

**AMERICAN ACADEMY**

**FINANCIAL STATEMENTS**

**June 30, 2010**

**AMERICAN ACADEMY**

**ROSTER OF SCHOOL OFFICIALS**

June 30, 2010

**BOARD OF DIRECTORS**

President	Chad King
Vice-President	Jackie Santos
Secretary	Dave Romero
Treasurer	Denese Gardner
Director	Adil Kahn
Director	Shaylee Holland
Director	Bill Paynter

**SCHOOL MANAGEMENT**

Erin Kane, Head of School

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Board of Directors  
American Academy  
Castle Pine North, 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 American Academy, component unit of Douglas County School District, as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements of the American 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, the business-type activities, and each major fund of the American Academy as of June 30, 2010, 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 supplementary information. However, we did not audit the information and express no opinion on it.

*Swanhorst & Company LLC*

September 20, 2010

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Required Supplementary Information (RSI)

June 30, 2010

The subsequent Management Discussion and Analysis (MD&A) of American Academy financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2010. The intent of this narrative overview and analysis is to review the school's financial performance as a whole. Readers should also review Financial Statements, including the Notes to Financial Statements, to expand understanding of the school's financial performance.

### **Financial Highlights**

The period from July 1, 2009 through June 30, 2010 is the fifth year of operation for American Academy. As of June 30, 2010, net assets are \$2,789,419. Basic school operations are primarily supported by funding providing in the Colorado State School Finance Act. Tax revenue for the year July 1, 2009 – June 30, 2010 was \$5,220,807 compared with \$3,360,751 during the prior year.

As of December 1, 2008, the foundation that operates to support the school secured financing for the new, permanent facility that includes four state-of-the-art science labs, flexible grouping classrooms, a library, dedicated art and music rooms, a gymnasium and a cafeteria. American Academy experienced 50% growth in funded student count for the 2009/10 school year compared with 2008/09; students in kindergarten through eighth grade entered the new facility in the fall of 2009 to take part in an academically rigorous education with the Core Knowledge curriculum, a STEM (Science, Technology, Engineering and Math) focus, and character development.

### **Overview of Financial Statements**

This financial review is intended to serve as an introduction to American Academy's basic financial statements. The basic 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**

Government-wide financial statements are prepared to provide interested parties with a broad overview of the school's financial reporting in similar format to private-sector business. The statement of net assets presents information related to assets and liabilities and remaining assessment of financial value. With historical data, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the school is improving or deteriorating.

The statement of activities, or income statement, presents information showing how the School's net assets changed during the year. Changes to net value are reported at the primary occurrence, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of fiscal year end).

#### **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, as designated by Colorado state statute. American Academy monitors these funds to ensure and demonstrate compliance with finance-related legal requirements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information (RSI)

June 30, 2010

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements, except that the focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources.

American Academy adopts an annual budget for the general fund. A budgetary comparison has been provided to demonstrate compliance with the budget as part of the required supplementary information included in the audited financial statements.

The American Academy Foundation is considered a component unit of American Academy (the school) and is reported as a proprietary fund. Information is presented in the statement of net assets, statement of revenues, expenses and changes in net assets and the statement of cash flows.

### Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

### Government-wide Financial Analysis

For the year ending June 30, 2010, the governmental activities net assets of American Academy totaled \$966,231. The school recognized \$776,231 of unrestricted funds to meet the ongoing financial obligations and \$190,000 to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. The new facility construction has been completed; as of June 30, 2010, \$157,071 was invested in capital assets and \$1,528,466 was restricted for debt service. The Foundation recognized total net assets of \$1,823,188, with \$137,651 of this amount unrestricted.

**Table I: Net Assets**

	2010 Governmental Activities	2009 Governmental Activities	2010 Business Type Activities	2009 Business Type Activities
<b>ASSETS</b>				
Capital Assets, Net	-	-	16,681,334	13,092,734
Other Assets	1,267,761	929,887	2,145,972	8,320,606
<b>Total Assets</b>	<b>1,267,761</b>	<b>929,887</b>	<b>18,827,306</b>	<b>21,413,340</b>
<b>LIABILITIES</b>				
Long Term Liabilities	-	-	16,736,207	16,881,293
Other Liabilities	301,530	213,938	267,911	2,367,161
<b>Total Liabilities</b>	<b>301,530</b>	<b>213,938</b>	<b>17,004,118</b>	<b>19,248,454</b>
<b>NET ASSETS</b>				
Invested in Capital Assets	-	-	157,071	133,733
Restricted for Debt Service	-	-	1,528,466	1,723,060
Restricted for Capital Purposes	-	-	-	-
Restricted for Emergencies	190,000	121,000	-	-
Unrestricted	776,231	594,949	137,651	308,093
<b>Total Net Assets</b>	<b>966,231</b>	<b>715,949</b>	<b>1,823,188</b>	<b>2,164,886</b>

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
 Required Supplementary Information (RSI)  
 June 30, 2010

**Table II: Change in Net Assets**

	2010 Governmental Activities	2009 Governmental Activities	2010 Business Type Activities	2009 Business Type Activities
<b>REVENUES</b>				
<i>General Revenues</i>				
Per Pupil Revenue	5,220,807	3,360,751	-	-
Mill Levy	71,235	48,305	-	-
DCSD Capital Funding	140,762	141,878	-	-
Capital Construction Funding	75,029	54,873	-	-
Grants	143,986	12,834	91,004	214,093
Investment Earnings	19,574	9,445	9,662	2,840
Other	105,480	84,719	-	-
<i>Program Revenues</i>				
Charges for Services: Instruction	557,630	237,358	-	-
Charges for Services: Supporting Services	49,706	18,149	-	-
Operating Grants & Contributions: Supporting Services	5,095	5,429	-	-
Capital Grants & Contributions: Foundation	-	-	-	1,500,000
<b>Total Revenue</b>	<b>6,389,304</b>	<b>3,973,741</b>	<b>100,666</b>	<b>1,716,933</b>
<b>EXPENSES</b>				
Instruction	3,070,540	2,291,799	-	-
Supporting Services	1,993,328	1,406,346	-	-
Foundation	-	-	1,517,518	41,551
<b>Total Expenses</b>	<b>5,063,868</b>	<b>3,698,145</b>	<b>1,517,518</b>	<b>41,551</b>
Transfers	-1,075,154	-372,458	1,075,154	372,458
<b>Change in Net Assets</b>	<b>250,282</b>	<b>-96,862</b>	<b>-341,698</b>	<b>2,047,840</b>
<b>Net Assets, Beginning</b>	<b>715,949</b>	<b>812,811</b>	<b>2,164,886</b>	<b>117,046</b>
<b>Net Assets, Ending</b>	<b>966,231</b>	<b>715,949</b>	<b>1,823,188</b>	<b>2,164,886</b>

## Fund Financial Analysis

### General Fund

*Income* – Total gross income for the period of July 1, 2009 – June 30, 2010 was \$6,389,104. The majority of income was received in the form of Per Pupil Revenue allocated to American Academy from the state of Colorado through the charter authorized by Douglas County School District. Mill Levy Override was received through Douglas County School District as a component of local revenue. Douglas County School District allocated additional capital funds in the amount of \$140,762 that was primarily utilized for technology set-up at the new school facility. Earnings on Investments, the American Academy Full-Day Kindergarten Tuition Program and Student Fees were received in support of the general operation of the school. Field Trip and Community Service Activities were processed through the school's general fund with minimal impact to ending fund balance increase. Total revenue increased 63% from prior-year reporting to correspond with the 52% increase in funded student count and the general activities that were associated with the increase in students.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information (RSI)

June 30, 2010

*Expenditures* - Total expenditures for the period of July 1, 2009 – June 30, 2010 were \$6,106,091. Salaries were \$2,662,117; benefits were \$556,643; purchased services were \$2,248,933, materials and supplies were \$424,044, property was \$209,746 and other expenses were \$4,608. Total expenses increased 87% from prior-year reporting.

*Net Income* – As of June 30<sup>th</sup> American Academy General Fund recorded net income of \$250,282. This was a planned increase in preparation for state-level funding cuts to future year revenues. Mid-year budget reviews resulted in adjustments to operations planning to compensate for potential funding loss beyond school control.

### **Capital Reserve Fund**

As of July 1, 2009, American Academy does not utilize a Capital Reserve Fund.

### **American Academy Foundation**

*Income* – Total gross income for the period of July 1, 2009 – June 30, 2010 was \$1,175,820. This included investment income, contributions and donations and transfers in from the General Fund for the facility purchase agreement.

*Expenditures* - Total expenses for the period of July 1, 2009 – June 30, 2010 were \$1,517,518. Interest expense was \$1,031,821 banking fees were \$11,104. Purchased service costs totaled \$35,627 and supplies were \$31,237 for expenses related largely to fundraising activities and the new facility ribbon cutting ceremony in the fall of 2009. Depreciation expense was \$395,076 and amortization was \$12,653 for this fiscal year.

*Net Income* – As of June 30<sup>th</sup> American Academy Foundation recorded change in net assets of negative \$341,698.

### **Analysis of Significant Budget Variations: General Fund**

The original budget for the American Academy General Fund was adopted in the spring of 2009 for the 2009-10 school year. At the time of the original budget adoption, actual student count and per pupil revenue amounts had not yet been finalized. The final budget adopted for the school included the corrected amounts for each of these major revenue assumptions.

Expense considerations that were adjusted between the original and final budget adoptions included adjustments for salary and benefits based on new hiring decisions to accommodate the 50% student count increase. Purchased services, supplies and materials, property and other were all adjusted based on detailed considerations adjusted in the fall of 2009 when the new facility build was finalized and previously estimated items such as salary decisions and utility invoices had more accurate information applied to the annual estimates.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information (RSI)

June 30, 2010

There were some significant variations between the final budget amount approved by the American Academy Board of Directors and the actual budget result. The first deviation was in Per Pupil Revenue which was adjusted by Douglas County School District for an at-risk factor, as well as the corrected rescissions for 09/10 PPR applied. Tuition and fees also had a significant variation from budget to actual based on an over-estimation of these income sources with the new student count. Salaries and benefits were under-budget as a result of some mid-year changes in positions due to the anticipated PPR adjustments to basic funding. The purchased service category was under-budget due to estimated custodial and water service costs in the new facility, as well as Field Trip activity under estimated amounts. Supplies were under-budget due to an increased culture of fiscal conservatism in anticipation of PPR funding levels. Other is under budget as a result of budgeting for TABOR, but not expensing this amount (it is reserved on the Balance Sheet only). There are no known variations that are expected to have a significant effect on future services or liquidity.

### Capital Assets and Debt Administration

As of December 1, 2008, the foundation that operates to support the school secured financing for the new permanent facility that includes four state-of-the-art science labs, flexible grouping classrooms, a library, dedicated art and music rooms, a gymnasium and a cafeteria. American Academy experienced a 50% growth in funded student count during the 2009/10 school year.

*Capital assets* - American Academy investment in capital assets as of June 30, 2010 amounts to \$16,681,334, net of accumulated depreciation. These assets account for land, building and equipment and furniture for the new facility.

*Long-term debt* - As of June 30, 2010, the School had outstanding debt of \$16,891,207.

### Economic Factors and Next Year's Budget

The primary factor driving the budget for the school is the future of the Colorado state budget and related Per Pupil Funding for K-12 education. American Academy regularly reviews projected plans for PPR funding and budget impact. Many budget scenarios and operation plans have been developed to analyze options to respond to state decisions. Student growth, facility financing costs and additional considerations specific to the new facility were all considered in the strategic 5 year budgeting process for 2010/11 – 2014/15. American Academy is confident in preparations for potential impact to the school's basic funding source.

### Requests for Information

The financial report is designed to provide a general overview of American Academy's finances for all those with an interest in the School. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

American Academy  
6971 Mira Vista Lane  
Castle Pines North, CO 80108

## **BASIC FINANCIAL STATEMENTS**

AMERICAN ACADEMY

STATEMENT OF NET ASSETS

June 30, 2010

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
<b>ASSETS</b>			
Cash and Investments	\$ 1,233,051	\$ 143,935	\$ 1,376,986
Restricted Cash and Investments	-	1,633,819	1,633,819
Accounts Receivable	3,601	-	3,601
Prepaid Expenses	31,109	1,274	32,383
Debt Issuance Costs, Net of Accumulated Amortization	-	366,944	366,944
Capital Assets, Not Being Depreciated	-	1,500,000	1,500,000
Capital Assets, Net of Accumulated Depreciation	-	15,181,334	15,181,334
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	1,267,761	18,827,306	20,095,067
<b>LIABILITIES</b>			
Accounts Payable	80,650	7,558	88,208
Accrued Salaries and Benefits	157,562	-	157,562
Deferred Revenue	63,318	-	63,318
Accrued Interest Payable	-	105,353	105,353
Noncurrent Liabilities			
Due Within One Year	-	155,000	155,000
Due in More Than One Year	-	16,736,207	16,736,207
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	301,530	17,004,118	17,305,648
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	-	157,071	157,071
Restricted for Debt Service	-	1,528,466	1,528,466
Restricted for Emergencies	190,000	-	190,000
Unrestricted	776,231	137,651	913,882
	<hr/>	<hr/>	<hr/>
TOTAL NET ASSETS	\$ <u>966,231</u>	\$ <u>1,823,188</u>	\$ <u>2,789,419</u>

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

AMERICAN ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
<b>PRIMARY GOVERNMENT</b>			
<b>Governmental Activities</b>			
Instruction	\$ 3,070,540	\$ 557,630	\$ -
Supporting Services	<u>1,993,328</u>	<u>49,706</u>	<u>5,095</u>
Total Governmental Activities	<u>5,063,868</u>	<u>607,336</u>	<u>5,095</u>
<b>Business-Type Activities</b>			
Foundation	<u>1,517,518</u>	<u>-</u>	<u>-</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 6,581,386</u>	<u>\$ 607,336</u>	<u>\$ 5,095</u>
		GENERAL REVENUES	
		Per Pupil Revenue	
		District Mill Levy	
		District Capital Funding	
		Capital Construction	
		Grants and Contributions not Restricted to Specific Programs	
		Investment Income	
		Other	
		TRANSFERS	
		TOTAL GENERAL REVENUES AND TRANSFERS	
		CHANGE IN NET ASSETS	
		NET ASSETS, Beginning	
		NET ASSETS, Ending	

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

NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS

GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
\$ (2,512,910)	\$ -	\$ (2,512,910)
<u>(1,938,527)</u>	<u>-</u>	<u>(1,938,527)</u>
(4,451,437)	-	(4,451,437)
-	(1,517,518)	(1,517,518)
<u>(4,451,437)</u>	<u>(1,517,518)</u>	<u>(5,968,955)</u>
5,220,807	-	5,220,807
71,235	-	71,235
140,762	-	140,762
75,029	-	75,029
143,986	91,004	234,990
19,574	9,662	29,236
105,480	-	105,480
<u>(1,075,154)</u>	<u>1,075,154</u>	<u>-</u>
4,701,719	1,175,820	5,877,539
250,282	(341,698)	(91,416)
<u>715,949</u>	<u>2,164,886</u>	<u>2,880,835</u>
\$ <u>966,231</u>	\$ <u>1,823,188</u>	\$ <u>2,789,419</u>

AMERICAN ACADEMY

BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2010

	<u>GENERAL</u>
<b>ASSETS</b>	
Cash and Investments	\$ 1,233,051
Accounts Receivable	3,601
Prepaid Expenditures	<u>31,109</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>1,267,761</u></b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 80,650
Accrued Salaries and Benefits	157,562
Deferred Revenue	<u>63,318</u>
<b>TOTAL LIABILITIES</b>	<b><u>301,530</u></b>
<b>FUND BALANCE</b>	
Reserved for Prepaid Expenditures	31,109
Reserved for Emergencies	190,000
Unreserved, Reported in General Fund	<u>745,122</u>
<b>TOTAL FUND BALANCE</b>	<b><u>966,231</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ <u>1,267,761</u></b>

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

AMERICAN ACADEMY

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
 Year Ended June 30, 2010

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 6,309,180
State Sources	75,029
Federal Sources	<u>5,095</u>
TOTAL REVENUES	<u>6,389,304</u>
EXPENDITURES	
Instruction	3,070,540
Supporting Services	<u>3,035,551</u>
TOTAL EXPENDITURES	<u>6,106,091</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	283,213
OTHER FINANCING SOURCES (USES)	
Transfers Out	<u>(32,931)</u>
NET CHANGE IN FUND BALANCE	250,282
FUND BALANCE, Beginning	<u>715,949</u>
FUND BALANCE, Ending	<u>\$ 966,231</u>

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

AMERICAN ACADEMY

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2010

	<u>FOUNDATION</u>
ASSETS	
CURRENT ASSETS	
Cash and Investments	\$ 143,935
Restricted Cash and Investments	1,633,819
Prepaid Expenses	<u>1,274</u>
TOTAL CURRENT ASSETS	<u>1,779,028</u>
NONCURRENT ASSETS	
Debt Issuance Costs, Net of Accumulated Amortization	366,944
Capital Assets, Not Being Depreciated	1,500,000
Capital Assets, Net of Accumulated Depreciation	<u>15,181,334</u>
TOTAL NONCURRENT ASSETS	<u>17,048,278</u>
TOTAL ASSETS	<u>18,827,306</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	7,558
Accrued Interest Payable	105,353
Loan Payable, Current Portion	<u>155,000</u>
TOTAL CURRENT LIABILITIES	<u>267,911</u>
NONCURRENT LIABILITIES	
Loan Payable	<u>16,736,207</u>
TOTAL LIABILITIES	<u>17,004,118</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	157,071
Restricted for Debt Service	1,528,466
Unrestricted	<u>137,651</u>
TOTAL NET ASSETS	<u>\$ 1,823,188</u>

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

AMERICAN ACADEMY

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
 Year Ended June 30, 2010

	<u>FOUNDATION</u>
OPERATING REVENUES	
Lease Revenue	\$ 1,042,223
Contributions	<u>91,004</u>
TOTAL OPERATING REVENUES	<u>1,133,227</u>
OPERATING EXPENSES	
Purchased Services	35,627
Supplies	31,237
Depreciation	395,076
Amortization	12,653
Debt Service	
Interest	1,031,821
Fees	<u>11,104</u>
TOTAL OPERATING EXPENSES	<u>1,517,518</u>
NET OPERATING INCOME (LOSS)	(384,291)
NONOPERATING REVENUES	
Investment Income	<u>9,662</u>
NET INCOME (LOSS) BEFORE TRANSFERS	(374,629)
Transfers In	<u>32,931</u>
CHANGE IN NET ASSETS	(341,698)
NET ASSETS, Beginning	<u>2,164,886</u>
NET ASSETS, Ending	<u>\$ 1,823,188</u>

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

AMERICAN ACADEMY

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Increase (Decrease) in Cash and Cash Equivalents  
Year Ended June 30, 2010

	<u>FOUNDATION</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Lease Payments Received	\$ 1,042,223
Contributions Received	91,004
Cash Paid to Suppliers	(60,580)
Loan Interest and Fees Paid	<u>(1,033,414)</u>
Net Cash Provided by Operating Activities	<u>39,233</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Payments from American Academy	32,931
Acquisition and Construction of Capital Assets	(6,002,443)
Investment Income Received and Capitalized	4,127
Loan Interest Paid and Capitalized	<u>(246,765)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(6,212,150)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income Received	<u>9,662</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(6,163,255)
<b>CASH AND CASH EQUIVALENTS, Beginning</b>	<u>7,941,009</u>
<b>CASH AND CASH EQUIVALENTS, Ending</b>	<u>\$ 1,777,754</u>
<b>RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Net Operating Income (Loss)	\$ (384,291)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depreciation Expense	395,076
Amortization of Issuance Costs	12,653
Amortization of Discount	9,914
Changes in Assets and Liabilities	
Prepaid Expenses	(1,274)
Accounts Payable	7,558
Accrued Interest Payable	<u>(403)</u>
Net Cash Provided by Operating Activities	<u>\$ 39,233</u>

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

AMERICAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

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

The American Academy (the “Academy”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District (the “District”). The Academy began operations in the Fall of 2005.

The financial statements of the Academy have been prepared in conformity with generally accepted accounting principles (GAAP) 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 accounting 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.

The Academy includes the American Academy Foundation (the “Foundation”) within its reporting entity. The Foundation was formed exclusively to support the educational program of the Academy through grant applications and other fundraising activities, and for the purpose of holding title to real and personal property and to make same available for use by the Academy and to otherwise provide facilities, equipment, and other physical plant and related support to the Academy. The Foundation is blended into the Academy’s financial statements as an enterprise fund. The Foundation does not issue separate financial statements.

The Academy is a component unit of the District. The majority of the Academy’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 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 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 intergovernmental 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 as separate columns in the fund financial statements.

AMERICAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

**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 Academy. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Academy has elected not to follow subsequent private-sector guidance.

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 a proprietary fund's principal ongoing operations. Operating expenses for enterprise 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 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.

The Academy reports one major proprietary fund, as follows:

*Foundation* - This fund is used to account for the financial activities of the Foundation, including fundraising and facilities acquisition and construction.

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

*Cash and Investments* - Investments are reported at fair value. Cash equivalents are defined as investments with an original maturity of ninety days or less.

*Accounts Receivable* - All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

AMERICAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

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

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

*Prepaid Expenses* - Certain payments to vendors reflect costs applicable to future years and are reported as prepaid expenses.

*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 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 and the proprietary fund in the fund financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method.

Buildings and Improvements	40 - 45 years
Equipment and Furniture	3 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 months. The salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

*Deferred Revenue* - Deferred revenues include resources received by the Academy before it has a legal claim to them, including grants that have been collected but corresponding expenditures have not been incurred.

*Long-Term Debt* - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Debt issuance costs are deferred and amortized over the life of the debt using the straight-line method.

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

*Compensated Absences* - The Academy's policy allows employees to use ten days of personal and sick leave during each school year. Employees are compensated for any unused leave prior to year end at the rate of \$100 per day. Therefore, no liability for accumulated personal and sick leave is reported in the financial statements.

*Net Assets/Fund Balances* - In the government-wide financial statements and the proprietary fund in the fund 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 carries commercial insurance for these risks of loss.

AMERICAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010

**NOTE 2: CASH AND INVESTMENTS**

At June 30, 2010, cash and investments consisted of the following:

Petty Cash	\$ 400
Deposits	1,374,388
Investments	<u>1,636,017</u>
Total	<u><u>\$ 3,010,805</u></u>

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

Cash and Investments	\$ 1,376,986
Restricted Cash and Investments	<u>1,633,819</u>
Total	<u><u>\$ 3,010,805</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, 2010, the Academy had bank deposits of \$995,045 collateralized with securities held by the financial institution's agent but not in the Academy's name.

**Investments**

The Academy 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 the maturity date of investments to five years from the date of purchase, unless the governing board authorizes an investment 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, 2010, the Academy and the Foundation had \$2,198 and \$1,633,819, respectively, 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 similarly to a money market fund with each share equal in value to \$1.00. 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.

AMERICAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2010

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

**Restricted Cash and Investments**

At June 30, 2010, the Foundation held cash and investments of \$1,633,819 restricted for future debt service.

**NOTE 3: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010, is summarized below.

	<u>Balances</u> 6/30/09	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 6/30/10
<b>Governmental Activities</b>				
Capital Assets, Being Depreciated				
Equipment and Furniture	\$ 44,067	\$ -	\$ -	\$ 44,067
Accumulated Depreciation	<u>(44,067)</u>	<u>-</u>	<u>-</u>	<u>(44,067)</u>
Governmental Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Business-Type Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 1,500,000	\$ -	\$ -	\$ 1,500,000
Construction in Progress	<u>11,592,734</u>	<u>3,908,134</u>	<u>15,500,868</u>	<u>-</u>
Capital Assets, Not Being Depreciated	<u>13,092,734</u>	<u>3,908,134</u>	<u>15,500,868</u>	<u>1,500,000</u>
Capital Assets, Being Depreciated				
Building	-	15,500,868	-	15,500,868
Equipment and Furniture	<u>-</u>	<u>75,542</u>	<u>-</u>	<u>75,542</u>
Total Capital Assets, Being Depreciated	<u>-</u>	<u>15,576,410</u>	<u>-</u>	<u>15,576,410</u>
Less Accumulated Depreciation				
Building	-	(387,522)	-	(387,522)
Equipment and Furniture	<u>-</u>	<u>(7,554)</u>	<u>-</u>	<u>(7,554)</u>
Total Accumulated Depreciation	<u>-</u>	<u>(395,076)</u>	<u>-</u>	<u>(395,076)</u>
Total Capital Assets, Being Depreciated, Net	<u>-</u>	<u>15,181,334</u>	<u>-</u>	<u>15,181,334</u>
Business-Type Activities Capital Assets, Net	<u>\$ 13,092,734</u>	<u>\$ 19,089,468</u>	<u>\$ 15,500,868</u>	<u>\$ 16,681,334</u>

**NOTE 4: LONG-TERM DEBT**

Following is a summary of the long-term debt transactions for the year ended June 30, 2010:

	<u>Balances</u> 6/30/09	<u>Additions</u>	<u>Payments</u>	<u>Balances</u> 6/30/10	<u>Due Within</u> <u>One Year</u>
<b>Business-Type Activities</b>					
Building Loan	\$ 17,030,000	\$ -	\$ -	\$ 17,030,000	\$ 155,000
Discount	<u>(148,707)</u>	<u>-</u>	<u>(9,914)</u>	<u>(138,793)</u>	<u>-</u>
Total	<u>\$ 16,881,293</u>	<u>\$ -</u>	<u>\$ (9,914)</u>	<u>\$ 16,891,207</u>	<u>\$ 155,000</u>

AMERICAN ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2010

**NOTE 4: LONG-TERM DEBT (Continued)**

In December, 2008, the Colorado Educational and Cultural Facilities Authority (“CECFA”) issued \$17,030,000 Charter School Revenue Bonds, Series 2008. Bond proceeds were loaned to the Foundation to construct educational facilities. The Academy is obligated under a lease agreement to make monthly lease payments to the Foundation for use of the facilities. The Foundation is required to make equal loan payments to the Trustee, for payment of the bonds. The bonds accrue interest at rates ranging from 6.25% to 7.125%. Interest payments are due semi-annually on June 1 and December 1. Principal payments are due annually on December 1, through 2040. Future debt service requirements for the bonds are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 155,000	\$ 1,264,232	\$ 1,419,232
2012	165,000	1,254,232	1,419,232
2013	175,000	1,243,606	1,418,606
2014	185,000	1,232,357	1,417,357
2015	195,000	1,220,481	1,415,481
2016 - 2020	1,180,000	5,894,900	7,074,900
2021 - 2025	1,660,000	5,402,628	7,062,628
2026 - 2030	2,380,000	4,671,842	7,051,842
2031 - 2035	3,380,000	3,645,249	7,025,249
2036 - 2040	4,895,000	2,079,564	6,974,564
2041	2,660,000	105,753	2,765,753
Total	<u>\$ 17,030,000</u>	<u>\$ 28,014,844</u>	<u>\$ 45,044,844</u>

**NOTE 5: INTERFUND TRANSACTIONS**

During the year ended December 31, 2010, the Academy paid \$32,931 to the Foundation to supplement debt service requirements.

**NOTE 6: 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). 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. That report may be obtained by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

*Funding Policy* - Plan members and the Academy are required to contribute at a rate set by State 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 was 8%. The Academy’s contribution rate for calendar years 2008, 2009 and 2010 was 12.05%, 12.95% and 13.85% of covered salaries, respectively. A portion of the Academy’s contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 7). The Academy’s contributions to the SDTF for the years ended June 30, 2010, 2009 and 2008 were \$321,298, \$192,477 and \$160,188, respectively, equal to the required contributions for each year.

AMERICAN ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

**NOTE 7: POSTEMPLOYMENT HEALTHCARE BENEFITS**

*Plan Description* - The Academy 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 Academy is required to contribute at a rate of 1.02% of covered salaries 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 contributions of the HCTF established under Title 24, Article 51, Section 208 of the CRS, as amended. The Academy's contributions to the HCTF for the years ended June 30, 2010, 2009 and 2008 were \$24,416, \$15,702 and \$14,076, respectively, equal to the required contributions for each year.

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**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 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 Academy may be required to reimburse the grantor government. At June 30, 2010, 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. Revenues received in excess of the limitations may be required to be refunded. The Academy believes it is in compliance with the Amendment. As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2010, the reserve, in the amount of \$190,000, was reported as a reservation of fund balance in the General Fund.

**NOTE 9: RESTATEMENT**

The Foundation obtained more accurate information regarding the value of land donated during the year ended June 30, 2009, and reported a restatement to reflect this information in the financial statements, as follows:

	<u>Capital Assets</u>	<u>Net Assets</u>
Balances, June 30, 2009, as Originally Stated	\$ 11,785,610	\$ 857,762
Correction	<u>1,307,124</u>	<u>1,307,124</u>
Balances, June 30, 2009, as Restated	<u>\$ 13,092,734</u>	<u>\$ 2,164,886</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

AMERICAN ACADEMY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2010

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE Positive (Negative)
<b>REVENUES</b>				
Local Sources				
Per Pupil Revenue	\$ 5,190,020	\$ 5,270,567	\$ 5,220,807	\$ (49,760)
District Mill Levy	71,226	70,330	71,235	905
District Capital Funding	140,762	140,762	140,762	-
Contributions	20,000	134,681	143,986	9,305
Tuition and Fees	588,000	600,847	559,902	(40,945)
Community Services	25,000	44,144	47,434	3,290
Investment Income	7,200	12,000	19,574	7,574
Other	10,000	82,681	105,480	22,799
<b>Total Local Sources</b>	<b>6,052,208</b>	<b>6,356,012</b>	<b>6,309,180</b>	<b>(46,832)</b>
State Sources				
Capital Construction	75,950	69,471	75,029	5,558
Federal Sources				
Improving Teacher Quality	5,095	5,095	5,095	-
<b>TOTAL REVENUES</b>	<b>6,133,253</b>	<b>6,430,578</b>	<b>6,389,304</b>	<b>(41,274)</b>
<b>EXPENDITURES</b>				
Salaries	2,506,408	2,692,920	2,662,117	30,803
Employee Benefits	583,301	580,394	556,643	23,751
Purchased Services	2,390,665	2,394,354	2,248,933	145,421
Supplies and Materials	400,594	465,561	424,044	41,517
Property	96,829	218,480	209,746	8,734
Other	72,646	74,465	4,608	69,857
<b>TOTAL EXPENDITURES</b>	<b>6,050,443</b>	<b>6,426,174</b>	<b>6,106,091</b>	<b>320,083</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>82,810</b>	<b>4,404</b>	<b>283,213</b>	<b>278,809</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer Out	-	-	(32,931)	(32,931)
<b>NET CHANGE IN FUND BALANCE</b>	<b>82,810</b>	<b>4,404</b>	<b>250,282</b>	<b>245,878</b>
FUND BALANCE, Beginning	662,378	720,354	715,949	(4,405)
FUND BALANCE, Ending	<u>\$ 745,188</u>	<u>\$ 724,758</u>	<u>\$ 966,231</u>	<u>\$ 241,473</u>

See the accompanying Independent Auditors' Report.

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

**Budgets and Budgetary Accounting**

A budget is adopted for the Academy on a basis consistent with generally accepted accounting principles.

Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1, for their approval. The budget includes proposed expenditures and the means of financing them. All annual appropriations lapse at fiscal year end.

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.