

AMERICAN ACADEMY

FINANCIAL STATEMENTS

June 30, 2011

AMERICAN ACADEMY

ROSTER OF SCHOOL OFFICIALS

June 30, 2011

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 Pines, 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, 2011, 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, 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.

September 23, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information (RSI)

June 30, 2011

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, 2011. 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, 2010 through June 30, 2011 is the sixth year of operation for American Academy. As of June 30, 2011, net assets are \$2,912,387. Basic school operations are primarily supported by funding providing in the Colorado State School Finance Act. Tax revenue for the year July 1, 2010 – June 30, 2011 was \$5,473,349 compared with \$5,220,807 during the prior year. American Academy experienced 10% growth in funded student count for the 2010/11 school year, the second year in the new school facility, compared with 2009/10.

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.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information (RSI)

June 30, 2011

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, 2011, the governmental activities net assets of American Academy totaled \$978,345. The school recognized \$773,345 of unrestricted funds to meet the ongoing financial obligations and \$205,000 to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. As of June 30, 2011, \$304,287 was invested in capital assets and \$1,532,846 was restricted for debt service. The Foundation recognized total net assets of \$1,934,042, with \$96,909 of this amount unrestricted.

Table I: Net Assets

	2011 Governmental Activities	2010 Governmental Activities	2011 Business Type Activities	2010 Business Type Activities
ASSETS				
Capital Assets, Net	-	-	16,691,160	16,681,334
Other Assets	1,406,953	1,267,761	2,088,565	2,145,972
Total Assets	1,406,953	1,267,761	18,779,725	18,827,306
LIABILITIES				
Long Term Liabilities	-	-	16,576,164	16,736,207
Other Liabilities	428,608	301,530	269,519	267,911
Total Liabilities	428,608	301,530	16,845,683	17,004,118
NET ASSETS				
Invested in Capital Assets	-	-	304,287	157,071
Restricted for Debt Service	-	-	1,532,846	1,528,466
Restricted for Capital Purposes	-	-	-	-
Restricted for Emergencies	205,000	190,000	-	-
Unrestricted	773,345	776,231	96,909	137,651
Total Net Assets	978,345	966,231	1,934,042	1,823,188

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information (RSI)

June 30, 2011

Table II: Change in Net Assets

	2011 Governmental Activities	2010 Governmental Activities	2011 Business Type Activities	2010 Business Type Activities
REVENUES				
<i>General Revenues</i>				
Per Pupil Revenue	5,473,348	5,220,807	-	-
Mill Levy	205,220	71,235	-	-
DCSD Capital Funding	-	140,762	-	-
Capital Construction Funding	75,350	75,029	-	-
Grants	162,669	143,986	52,857	91,004
Investment Earnings	16,282	19,574	1,920	9,662
Other	71,014	105,480	-	-
<i>Program Revenues</i>				
Charges for Services: Instruction	682,380	557,630	-	-
Charges for Services: Supporting Services	137,031	49,706	-	-
Operating Grants & Contributions: Supporting Services	8,023	5,095	-	-
Capital Grants & Contributions: Foundation	-	-	250,000	-
Total Revenue	6,831,316	6,389,304	304,777	100,666
EXPENSES				
Instruction	3,381,313	3,070,540	-	-
Supporting Services	1,930,299	1,993,328	-	-
Foundation	-	-	1,701,513	1,517,518
Total Expenses	5,311,612	5,063,868	1,701,513	1,517,518
Transfers	-1,507,590	-1,075,154	1,507,590	1,075,154
Change in Net Assets	12,114	250,282	110,854	-341,698
Net Assets, Beginning	966,231	715,949	1,823,188	2,164,886
Net Assets, Ending	978,345	966,231	1,934,042	1,823,188

Fund Financial Analysis

General Fund

Income – Total gross income for the period of July 1, 2010 – June 30, 2011 was \$6,831,316. 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. This funding source declined by 5% per student (\$328 per student) between 2010/11 and 2011/12; an increase in Per Pupil Revenue was recognized due to a 10% increase in funded student count. Mill Levy Override was received through Douglas County School District as a component of local revenue. 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 7% from prior-year reporting to correspond with the 10% 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, 2011

Expenditures - Total expenditures for the period of July 1, 2010 – June 30, 2011 were \$6,819,202. Salaries were \$2,761,347; benefits were \$619,803; purchased services were \$2,793,867, materials and supplies were \$465,376, property was \$168,553 and other expenses were \$10,256. Total expenses increased 12% from prior-year reporting.

Net Income – As of June 30th American Academy General Fund recorded net income of \$12,114. Continuous mid-year budget reviews resulted in adjustments to not create a loss in net income during 2010/11. It is anticipated that future year Per Pupil Revenue may continue to decrease and the existing fund balance will be utilized for future year needs if necessary.

American Academy Foundation

Income – Total gross income for the period of July 1, 2010 – June 30, 2011 was \$1,812,367. This included investment income, contributions and donations and lease payments from the General Fund for the facility purchase agreement. American Academy Foundation recognized capital contributions of \$250,000 for land negotiated and settled in conjunction with a legal expense incurred by the American Academy school in the amount of \$83,333 during 2010/11.

Expenditures - Total expenses for the period of July 1, 2010 – June 30, 2011 were \$1,701,513. Interest expense was recognized as \$1,268,375. Purchased service costs totaled \$23,321 and supplies were \$253. Depreciation expense was \$396,911 and amortization was \$12,653 for this fiscal year.

Net Income – As of June 30th American Academy Foundation recorded an increase in net assets of \$110,854.

Analysis of Significant Budget Variations: General Fund

The original budget for the American Academy General Fund was adopted in the spring of 2010 for the 2010/11 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 final hiring decisions. Purchased services, supplies and materials, property and other were all adjusted based on detailed considerations adjusted in the fall of 2010 with updated information applied to the annual estimates.

There were few variations between the final budget amount approved by the American Academy Board of Directors and the actual budget result. Per Pupil Revenue was budgeted for an At-Risk adjustment that will not actually be recognized until the fall of 2011 with the DCSD annual Purchased Service reconciliation. Tuition and fees also acknowledged a variation from budget to actual based on an over-estimation of these income sources. Salaries and benefits were under-budget as a result of estimated hourly employee positions in the fall of 2010 that were managed conservatively. The purchased service category was over-budget due to the \$83,333 legal expense payment for the land settlement to the American Academy Foundation; this expense was approved by a separate Board resolution to spend existing fund balance. Supplies were under-budget due to regular review and management of general supply needs. There are no known variations that are expected to have a significant effect on future services or liquidity.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information (RSI)

June 30, 2011

Capital Assets and Debt Administration

Capital assets - American Academy investment in capital assets as of June 30, 2011 amounts to \$16,691,160, 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, 2011, the School had outstanding debt of \$16,741,164.

Additional information on capital assets and long-term debt is provided in Notes 3 and 4 to the financial statements.

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 Revenue (PPR) 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 budgeting process for 2011/12 – 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, 2011

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTALS</u>
ASSETS			
Cash and Investments	\$ 1,374,957	\$ 96,834	\$ 1,471,791
Restricted Cash and Investments	-	1,637,365	1,637,365
Accounts Receivable	11,075	75	11,150
Prepaid Expenses	20,921	-	20,921
Debt Issuance Costs, Net of Accumulated Amortization	-	354,291	354,291
Capital Assets, Not Being Depreciated	-	1,833,333	1,833,333
Capital Assets, Net of Accumulated Depreciation	-	14,857,827	14,857,827
	<u>1,406,953</u>	<u>18,779,725</u>	<u>20,186,678</u>
TOTAL ASSETS			
LIABILITIES			
Accounts Payable	183,493	-	183,493
Accrued Salaries and Benefits	162,401	-	162,401
Deferred Revenue	82,714	-	82,714
Accrued Interest Payable	-	104,519	104,519
Noncurrent Liabilities			
Due Within One Year	-	165,000	165,000
Due in More Than One Year	-	16,576,164	16,576,164
	<u>428,608</u>	<u>16,845,683</u>	<u>17,274,291</u>
TOTAL LIABILITIES			
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	-	304,287	304,287
Restricted for Debt Service	-	1,532,846	1,532,846
Restricted for Emergencies	205,000	-	205,000
Unrestricted	773,345	96,909	870,254
	<u>978,345</u>	<u>1,934,042</u>	<u>2,912,387</u>
TOTAL NET ASSETS			

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

AMERICAN ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	\$ 3,381,313	\$ 682,380	\$ -	\$ -
Supporting Services	1,930,299	137,030	8,023	-
Total Governmental Activities	5,311,612	819,410	8,023	-
Business-Type Activities				
Foundation	1,701,513	-	-	250,000
TOTAL PRIMARY GOVERNMENT	\$ 7,013,125	\$ 819,410	\$ 8,023	\$ 250,000

GENERAL REVENUES

Per Pupil Revenue
 District Mill Levy
 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
\$ (2,698,933)	\$ -	\$ (2,698,933)
<u>(1,785,246)</u>	<u>-</u>	<u>(1,785,246)</u>
(4,484,179)	-	(4,484,179)
-	(1,451,513)	(1,451,513)
<u>(4,484,179)</u>	<u>(1,451,513)</u>	<u>(5,935,692)</u>
5,473,349	-	5,473,349
205,220	-	205,220
75,350	-	75,350
162,669	52,857	215,526
16,282	1,920	18,202
71,013	-	71,013
<u>(1,507,590)</u>	<u>1,507,590</u>	<u>-</u>
<u>4,496,293</u>	<u>1,562,367</u>	<u>6,058,660</u>
12,114	110,854	122,968
<u>966,231</u>	<u>1,823,188</u>	<u>2,789,419</u>
<u>\$ 978,345</u>	<u>\$ 1,934,042</u>	<u>\$ 2,912,387</u>

AMERICAN ACADEMY

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2011

	<u>GENERAL</u>
ASSETS	
Cash and Investments	\$ 1,374,957
Accounts Receivable	11,075
Prepaid Expenditures	<u>20,921</u>
TOTAL ASSETS	\$ <u>1,406,953</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 183,493
Accrued Salaries and Benefits	162,401
Deferred Revenue	<u>82,714</u>
TOTAL LIABILITIES	<u>428,608</u>
FUND BALANCE	
Nonspendable Prepaid Expenditures	20,921
Restricted for Emergencies	205,000
Unrestricted, Unassigned	<u>752,424</u>
TOTAL FUND BALANCE	<u>978,345</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>1,406,953</u>

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, 2011

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 6,747,943
State Sources	75,350
Federal Sources	<u>8,023</u>
TOTAL REVENUES	<u>6,831,316</u>
EXPENDITURES	
Instruction	3,381,313
Supporting Services	<u>3,437,889</u>
TOTAL EXPENDITURES	<u>6,819,202</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	12,114
FUND BALANCE, Beginning	<u>966,231</u>
FUND BALANCE, Ending	<u><u>\$ 978,345</u></u>

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

AMERICAN ACADEMY

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2011

	<u>FOUNDATION</u>
ASSETS	
CURRENT ASSETS	
Cash and Investments	\$ 96,834
Restricted Cash and Investments	1,637,365
Accounts Receivable	75
	<hr/>
TOTAL CURRENT ASSETS	1,734,274
NONCURRENT ASSETS	
Debt Issuance Costs, Net of Accumulated Amortization	354,291
Capital Assets, Not Being Depreciated	1,833,333
Capital Assets, Net of Accumulated Depreciation	14,857,827
	<hr/>
TOTAL NONCURRENT ASSETS	17,045,451
TOTAL ASSETS	<hr/> <hr/> 18,779,725
LIABILITIES	
CURRENT LIABILITIES	
Accrued Interest Payable	104,519
Loan Payable, Current Portion	165,000
	<hr/>
TOTAL CURRENT LIABILITIES	269,519
NONCURRENT LIABILITIES	
Loan Payable	16,576,164
	<hr/>
TOTAL LIABILITIES	16,845,683
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	304,287
Restricted for Debt Service	1,532,846
Unrestricted	96,909
	<hr/>
TOTAL NET ASSETS	<hr/> <hr/> \$ 1,934,042

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, 2011

	<u>FOUNDATION</u>
OPERATING REVENUES	
Lease Revenue	\$ 1,424,257
Contributions	<u>52,857</u>
TOTAL OPERATING REVENUES	<u>1,477,114</u>
OPERATING EXPENSES	
Purchased Services	23,321
Supplies	253
Depreciation	396,911
Amortization	12,653
Debt Service	
Interest	<u>1,268,375</u>
TOTAL OPERATING EXPENSES	<u>1,701,513</u>
NET OPERATING INCOME (LOSS)	(224,399)
NONOPERATING REVENUES	
Investment Income	<u>1,920</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(222,479)
Capital Contributions	<u>333,333</u>
CHANGE IN NET ASSETS	110,854
NET ASSETS, Beginning	<u>1,823,188</u>
NET ASSETS, Ending	<u>\$ 1,934,042</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, 2011

	<u>FOUNDATION</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Lease Payments Received	\$ 1,424,257
Contributions Received	52,857
Cash Paid to Suppliers	(29,933)
Loan Interest and Fees Paid	(1,264,252)
Loan Principal Paid	<u>(155,000)</u>
Net Cash Provided by Operating Activities	27,929
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and Construction of Capital Assets	(73,404)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income Received	<u>1,920</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(43,555)
CASH AND CASH EQUIVALENTS, Beginning	<u>1,777,754</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 1,734,199</u>
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net Operating Income (Loss)	\$ (224,399)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depreciation Expense	396,911
Amortization of Issuance Costs	12,653
Amortization of Discount	4,957
Changes in Assets and Liabililites	
Accounts Receivable	(75)
Prepaid Expenses	1,274
Accounts Payable	(7,558)
Accrued Interest Payable	(834)
Loan Payable	<u>(155,000)</u>
Net Cash Provided by Operating Activities	<u>\$ 27,929</u>
NONCASH TRANSACTIONS	
Capital Assets Contributed by Others	<u>\$ 333,333</u>

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

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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 Academy’s charter was granted by the District and 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. 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*.

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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.

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.

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 currently used to account for all financial activities of the Academy.

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, facilities acquisition and construction, and debt service.

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, 2011

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 \$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.

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 - 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 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 eight days of personal leave during each school year. Employees are compensated for any unused leave prior to year end at the rate of \$90 per day. Therefore, no liability for accumulated personal leave is reported in the financial statements.

Net Assets/Fund Balances - 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. The Academy 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 Academy uses restricted fund balance first.

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE 2: CASH AND INVESTMENTS

At June 30, 2011, cash and investments consisted of the following:

Petty Cash	\$	400
Deposits		1,469,189
Investments		<u>1,639,567</u>
Total	\$	<u>3,109,156</u>

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

Cash and Investments	\$	1,471,791
Restricted Cash and Investments		<u>1,637,365</u>
Total	\$	<u>3,109,156</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 Academy had bank deposits of \$1,096,128 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 for a period in excess of five years. State statutes do not address custodial risk.

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE 2: CASH AND INVESTMENTS (Continued)

Investments (Continued)

- 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 Academy and the Foundation had \$2,202 and \$1,637,365, 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 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.

Restricted Cash and Investments

At June 30, 2011, the Foundation held cash and investments of \$1,637,365 restricted for future debt service.

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, is summarized below.

	<u>Balances</u> 6/30/10	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 6/30/11
Governmental Activities				
Capital Assets, Being Depreciated				
Equipment and Furniture	\$ 44,067	\$ -	\$ 44,067	\$ -
Accumulated Depreciation	<u>(44,067)</u>	<u>-</u>	<u>(44,067)</u>	<u>-</u>
Governmental Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

AMERICAN ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 3: CAPITAL ASSETS (Continued)

	<u>Balances</u> <u>6/30/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>6/30/11</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 1,500,000	\$ 333,333	\$ -	\$ 1,833,333
Capital Assets, Being Depreciated				
Buildings and Improvements	15,500,868	73,404	-	15,574,272
Equipment and Furniture	<u>75,542</u>	<u>-</u>	<u>-</u>	<u>75,542</u>
Total Capital Assets, Being Depreciated	<u>15,576,410</u>	<u>73,404</u>	<u>-</u>	<u>15,649,814</u>
Less Accumulated Depreciation				
Buildings and Improvements	(387,522)	(389,357)	-	(776,879)
Equipment and Furniture	<u>(7,554)</u>	<u>(7,554)</u>	<u>-</u>	<u>(15,108)</u>
Total Accumulated Depreciation	<u>(395,076)</u>	<u>(396,911)</u>	<u>-</u>	<u>(791,987)</u>
Total Capital Assets, Being Depreciated, Net	<u>15,181,334</u>	<u>(323,507)</u>	<u>-</u>	<u>14,857,827</u>
Business-Type Activities Capital Assets, Net	<u>\$ 16,681,334</u>	<u>\$ 9,826</u>	<u>\$ -</u>	<u>\$ 16,691,160</u>

NOTE 4: LONG-TERM DEBT

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

	<u>Balances</u> <u>6/30/10</u>	<u>Additions</u>	<u>Payments</u>	<u>Balances</u> <u>6/30/11</u>	<u>Due Within</u> <u>One Year</u>
Business-Type Activities					
Building Loan	\$ 17,030,000	\$ -	\$ 155,000	\$ 16,875,000	\$ 165,000
Discount	<u>(138,793)</u>	<u>-</u>	<u>(4,957)</u>	<u>(133,836)</u>	<u>-</u>
Total	<u>\$ 16,891,207</u>	<u>\$ -</u>	<u>\$ 150,043</u>	<u>\$ 16,741,164</u>	<u>\$ 165,000</u>

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.

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

NOTE 4: LONG-TERM DEBT (Continued)

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>
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	210,000	1,207,825	1,417,825
2017 - 2021	1,255,000	5,814,462	7,069,462
2022 - 2026	1,785,000	5,276,597	7,061,597
2027 - 2031	2,555,000	4,492,914	7,047,914
2032 - 2036	3,630,000	3,386,668	7,016,668
2037 - 2041	<u>6,720,000</u>	<u>1,621,470</u>	<u>8,341,470</u>
Total	<u>\$ 16,875,000</u>	<u>\$ 26,750,612</u>	<u>\$ 43,625,612</u>

NOTE 5: 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 - The contribution requirements of 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% of covered salaries. The Academy's contribution rate for calendar years 2009, 2010 and 2011 was 12.95%, 13.85% and 14.75% 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 6). The Academy's contributions to the SDTF for the years ended June 30, 2011, 2010 and 2009 were \$382,808, \$321,298 and \$192,477, respectively, equal to the required contributions for each year.

NOTE 6: 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.

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 6: POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

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 apportionment to the HCTF for the years ended June 30, 2011, 2010 and 2009 was \$27,214, \$24,416 and \$15,702, respectively, equal to the required amounts for each year.

NOTE 7: 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, 2011, 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 taxing powers and imposes spending limitations. 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, 2011, the reserve, in the amount of \$205,000, was reported as restricted fund balance in the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

AMERICAN ACADEMY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2011

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 5,450,889	\$ 5,421,816	\$ 5,473,349	\$ 51,533
District Mill Levy	210,750	207,502	205,220	(2,282)
Contributions	48,100	156,542	162,669	6,127
Tuition and Fees	632,291	759,041	726,163	(32,878)
Community Services	62,000	82,000	93,247	11,247
Investment Income	12,000	16,800	16,282	(518)
Other	83,000	70,518	71,013	495
Total Local Sources	6,499,030	6,714,219	6,747,943	33,724
State Sources				
Capital Construction	75,870	75,303	75,350	47
Federal Sources				
Improving Teacher Quality	7,896	8,023	8,023	-
TOTAL REVENUES	<u>6,582,796</u>	<u>6,797,545</u>	<u>6,831,316</u>	<u>33,771</u>
EXPENDITURES				
Salaries	2,809,418	2,789,532	2,761,347	28,185
Employee Benefits	649,051	625,350	619,803	5,547
Purchased Services	2,574,236	2,745,719	2,793,867	(48,148)
Supplies and Materials	433,614	510,825	465,376	45,449
Property	103,305	179,403	168,553	10,850
Other	5,000	23,288	10,256	13,032
TOTAL EXPENDITURES	<u>6,574,624</u>	<u>6,874,117</u>	<u>6,819,202</u>	<u>54,915</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	8,172	(76,572)	12,114	88,686
FUND BALANCE, Beginning	<u>720,354</u>	<u>966,231</u>	<u>966,231</u>	-
FUND BALANCE, Ending	<u>\$ 728,526</u>	<u>\$ 889,659</u>	<u>\$ 978,345</u>	<u>\$ 88,686</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.