

AMERICAN ACADEMY
BASIC FINANCIAL STATEMENTS
June 30, 2007

AMERICAN ACADEMY

ROSTER OF SCHOOL OFFICIALS

June 30, 2007

BOARD OF DIRECTORS

Erin Kane	President
Denese Gardner	Treasurer
Jackie Santos	Secretary
Adil Khan	Director
Dave Romero	Director
Chad King	Director

SCHOOL MANAGEMENT

Roberta Harrell, Chief Administrative Officer

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	
Basic Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Balance Sheet – All Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Funds	4
Notes to the Financial Statements	5 - 13
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	14



Board of Directors
American Academy
Lone Tree, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of American Academy, component unit of Douglas County School District, as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the Academy, as listed in the table of contents. These financial statements are the responsibility of the American Academy'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, each major fund and the aggregate remaining fund information of American Academy, as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

American Academy has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The required supplementary information listed in the table of contents is not a required part of the basic financial statements but is 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 supplementary information. However, we did not audit the information and express no opinion on it.

John Cutler & Associates, LLC

October 24, 2007

BASIC FINANCIAL STATEMENTS

AMERICAN ACADEMY

STATEMENT OF NET ASSETS

As of June 30, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash	\$ 388,169
Grants Receivable	164,650
Deposits	23,866
Capital Assets, Depreciated, Net of Accumulated Depreciation	<u>14,687</u>
TOTAL ASSETS	<u>591,372</u>
LIABILITIES	
Accounts Payable	22,835
Accrued Salaries and Benefits	85,048
Accrued Expenses	<u>874</u>
TOTAL LIABILITIES	<u>108,757</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	14,687
Restricted for Emergencies	89,200
Unrestricted	<u>378,728</u>
TOTAL NET ASSETS	<u>\$ 482,615</u>

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

AMERICAN ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			NET (EXPENSE)
		Charges for	Operating	Capital	REVENUE AND
PRIMARY GOVERNMENT		Services	Grants and	Grants and	CHANGE IN
Governmental Activities			Contributions	Contributions	NET ASSETS
					Governmental
					Activities
Instructional	\$ 1,762,020	\$ 196,044	\$ 254,327	\$ -	\$ (1,311,649)
Supporting Services	1,128,037	-	-	85,286	(1,042,751)
Total Governmental Activities	<u>\$ 2,890,057</u>	<u>\$ 196,044</u>	<u>\$ 254,327</u>	<u>\$ 85,286</u>	<u>(2,354,400)</u>
GENERAL REVENUES					
					Per Pupil Revenue
					2,650,291
					Interest
					21,113
					Other
					20,802
TOTAL GENERAL REVENUES					<u>2,692,206</u>
CHANGE IN NET ASSETS					337,806
NET ASSETS, Beginning					<u>144,809</u>
NET ASSETS, Ending					<u>\$ 482,615</u>

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

AMERICAN ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	<u>GENERAL FUND</u>	<u>NON-MAJOR - CAPITAL RESERVE FUND</u>	<u>TOTAL</u>
ASSETS			
Cash	\$ 388,169	\$ -	\$ 388,169
Grants Receivable	164,650	-	164,650
Deposits	<u>23,866</u>	<u>-</u>	<u>23,866</u>
TOTAL ASSETS	<u><u>\$ 576,685</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 576,685</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 22,835	\$ -	\$ 22,835
Accrued Salaries and Benefits	85,048	-	85,048
Accrued Expenses	<u>874</u>	<u>-</u>	<u>874</u>
TOTAL LIABILITIES	<u>108,757</u>	<u>-</u>	<u>108,757</u>
FUND BALANCES			
Reserved for Emergencies	89,200	-	89,200
Unreserved, reported in General Fund	<u>378,728</u>	<u>-</u>	<u>378,728</u>
TOTAL FUND BALANCES	<u>467,928</u>	<u>-</u>	<u>467,928</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 576,685</u></u>	<u><u>\$ -</u></u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	<u>14,687</u>
Net assets of governmental activities	<u><u>\$ 482,615</u></u>

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

AMERICAN ACADEMY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	GENERAL FUND	NON-MAJOR - CAPITAL RESERVE FUND	TOTAL
REVENUES			
Local Sources	\$2,892,957	\$ -	\$2,892,957
State Sources	85,286	-	85,286
Federal Sources	249,620	-	249,620
TOTAL REVENUES	3,227,863	-	3,227,863
EXPENDITURES			
Current			
Instruction	1,762,020	-	1,762,020
Supporting Services	993,977	119,370	1,113,347
TOTAL EXPENDITURES	2,755,997	119,370	2,875,367
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	471,866	(119,370)	352,496
OTHER FINANCING SOURCES (USES)			
Transfers In	-	119,370	119,370
Transfers Out	(119,370)	-	(119,370)
TOTAL OTHER FINANCING SOURCES (USES)	(119,370)	119,370	-
NET CHANGE IN FUND BALANCES	352,496	-	352,496
FUND BALANCES, Beginning	115,432	-	
FUND BALANCES, Ending	\$ 467,928	\$ -	

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is depreciation expense for the year.

Change in net assets of governmental activities

(14,690)

\$ 337,806

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

AMERICAN ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The American Academy (the “Academy”) was formed in 2006 pursuant to the Colorado Charter Schools Act to form and operate a charter school with the Douglas County School District

The accounting policies of the Academy conform to generally accepted accounting principles as applicable to governmental units. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of the Academy and organizations for which the Academy is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the Academy. In addition, any legally separate organizations for which the Academy is financially accountable are considered part of the reporting entity. Financial accountability exists if the Academy 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 Academy.

Based upon the application of these criteria, there are no organizations that should be included in the Academy’s reporting entity. However, the Academy is a component unit of the Douglas County School 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 of the activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

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.

AMERICAN ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2007

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

Government-Wide and Fund Financial Statements (Continued)

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 intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported in separate columns in the fund financial statements.

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. 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. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Intergovernmental revenues, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

AMERICAN ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2007

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Internally dedicated resources are reported as general revenues rather than as program revenues.

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

The Academy reports the following major governmental fund:

General Fund – This fund is the general operating fund of the Academy. It is used to account for all financial resources except those required to be accounted for in another fund.

Assets, Liabilities and Fund Balance/Net Assets

Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that are expected to be uncollectible.

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$5,000 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.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net assets in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: equipment/furniture, 3 years.

AMERICAN ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2007

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

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

Deposits – The Academy has a security deposits held by the landlord of the building they are currently leasing.

Net Assets/Fund Equity – In the government-wide financial statements, net assets are restricted when constraints placed on the net assets are externally imposed. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Academy purchases commercial insurance for these risks of loss.

NOTE 2: *STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY*

Budgets and Budgetary Accounting

A budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles. A budget was not adopted for the Capital Reserve Fund.

Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July1. The budget is adopted by the Board of Directors prior to June 30. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year end.

AMERICAN ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2007

NOTE 3: *CASH AND INVESTMENTS*

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2007, State regulatory commissioners have indicated that all financial institutions holding deposits for Academy are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. 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 the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The Academy has no policy regarding custodial credit risk for deposits.

At June 30, 2007, the Academy had deposits with financial institutions with a carrying amount of \$388,169. The bank balances with the financial institutions were \$450,044. Of these balances, \$100,000 was covered by federal depository insurance and \$350,044 was covered by collateral held by the authorized agents in the financial institutions name (PDPA).

Investments

Interest Rate Risk

The Academy does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

AMERICAN ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2007

NOTE 3: CASH AND INVESTMENTS (Continued)

Credit Risk

Colorado statutes specify in which instruments units of local government may invest, which include:

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

The Academy had no investments at June 30, 2007.

NOTE 4: CAPITAL ASSETS

Capital Assets activity for the year ended June 30, 2007, is summarized below.

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Governmental Activities				
Capital Assets, Being Depreciated				
Equipment/Furniture	\$ 44,067	\$ _____	\$ -	\$ 44,067
Accumulated Depreciation				
Equipment/Furniture	(14,690)	(14,690)	-	(29,380)
Net Capital Assets	<u>\$ 29,377</u>	<u>\$ (14,690)</u>	<u>\$ -</u>	<u>\$ 14,687</u>

Depreciation expense has been charged to the Supporting Services program for the Academy.

AMERICAN ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2007

NOTE 5: 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, as of June 30, 2007, were \$85,048. Accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of the General Fund.

NOTE 6: INTERFUND BALANCES AND TRANSFERS

The Academy made the following transfers during the year.

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Capital Reserve Fund	General Fund	<u>\$ 119,370</u>

The General Fund is required by State statute to transfer \$279 per pupil to the Capital Reserve fund or use this amount for insurance costs.

NOTE 7: DEFINED BENEFIT PENSION PLAN

Plan Description. The Academy 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). Prior to January 1, 2006, the SDTF was part of the Combined State and School Division Trust Fund (CSSDTF), a cost-sharing multiple-employer defined benefit pension. The State Division Trust Fund and the School Division Trust Fund were separated into two funds as of January 1, 2006. The SDTF provides retirement and disability, annual increases, and death benefits for members or their beneficiaries. All employees of the Academy 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 (prior to January 1, 2006 this fund was part of the CSSDTF). That report may be obtained online at www.copera.org or by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

AMERICAN ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2007

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy. The Academy is required to contribute member and employer contributions to PERA at a rate set by statute. The contribution requirements of plan members and the Academy are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members is 8.0% and for the Academy it is 10.65% of covered salary from July 1, 2006 to December 31, 2006 and 11.15% from January 1, 2007 to June 30, 2007. A portion of the Academy's contribution (1.02% of covered salary) is allocated for the Health Care Trust Fund (See Note 8). Beginning July 1, 2005, if the Academy rehired a PERA retiree as an employee or under any other work arrangement, it was required to report and pay employer contributions on the amounts paid for the retiree, however no member contributions are required. Beginning January 1, 2006, the Academy was required to pay an amortization equalization disbursement equal to 0.5% of the total payroll. For the year ending June 30, 2007, the Academy's employer contributions for the SDTF was \$138,935, equal to their required contributions for the year.

NOTE 8: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description. The Academy contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer post employment 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 online at www.copera.org or by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

Funding Policy. The Academy is required to contribute at a rate of 1.02% of covered salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Academy are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208 of the Colorado Revised Statutes, as amended. For the year ending June 30, 2007, the Academy's employer contributions to the HCTF was \$13,001, equal to their required contributions for the year.

AMERICAN ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2007

NOTE 9: COMMITMENTS AND CONTINGENCIES

Operating Lease

The Academy has entered into a non-cancellable operating lease for its building. The lease requires monthly payments of \$21,750. The final payment is due June 30, 2008. The future minimum lease payments are as follows:

Year Ended

June 30

2008

\$ 261,000

Total rent expense for the year ended June 30, 2007 for the lease was \$261,000.

Claims and Judgments

The Academy participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. 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 Academy may be required to reimburse the grantor government. As of June 30, 2007, significant amounts of grant expenditures have not been audited, but the Academy believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Academy.

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The Academy believes it has complied with the Amendment. As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2007, the reserve of \$89,200 was recorded as a reservation of fund balance in the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

AMERICAN ACADEMY
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 2,650,291	\$ 2,650,291	\$ 2,650,291	\$ -
Tuition and Fees	107,800	176,650	196,044	19,394
Activity Fees	38,120			
Grants and Donations	-	-	4,707	4,707
Interest	-	-	21,113	21,113
Other	-	-	20,802	20,802
State Sources				
Grants and Donations	86,500	87,005	85,286	(1,719)
Federal Sources				
Grants and Donations	155,157	255,157	249,620	(5,537)
TOTAL REVENUES	3,037,868	3,169,103	3,227,863	58,760
EXPENDITURES				
Salaries	1,275,900	1,285,500	1,274,633	10,867
Employee Benefits	262,508	269,955	235,038	34,917
Purchased Services	954,255	953,621	881,765	71,856
Supplies and Materials	137,898	168,750	251,179	(82,429)
Property	106,000	156,000	35,898	120,102
Other	2,663	92,031	77,484	14,547
TOTAL EXPENDITURES	2,739,224	2,925,857	2,755,997	169,860
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	298,644	243,246	471,866	228,620
OTHER FINANCING USES				
Transfers Out	-	-	(119,370)	(119,370)
NET CHANGE IN FUND BALANCE	298,644	243,246	352,496	109,250
FUND BALANCE, Beginning	-	-	115,432	115,432
FUND BALANCE, Ending	\$ 298,644	\$ 243,246	\$ 467,928	\$ 224,682

See the accompanying independent auditors' report.