25,788 because of the Synthetic field purchase.

### **Capital Assets and Debt Administration**

**Capital assets.** The Castle Rock Life Long Learning Center has \$6,658,793 in capital assets at June 30, 2011. This is the School's building. The School owns the playground equipment and building improvements.

**Long-term debt.** In 2000, Castle Rock Lifelong Learning Center entered into a loan agreement with Colorado Educational and Cultural Facilities in the amount of \$6,925,000 to pay for construction of the Academy Charter School building. In 2006 Castle Rock Lifelong Learning Center refinanced the bonds in the amount of \$7,985,000. This loan will be paid in full on 12/15/2037. This saved Castle Rock Lifelong Learning Center about \$100,000 a year by refinancing.

### **Economic Factors and Next Year's Budget**

In November of 2000 voters in Colorado approved a provision to the Colorado constitution providing that K-12 funding would increase at pupil growth, plus inflation, plus 1% for 10 years and thereafter, growth plus inflation. Because of the economic condition the state is cutting the K-12 funding which will decrease the revenues in the future years.

### **Requests for Information**

This financial report is designed to provide a general overview of the Academy Charter School finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Barbara A. Ireland, Business Manager, Academy Charter School, 1551 Prairie Hawk Dr., Castle Rock, CO 80109.

## **BASIC FINANCIAL STATEMENTS**

ACADEMY CHARTER SCHOOL

STATEMENT OF NET ASSETS

June 30, 2011

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash and Investments	\$ 1,771,440	\$ 38,546	\$ 1,809,986
Restricted Cash and Investments	-	786,369	786,369
Accounts Receivable	5,262	-	5,262
Debt Issuance Costs, Net of Accumulated Amortization	-	272,989	272,989
Capital Assets, Not Being Depreciated	-	1,354,756	1,354,756
Capital Assets, Net of Accumulated Depreciation	<u>86,209</u>	<u>5,304,037</u>	<u>5,390,246</u>
<b>TOTAL ASSETS</b>	<u>1,862,911</u>	<u>7,756,697</u>	<u>9,619,608</u>
<b>LIABILITIES</b>			
Accrued Liabilities	44,127	-	44,127
Accrued Salaries and Benefits	174,920	-	174,920
Deferred Revenues	675	-	675
Noncurrent Liabilities			
Due Within One Year	-	150,000	150,000
Due in More Than One Year	<u>-</u>	<u>6,638,397</u>	<u>6,638,397</u>
<b>TOTAL LIABILITIES</b>	<u>219,722</u>	<u>6,788,397</u>	<u>7,008,119</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	86,209	143,385	229,594
Restricted for Debt Service	-	699,888	699,888
Restricted for Building Repairs	-	86,481	86,481
Restricted for Emergencies	135,000	-	135,000
Unrestricted	<u>1,421,980</u>	<u>38,546</u>	<u>1,460,526</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 1,643,189</u>	<u>\$ 968,300</u>	<u>\$ 2,611,489</u>

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

ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES CHARGES FOR SERVICES	NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS		
			GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental Activities</b>					
Instruction	\$ 2,837,135	\$ 115,783	\$ (2,721,352)	\$ -	\$ (2,721,352)
Supporting Services	837,051	66,350	(770,701)	-	(770,701)
Total Governmental Activities	3,674,186	182,133	(3,492,053)	-	(3,492,053)
<b>Business-Type Activities</b>					
CRLLC	589,954	-	-	(589,954)	(589,954)
TOTAL PRIMARY GOVERNMENT	\$ 4,264,140	\$ 182,133	\$ (3,492,053)	(589,954)	(4,082,007)
<b>GENERAL REVENUES</b>					
Per Pupil Revenue			4,005,939	-	4,005,939
District Mill Levy			207,705	-	207,705
Capital Construction			55,150	-	55,150
Investment Income			16,019	228	16,247
Other			27,298	11,428	38,726
TRANSFERS			(1,007,711)	1,007,711	-
TOTAL GENERAL REVENUES AND TRANSFERS			3,304,400	1,019,367	4,323,767
CHANGE IN NET ASSETS			(187,653)	429,413	241,760
NET ASSETS, Beginning			1,830,842	538,887	2,369,729
NET ASSETS, Ending			\$ 1,643,189	\$ 968,300	\$ 2,611,489

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

ACADEMY CHARTER SCHOOL

BALANCE SHEET  
GOVERNMENTAL FUND

June 30, 2011

	<u>GENERAL</u>
ASSETS	
Cash and Investments	\$ 1,771,440
Accounts Receivable	<u>5,262</u>
TOTAL ASSETS	<u>\$ 1,776,702</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accrued Liabilities	\$ 44,127
Accrued Salaries and Benefits	174,920
Deferred Revenues	<u>675</u>
TOTAL LIABILITIES	<u>219,722</u>
FUND BALANCE	
Restricted for Emergencies	135,000
Committed for Building Repairs and Replacement	368,240
Unrestricted, Unassigned	<u>1,053,740</u>
TOTAL FUND BALANCE	<u>1,556,980</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,776,702</u>

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:

Total Fund Balance of the Governmental Fund	\$ 1,556,980
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	<u>86,209</u>
Total Net Assets of Governmental Activities	<u>\$ 1,643,189</u>

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

ACADEMY CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
 Year Ended June 30, 2011

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 4,439,094
State Sources	<u>55,150</u>
TOTAL REVENUES	<u>4,494,244</u>
EXPENDITURES	
Instruction	3,348,577
Supporting Services	<u>1,320,969</u>
TOTAL EXPENDITURES	<u>4,669,546</u>
NET CHANGE IN FUND BALANCE	(175,302)
FUND BALANCE, Beginning	<u>1,732,282</u>
FUND BALANCE, Ending	\$ <u><u>1,556,980</u></u>
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Net Change in Fund Balance of the Governmental Fund	\$ (175,302)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents depreciation expense in the current year.	<u>(12,351)</u>
Change in Net Assets of Governmental Activities	\$ <u><u>(187,653)</u></u>

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

ACADEMY CHARTER SCHOOL

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
 June 30, 2011

	<u>CRLLC</u>
ASSETS	
CURRENT ASSETS	
Cash and Investments	\$ 38,546
Restricted Cash and Investments	<u>786,369</u>
TOTAL CURRENT ASSETS	<u>824,915</u>
NONCURRENT ASSETS	
Debt Issuance Costs, Net of Accumulated Amortization	272,989
Capital Assets, Not Being Depreciated	1,354,756
Capital Assets, Net of Accumulated Depreciation	<u>5,304,037</u>
TOTAL NONCURRENT ASSETS	<u>6,931,782</u>
TOTAL ASSETS	<u>7,756,697</u>
LIABILITIES	
CURRENT LIABILITIES	
Loan Payable, Current Portion	150,000
NONCURRENT LIABILITIES	
Loan Payable	<u>6,638,397</u>
TOTAL LIABILITIES	<u>6,788,397</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	143,385
Restricted for Debt Service	699,888
Restricted for Building Repairs	86,481
Unrestricted	<u>38,546</u>
TOTAL NET ASSETS	<u>\$ 968,300</u>

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

ACADEMY CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
 Year Ended June 30, 2011

	<u>CRLLC</u>
OPERATING REVENUES	
Rental Income	\$ 496,269
Other	<u>11,428</u>
TOTAL OPERATING REVENUES	<u>507,697</u>
OPERATING EXPENSES	
Depreciation	191,563
Amortization	10,919
Other	3,555
Debt Service	
Interest and Fiscal Charges	<u>383,917</u>
TOTAL OPERATING EXPENSES	<u>589,954</u>
OPERATING INCOME (LOSS)	(82,257)
NONOPERATING REVENUES	
Investment Income	<u>228</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(82,029)
Contributed Capital	<u>511,442</u>
CHANGE IN NET ASSETS	429,413
NET ASSETS, Beginning	<u>538,887</u>
NET ASSETS, Ending	<u>\$ 968,300</u>

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

ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Year Ended June 30, 2011

Increase (Decrease) in Cash and Cash Equivalents

	<u>CRLLC</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Rental Payments Received	\$ 496,269
Cash Received from Others	11,428
Loan Interest Paid	(357,453)
Loan Principal Paid	(140,000)
Payments to Vendors	<u>(3,555)</u>
Net Cash Provided by Operating Activities	6,689
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income Received	<u>228</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	6,917
<b>CASH AND CASH EQUIVALENTS, Beginning</b>	<u>817,998</u>
<b>CASH AND CASH EQUIVALENTS, Ending</b>	<u>\$ 824,915</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating Income (Loss)	\$ (82,257)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depreciation	191,563
Amortization of Issuance Costs	10,919
Amortization of Discount	1,248
Amortization of Loss on Refunding	25,216
Changes in Assets and Liabilities	
Loan Payable	<u>(140,000)</u>
Net Cash Provided by Operating Activities	<u>\$ 6,689</u>
<b>NONCASH CAPITAL TRANSACTIONS</b>	
Capital Assets Contributed by Other Entities	<u>\$ 511,442</u>

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

ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Academy Charter School (the “School”) was organized in 1993 pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District Re.1 (the “District”) in the State of Colorado.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

**Reporting Entity**

The financial reporting entity consists of the School, organizations for which the School is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the School. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. Legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens, on the School.

The School includes the Castle Rock Lifelong Learning Center (“CRLLC”) within its reporting entity. CRLLC is a non-profit organization established to support the educational program of the School by procuring and providing buildings, lands, playgrounds and other facilities for the use of the School, provide grant and other funding for the School, and provide other financial support to the School as may be requested. CRLLC is blended into the School’s financial statements as an enterprise fund.

The School is a component unit of the District. The School’s charter is granted by the District and the majority of the School’s funding is provided by the District.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted revenues not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for the governmental fund and the proprietary fund. Major individual funds are reported in separate columns in the fund financial statements.

ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as is the proprietary fund in the fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Available means collected within the current year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, and the unrestricted resources as they are needed.

The School reports the following major governmental fund:

*General Fund* - This fund is the general operating fund of the School. It is currently used to account for all financial activities of the School.

The School reports the following major proprietary fund:

*CRLLC* - This fund is used to account for the activities of the Castle Rock Lifelong Learning Center, which are primarily related to debt service and capital purposes.

**Assets, Liabilities and Net Assets/Fund Balance**

*Cash and Investments* - Cash equivalents include investments with an original maturity of three months or less. Investments are reported at fair value.

*Capital Assets* - Capital assets, which include land, buildings, and equipment, are reported in the government-wide financial statements and the proprietary fund in the fund financial statements. Capital assets are defined by the School as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Assets, Liabilities and Net Assets/Fund Balance** (Continued)

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported in the statement of net assets in the government-wide financial statements and the proprietary fund in the fund financial statements.

Capital assets of the School are depreciated using the straight-line method over the following estimated useful lives.

Buildings and Improvements	10 - 45 years
Land Improvements	15 - 20 years
Equipment	10 years

*Accrued Salaries and Benefits* - Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

*Long-Term Debt* - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt is reported as a liability in the applicable statement of net assets. Debt issuance costs are deferred and amortized over the life of the debt using the straight-line method.

In the fund financial statements, governmental funds recognize the face amount of debt issued as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as current expenditures.

*Net Assets/Fund Balance* - In the government-wide and fund financial statements, net assets and fund balance are restricted when constraints placed on the use of resources are externally imposed. In the fund financial statements, governmental funds report committed fund balance when the Board of Directors commits resources for a specific purpose through a formal action. The School has not established a formal policy for its use of restricted and unrestricted fund balance. However, if both restricted and unrestricted fund balances are available, the School uses restricted fund balance first, followed by committed and unassigned balances.

**Risk Management**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. For these risks of loss, the School participates in the District's risk management program.

**NOTE 2: CASH AND INVESTMENTS**

Cash and investments at June 30, 2011, consisted of the following:

Deposits	\$ 1,733,423
Investments	<u>862,932</u>
Total	<u><u>\$ 2,596,355</u></u>

ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

**NOTE 2: CASH AND INVESTMENTS (Continued)**

Cash and investments are reported in the financial statements as follows:

Cash and Investments	\$ 1,809,986
Restricted Cash and Investments	<u>786,369</u>
Total	<u><u>\$ 2,596,355</u></u>

**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2011, the School had bank deposits of \$936,814 collateralized with securities held by the financial institutions' agents but not in the School's name.

**Investments**

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years. State statutes do not address custodial risk.

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers' acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

*Local Government Investment Pool* - At June 30, 2011, the School had \$76,563 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7 as promulgated under the Investment Company Act of 1940, as amended. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

*Credit Risk* - At June 30, 2011, CRLLC had \$786,369 invested in a money market fund that was rated AAAM by Standard & Poor's.

ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2011

**NOTE 2: CASH AND INVESTMENTS (Continued)**

**Restricted Cash and Investments**

Cash and investments of \$786,369 have been restricted by CRLLC for future debt service and building repairs.

**NOTE 3: CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2011, are summarized below.

	Balances 6/30/10	Additions	Deletions	Balances 6/30/11
<b>Governmental Activities</b>				
Capital Assets, Being Depreciated				
Building Improvements	\$ 88,395	\$ -	\$ -	\$ 88,395
Equipment	35,111	-	-	35,111
Total Capital Assets, Being Depreciated	<u>123,506</u>	<u>-</u>	<u>-</u>	<u>123,506</u>
Accumulated Depreciation				
Building Improvements	(13,493)	(8,840)	-	(22,333)
Equipment	(11,453)	(3,511)	-	(14,964)
Total Accumulated Depreciation	<u>(24,946)</u>	<u>(12,351)</u>	<u>-</u>	<u>(37,297)</u>
Total Capital Assets, Net	<u>\$ 98,560</u>	<u>\$ (12,351)</u>	<u>\$ -</u>	<u>\$ 86,209</u>
<b>Business-Type Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 1,354,756	\$ -	\$ -	\$ 1,354,756
Construction in Progress	161,167	-	161,167	-
Total Capital Assets, Not Being Depreciated	<u>1,515,923</u>	<u>-</u>	<u>161,167</u>	<u>1,354,756</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	5,924,082	-	-	5,924,082
Land Improvements	124,819	672,609	-	797,428
Equipment	88,348	-	-	88,348
Total Capital Assets, Being Depreciated	<u>6,137,249</u>	<u>672,609</u>	<u>-</u>	<u>6,809,858</u>
Less Accumulated Depreciation				
Buildings and Improvements	(1,184,816)	(131,646)	-	(1,316,462)
Land Improvements	(49,928)	(51,082)	-	(101,010)
Equipment	(79,514)	(8,835)	-	(88,349)
Total Accumulated Depreciation	<u>(1,314,258)</u>	<u>(191,563)</u>	<u>-</u>	<u>(1,505,821)</u>
Capital Assets, Being Depreciated, Net	<u>4,822,991</u>	<u>481,046</u>	<u>-</u>	<u>5,304,037</u>
Total Capital Assets, Net	<u>\$ 6,338,914</u>	<u>\$ 481,046</u>	<u>\$ 161,167</u>	<u>\$ 6,658,793</u>

Depreciation expense of the governmental activities was charged to the supporting services program of the School.

ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2011

**NOTE 4: LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the year ended June 30, 2011.

	Balances <u>6/30/10</u>	Additions	Payments	Balances <u>6/30/11</u>	Due Within <u>One Year</u>
<b>Business-Type Activities</b>					
Loan	\$ 7,590,000	\$ -	\$ 140,000	\$ 7,450,000	\$ 150,000
Discount	(32,447)	-	(1,248)	(31,199)	-
Loss on Refunding	(655,620)	-	(25,216)	(630,404)	-
<b>Total</b>	<b><u>\$ 6,901,933</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 113,536</u></b>	<b><u>\$ 6,788,397</u></b>	<b><u>\$ 150,000</u></b>

On September 12, 2006, the Colorado Educational and Cultural Facilities Authority (“CECFA”) issued \$7,790,000 Charter School Revenue Refunding Bonds, Series 2006A, and \$195,000 Taxable Charter School Revenue Refunding Bonds, Series 2006B, to advance refund CECFA’s outstanding Series 2000 Bonds. Proceeds from the Series 2000 Bonds were loaned to CRLLC to construct the School’s building.

The School is obligated under a lease agreement to make monthly lease payments to CRLLC for use of the building. CRLLC is required to make equal loan payments to the Trustee, for payment of the Bonds. The Bonds accrue interest at rates ranging from 4% to 5.625%. Interest payments are due semi-annually on June 15 and December 15. Principal payments are due annually on December 15, through 2037. Future debt service obligations are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 150,000	\$ 345,102	\$ 495,102
2013	155,000	339,003	494,003
2014	160,000	331,902	491,902
2015	170,000	323,653	493,653
2016	180,000	314,902	494,902
2017 - 2021	1,030,000	1,444,548	2,474,548
2022 - 2026	1,315,000	1,169,903	2,484,903
2027 - 2031	1,670,000	826,097	2,496,097
2032 - 2036	2,130,000	379,287	2,509,287
2037 - 2038	490,000	11,638	501,638
<b>Total</b>	<b><u>\$ 7,450,000</u></b>	<b><u>\$ 5,486,035</u></b>	<b><u>\$ 12,936,035</u></b>

ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

**NOTE 5: DEFINED BENEFIT PENSION PLAN**

*Plan Description* - The School contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The SDTF provides retirement and disability, annual increases, and death benefits for members or their beneficiaries. All employees of the School are members of the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the SDTF. That report may be obtained by writing to PERA of Colorado, 1301 Pennsylvania Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

*Funding Policy* - The contribution requirements of members and the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members was 8% of covered payroll. The School's contribution rate for calendar years 2009, 2010 and 2011 was 12.95%, 13.85% and 14.75% of covered payroll, respectively. A portion of the School's contribution (1.02% of covered payroll) is allocated to the Health Care Trust Fund (See Note 6). The School's contributions to the SDTF for the years ended June 30, 2011, 2010 and 2009 were \$339,083, \$315,612 and \$291,571, respectively, equal to the required contributions for each year.

**NOTE 6: POSTEMPLOYMENT HEALTHCARE BENEFITS**

*Plan Description* - The School contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by PERA. The HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained as described previously.

*Funding Policy* - The School was required to contribute at a rate of 1.02% of covered payroll for all PERA members as set by statute. No member contributions were required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions of the HCTF are established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2011, 2010 and 2009 was \$24,192, \$24,026 and \$23,780, respectively, equal to the required amounts for each year.

**NOTE 7: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgments**

The School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor government. At June 30, 2011, significant amounts of grant expenditures have not been audited but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

ACADEMY CHARTER SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

**NOTE 7:**      **COMMITMENTS AND CONTINGENCIES** (Continued)

**Tabor Amendment**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with the requirements of the Amendment. The Amendment requires state and local governments to establish an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2011, the School's reserve, of \$135,000, was reported as restricted fund balance in the General Fund.

**REQUIRED SUPPLEMENTARY INFORMATION**

ACADEMY CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2011

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
<b>REVENUES</b>				
Local Sources				
Per Pupil Revenue	\$ 3,947,393	\$ 4,059,757	\$ 4,005,939	\$ (53,818)
District Mill Levy	201,024	208,565	207,705	(860)
Tuition and Fees	40,000	40,000	182,133	142,133
Investment Income	40,000	32,000	16,019	(15,981)
Other	-	-	27,298	27,298
Total Local Sources	4,228,417	4,340,322	4,439,094	98,772
State Sources				
Capital Construction	35,000	49,436	55,150	5,714
<b>TOTAL REVENUES</b>	<u>4,263,417</u>	<u>4,389,758</u>	<u>4,494,244</u>	<u>104,486</u>
<b>EXPENDITURES</b>				
Salaries	2,268,223	2,267,415	2,367,907	(100,492)
Employee Benefits	578,668	590,949	544,127	46,822
Purchased Services	679,807	623,841	568,288	55,553
Supplies and Materials	172,294	132,944	142,499	(9,555)
Property	62,750	524,500	537,588	(13,088)
Other	501,675	504,109	509,137	(5,028)
<b>TOTAL EXPENDITURES</b>	<u>4,263,417</u>	<u>4,643,758</u>	<u>4,669,546</u>	<u>(25,788)</u>
<b>NET CHANGE IN FUND BALANCE</b>	-	(254,000)	(175,302)	78,698
<b>FUND BALANCE, Beginning</b>	-	254,000	1,732,282	1,478,282
<b>FUND BALANCE, Ending</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,556,980</u>	<u>\$ 1,556,980</u>

See the accompanying Independent Auditors' Report.

ACADEMY CHARTER SCHOOL

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

**NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Budgets are required by State statutes for all funds and are adopted on a basis consistent with generally accepted accounting principles.

The School adheres to the following procedures in establishing the budgetary data reflected in the financial statements.

- By June 30, management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. All budgets lapse at year end.
- Prior to June 30, the budget is adopted by the Board of Directors.
- Expenditures may not legally exceed appropriations at the fund level.
- Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

**Legal Compliance**

For the year ended June 30, 2011, General Fund expenditures exceeded the amounts budgeted by \$25,788. This may be a violation of State statute.