

AXL Charter School

(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)

Financial Statements and Independent Accountants' Reports

June 30, 2011

AXL Charter School
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
June 30, 2011

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
AXL Charter School
and Board of Education
Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado
Aurora, Colorado

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of AXL Charter School (the School), a component unit of the Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado, as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 discretely presented component unit, each major fund and the aggregate remaining fund information of AXL Charter School as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors
AXL Charter School
and Board of Education
Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado

As discussed in Note 14, the previously issued 2010 financial statements have been restated. Our previously issued report on those financial statements dated December 3, 2010, can no longer be relied upon because the previously issued statements were materially misstated and that report is replaced by this report.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2011, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

\s\ **BKD, LLP**

September 14, 2011

AXL Charter School
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2011

As management of AXL Charter School (the School), we offer readers of the School's basic financial statements this narrative and analysis of the financial activities of the School as of and for the year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information provided in the basic financial statements.

Financial Highlights

The year ended June 30, 2011, was the third year of operations for the School. Net assets amounted to \$176,595 and \$306,631 (restated as described in Note 14) as of June 30, 2011 and 2010, respectively. The activities of the School are funded primarily by tax revenue received under the State School Finance Act (the Act). State categorical revenue for the year was \$2,159,840 and the School had two budget amendments during the year. A discrete component unit is presented, the AXL Academy Foundation. The Foundation ended the year with unrestricted net assets of \$947 as it passes all donations through to the school.

Overview of Basic Financial Statements

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

Government-wide Financial Statements

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

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

The statement of activities presents information showing how the School's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flow changes in future fiscal periods (for example, salaries and benefits earned but unpaid as of 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. The School, like other local governments, uses fund accounting 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. The School maintains one governmental fund – its General Fund – and one proprietary fund, the Building Fund.

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Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2011

The School adopts an annual budget for its general fund (which may be amended, as was the case during the year ended June 30, 2011). A budgetary comparison has been provided for the general fund in the basic financial statements to demonstrate compliance with the budget.

Notes to the Financial Statements

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

Government-wide Financial Analysis

As noted previously, net assets may serve over time as a useful indicator of the School's financial position. As of June 30, 2011, the School's net assets exceeded liabilities by \$176,595. Invested in capital assets, net of related debt, was \$93,616 and \$118,611 (restated) as of June 30, 2011 and 2010, respectively. Accordingly, these funds are not available to satisfy general operating expenses of the School. The School has unrestricted net assets of \$19,979 and \$117,750 as of June 30, 2011 and 2010, respectively. The decrease in current and restricted assets relates to a decrease in cash resulting from planned construction expenditures. The small decrease in liabilities of 6% relates to the elimination of grants deferred revenue and increased construction account payable due to the expansion. Net assets as of June 30, 2011 and 2010 were as follows:

	2011	Restated 2010
Assets		
Current assets	\$ 165,020	\$ 305,677
Restricted assets	25,000	175,363
Capital assets, net of accumulated depreciation	825,219	685,477
Other assets	31,105	59,148
Total assets	1,046,344	1,225,665
Liabilities		
Current liabilities	317,991	313,290
Current portion of long-term debt	34,474	79,760
Long-term debt	517,284	526,254
Total liabilities	869,749	919,304
Net Assets		
Invested in capital assets, net of related debt	93,616	118,611
Restricted for TABOR	63,000	70,000
Unrestricted	19,979	117,750
Total net assets	\$ 176,595	\$ 306,361

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Counties of Adams and Arapahoe, Colorado)
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2011

Revenues increased due to increased student enrollment, increased grant and contribution activity, and the addition of a school lunch program. Expenditures also increased for these reasons. Changes in net assets were as follows for the years ended June 30, 2011 and 2010:

	2011	Restated 2010
Revenues		
General revenues		
State categorical revenue	\$ 2,159,840	\$ 1,961,731
Revenue from local sources	45,200	56,983
Other revenue	25,585	-
Unrestricted interest earnings	540	-
Program revenues		
Grant and contribution revenue	680,664	506,827
Charges for services	32,278	49,275
	2,944,107	2,574,816
Expenses		
Functions/programs		
Governmental activities		
Instruction	1,662,945	1,174,102
Support services	1,378,418	1,189,033
Interest on long-term debt	32,510	49,156
	3,073,873	2,412,291
Change in Net Assets	(129,766)	162,525
Net Assets - Beginning, as Restated	306,361	143,836
Net Assets - Ending	\$ 176,595	\$ 306,361

Financial Analysis of the School's Funds

The School has one governmental fund, the General Fund, and one proprietary fund, the Building Corporation fund, a blended component unit reported as an internal service fund (the Building Fund). The General Fund is considered a major fund and is used to account for the School's general operations. During the third year of operations, the School's General Fund ended the fiscal year with a fund balance of \$62,966. The Building Fund was created in May 2008 when AXL Building Corporation obtained financing for the leasing of the building and has entered into an operating lease arrangement with the School for the leasing of the building. The Building Fund ended the fiscal year with net assets of \$1,851.

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Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2011

General Fund Budgetary Highlights

The School budgeted General Fund expenditures of \$3,050,000 for the year ended June 30, 2011. Actual expenditures for the year were \$3,037,677. There were two budget amendments during the year.

Capital Assets and Debt Administration

Capital asset activity is described in Note 3 to the financial statements and involved improvements to the leased facility and equipment purchases.

As described in Note 6 to the financial statements, the School rents its facility from the Building Corporation. The Building Corporation fund rents the facility from an unrelated party.

As described in Note 4 to the financial statements, the Building Corporation incurred additional debt to fund improvements as well as refinance existing debt during the fiscal year.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the School is student enrollment. Funded Pupil Count (FPC) for the 2010-2011 school year was 304.5. The FPC projected for the 2011-2012 school year is 401.5. This is a major factor used in preparing the School's budget for the fiscal year 2011-2012.

Request for Information

This financial report is designed to provide a general overview of the School'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 financial information should be addressed to AXL Charter School, 14100 East Jewell Avenue, Unit 27, Aurora, Colorado 80012.

AXL Charter School
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Statement of Net Assets
June 30, 2011

	<u>Primary Governmental Activities</u>	<u>Component Unit</u>
Assets		
Cash	\$ 123,411	\$ 947
Cash with fiscal agent	25,000	-
Accounts receivable	2,884	-
Related party receivable - APS	14,087	-
Prepaid assets	24,638	-
Capital assets, net of accumulated depreciation		
Building improvements	518,991	-
Office equipment	111,778	-
Construction in progress	194,450	-
Security deposit	20,000	-
Debt issuance costs, net	11,105	-
	<hr/>	<hr/>
Total assets	1,046,344	947
	<hr/>	<hr/>
Liabilities		
Accounts payable	213,102	-
Accrued salaries and benefits	101,743	-
Related party payable - APS	481	-
Deferred revenue	2,665	-
Current portion of long-term debt	34,474	-
Long-term debt	517,284	-
	<hr/>	<hr/>
Total liabilities	869,749	-
	<hr/>	<hr/>
Net Assets		
Invested in capital assets, net of related debt	93,616	-
Restricted for TABOR	63,000	-
Unrestricted	19,979	947
	<hr/>	<hr/>
Total net assets	\$ 176,595	\$ 947
	<hr/>	<hr/>

AXL Charter School
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Statement of Activities
Year Ended June 30, 2011

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Component Unit
Functions/Programs						
Governmental activities						
Instruction	\$ 1,662,945	\$ -	\$ 68,899	\$ -	\$ (1,594,046)	
Support services	1,378,418	32,278	584,343	27,422	(734,375)	
Interest on long-term debt	32,510	-	-	-	(32,510)	
	<u>3,073,873</u>	<u>32,278</u>	<u>653,242</u>	<u>27,422</u>	<u>(2,360,931)</u>	
Total govern- mental activities	\$ 3,073,873	\$ 32,278	\$ 653,242	\$ 27,422	(2,360,931)	
Component Unit	<u>\$ 394,600</u>	<u>\$ -</u>	<u>\$ 395,013</u>	<u>\$ -</u>		<u>\$ 413</u>
General Revenues						
State categorical revenue					2,159,840	-
Revenue from local sources					45,200	-
Other revenue					25,585	-
Unrestricted interest earnings					540	534
					<u>2,231,165</u>	<u>534</u>
Total general revenues					2,231,165	534
Change in Net Assets					<u>(129,766)</u>	<u>947</u>
Net Assets - Beginning, as Previously Reported					138,082	-
Adjustment for Correction of an Error (Note 14)					<u>168,279</u>	<u>-</u>
Net Assets - Beginning, as Restated					<u>306,361</u>	<u>-</u>
Net Assets - Ending					<u>\$ 176,595</u>	<u>\$ 947</u>

AXL Charter School
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Balance Sheet – Governmental Fund – General Fund
June 30, 2011

Assets

Cash	\$	123,398
Cash with fiscal agent		25,000
Accounts receivable		2,884
Related party receivable - APS		14,087
Prepaid assets		24,638
		24,638
Total assets	\$	190,007

Liabilities

Accounts payable	\$	22,152
Deferred revenue		2,665
Accrued salaries and benefits		101,743
Related party payable - APS		481
		481
Total liabilities		127,041

Fund Balance

Nonspendable		
Prepaid assets		24,638
Restricted		
TABOR		63,000
Unassigned (Deficit)		(24,672)
		(24,672)

Total fund balance		62,966
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Total liabilities and fund balance	\$	190,007
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Total fund balance for governmental fund	\$	62,966
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Amounts reported for governmental activities in the statement of net assets is different because:

Internal service funds are used by management to charge the cost of certain activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets

1,851

Equipment is not included in the governmental fund statements but is included in the statement of net assets

111,778

Net assets of governmental activities	\$	176,595
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AXL Charter School
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Statement of Revenues, Expenditures, and Changes in
Fund Balance – Governmental Fund – General Fund
Year Ended June 30, 2011

Revenues	
State categorical revenue	\$ 2,159,840
Revenue from local sources	45,200
Charges for services	32,278
Other revenue	25,585
Grant and contribution revenue	<u>680,664</u>
Total revenues	<u>2,943,567</u>
Expenditures	
Current	
Instruction	1,662,945
Support services	1,317,875
Capital outlay	<u>90,743</u>
Total expenditures	<u>3,071,563</u>
Deficiency of Expenditures Over Revenues	(127,996)
Other Financing Sources	
Transfer in	<u>175,890</u>
Net Change in Fund Balance	<u>47,894</u>
Fund Balance - Beginning	<u>15,072</u>
Fund Balance - Ending	<u><u>\$ 62,966</u></u>
Net changes in fund balance - governmental fund	\$ 47,894
Amounts reported for governmental activities in the statement of activities are different because:	
Internal service funds are used by management to charge the cost of certain activities to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities	(109,931)
Depreciation does not require the use of current financial resources and, therefore, is not reported in the funds	<u>(67,729)</u>
Change in net assets of governmental activities	<u><u>\$ (129,766)</u></u>

AXL Charter School
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Statement of Net Assets – Proprietary Fund – Building Fund
Year Ended June 30, 2011

	Governmental Activities - Internal Service Fund
Assets	
Cash	\$ 13
Capital assets, net of accumulated depreciation	
Building improvements	518,991
Construction in progress	194,450
Security deposit	20,000
Debt issuance costs	11,105
Total assets	744,559
Liabilities	
Current Liabilities	
Accounts payable	190,950
Current portion of notes payable	34,474
Total current liabilities	225,424
Noncurrent Liabilities	
Notes payable	517,284
Total liabilities	742,708
Net Assets (Deficit)	
Invested in capital assets, net of related debt	(18,162)
Unrestricted	20,013
Total net assets	\$ 1,851

AXL Charter School
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Statement of Revenues, Expenses, and Changes in
Fund Net Assets – Proprietary Fund – Building Fund
Year Ended June 30, 2011

	Governmental Activities - Internal Service Fund
Operating Revenues	
Charges for services	\$ 391,274
Operating Expenses	
Rent expense	290,348
Depreciation expense	72,438
Total operating expenses	362,786
Operating income	28,488
Nonoperating Revenues (Expenses)	
Investment earnings	540
Interest expense	(32,510)
Amortization expense	(39,518)
Total nonoperating revenues (expenses)	(71,488)
Loss Before Capital Contributions and Transfers	(43,000)
Capital contributions	108,959
Transfer out	(175,890)
Change in Net Assets	(109,931)
Net Assets (Deficit) - Beginning, as Previously Reported	(56,497)
Adjustment for Correction of an Error (Note 14)	168,279
Net Assets - Beginning, as Restated	111,782
Net Assets - Ending	\$ 1,851

AXL Charter School
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Statement of Cash Flows – Proprietary Fund – Building Fund
Year Ended June 30, 2011

	Governmental Activities - Internal Service Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 391,274
Payments to suppliers	(290,348)
	100,926
Cash Flows from Noncapital Financing Activities	
Transfers to General Fund	(175,890)
	(175,890)
Cash Flows from Capital and Related Financing Activities	
Proceeds from issuance of capital debt	551,770
Debt issuance costs paid	(11,475)
Principal payments on capital debt	(609,096)
Interest payments on capital debt	(32,125)
	(100,926)
Cash Flows from Investing Activities	
Investment earnings	540
Change in Cash and Cash Equivalents	(175,350)
Beginning, Cash and Cash Equivalents	175,363
Ending, Cash and Cash Equivalents	\$ 13
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating income	\$ 28,488
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	72,438
	72,438
Net cash provided by operating activities	\$ 100,926
Noncash Capital and Related Financing Activities	
Capital contributions	\$ 108,959
Accounts payable incurred for capital assets	190,950
Interest on note payable rolled into principal	3,070
Amortization of debt issuance costs	39,518

AXL Charter School
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Statement of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – General Fund
Year Ended June 30, 2011

	Original Budget	Final Budget	Budgetary Actual	Variance Positive (Negative)
Revenues				
State of Colorado - per pupil funding	\$ 2,366,500	\$ 2,145,206	\$ 2,152,687	\$ 7,481
Federal grant	131,237	156,027	178,419	22,392
State grant revenue	27,237	33,486	36,206	2,720
Revenue from local sources	155,020	87,285	77,480	(9,805)
Other	-	165,731	200,000	34,269
Private grant and contribution revenue	<u>125,473</u>	<u>462,265</u>	<u>474,665</u>	<u>12,400</u>
Total revenues	<u>2,805,467</u>	<u>3,050,000</u>	<u>3,119,457</u>	<u>69,457</u>
Expenditures				
Current				
Instruction	1,566,795	1,484,622	1,567,487	(82,865)
Support services	1,234,780	1,439,286	1,311,248	128,038
Capital outlay	<u>3,892</u>	<u>126,092</u>	<u>158,942</u>	<u>(32,850)</u>
Total expenditures	<u>2,805,467</u>	<u>3,050,000</u>	<u>3,037,677</u>	<u>12,323</u>
Excess of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	81,780	<u>\$ 57,134</u>
Funds Available - Beginning			<u>15,072</u>	
Funds Available - Ending			96,852	
Reconciliation of Funds Available to U.S. GAAP Fund Balance				
Less: Amount resulting from change in teacher contracts			<u>33,886</u>	
Fund Balance (U.S. GAAP Basis) - Ending			<u>\$ 62,966</u>	

AXL Charter School
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Notes to the Financial Statements
June 30, 2011

Note 1: Summary of Significant Accounting Policies

The accounting policies of AXL Charter School (the School) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The year ended June 30, 2011, was the School's third year of operations. Following is a summary of the more significant accounting policies.

Reporting Entity

The School was organized as a Colorado Nonprofit Corporation on November 28, 2005, for the purpose of entering into one or more charter school contracts with Colorado school districts. The School is a component unit of the Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado (the Aurora School District). It is the administrative position of the Colorado Department of Education that a charter school has the same relationship to a public school district as does any other school program or school building within a district. A charter school is part of a local school district that is a political subdivision of the State of Colorado. In accordance with Colorado state statute, the Aurora School District has approved the charter of the School for a three-year period. At the end of its original charter period, the School will seek renewal of its charter in accordance with procedures set forth in the state law and school district policy/regulations. As of June 30, 2011 the Aurora School District has approved a one-year extension of the School's charter.

As required by accounting principles generally accepted in the United States of America, these basic financial statements present the financial activities of the School and its component units. A component unit is a legally separate organization for which the School is financially accountable or that provide services to the School. The School follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining the governmental activities, organizations, and functions that should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

AXL Building Corporation leases a building that houses the School (Note 6) and has entered into a sublease arrangement with the School. AXL Building Corporation is reported as an internal service fund (Building Fund) blended component unit. Separate financial statements are not prepared.

AXL Charter School
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Counties of Adams and Arapahoe, Colorado)
Notes to the Financial Statements
June 30, 2011

AXL Academy Foundation (the Foundation) was incorporated in 2007 as a non-profit organization under Section 501(c)(3) of the Internal Revenue Code as a public charity. The Foundation is reported as a discretely presented component unit as the resources of the Foundation are used by or for the benefit of the School. Separate financial statements are not prepared.

Under current GASB pronouncements, the School has been determined to be a component unit of the Aurora School District – the primary government. As such, the School’s financial results are included in the Aurora School District’s Comprehensive Annual Financial Report.

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements (*i.e.*, the statement of net assets and the statement of activities) report information on all of the School’s financial activities. Governmental activities are normally supported by taxes and intergovernmental revenue. Business-type activities rely to a significant extent on fees and charges for support. The School has no business-type activities. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. The effect of interfund activity has been removed from the government-wide statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, the operating statement presents increases and decreases in net current assets, and unassigned fund balance is a measure of available spendable resources. This means that only current liabilities are generally included on the governmental fund balance sheet.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Measurable means the amount of the transaction can be determined; available means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred and expected to be paid with current available resources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both 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 business-type activities and enterprise funds, subject to this same limitation. The School has elected not to follow subsequent private-sector guidance.

AXL Charter School
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Notes to the Financial Statements
June 30, 2011

The Foundation reports under FASB standards, including Accounting Standards Codification 958-205, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Modifications for these differences have been made to the Foundation's financial information as presented in the School's financial statements.

Program revenues are those that are derived directly from the program itself. Program revenues are divided into three groups: charges for services, program-specific operating grants and contributions, and program-specific capital grants and contributions. Charges for services are exchange or exchange like transactions including fees. Program-specific grants and contributions include revenues arising from mandatory and voluntary nonexchange transactions with other governments, private organizations or individuals where monies are required by the grantor/contributor to be used for a particular program or activity. Program-specific grants and contributions that are required to be used to purchase or construct capital asset are shown in the capital grants and contributions column.

General revenues include state per pupil funding under the School Finance Act reported as state categorical revenue, revenues received from local sources and unrestricted investment earnings.

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. The principal operating revenues of the internal service funds are charges for rent related to the lease of the building. Operating expenses for internal service funds include rent expense and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Fund Accounting

The accounts of the School are organized on the basis of funds. The operations of the General Fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures. Resources are allocated to and accounted for in the General Fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The major fund presented in the accompanying basic financial statements is the General Fund. The General Fund is used to account for the School's general operational governmental activities.

The AXL Building Corporation (Building Fund) was created in May 2008. It was created to obtain financing for tenant improvements and lease the building used by the School, which is subleased under an operating lease arrangement between the School and the Building Fund. The Building Fund is recorded as a blended component unit under the provisions of GASB 14, *The Financial Reporting Entity*. Lease payments between the School and the Building Fund are treated as rental expense for the School and as lease income for the Building Fund.

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Compliance

Budget

An annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for the amount resulting from a change in structure of the teacher contracts.

The School prepares the annual budget and presents it to its Board and to the Board of Education of the Aurora School District for approval. During the year ended June 30, 2011, one original and one amended budget were presented to and approved by both Boards for the General Fund. The final amended budget was approved by the School's Board; however, due to timing the amendment could not be provided to the Aurora School District for approval prior to year-end. Budgets are required by state statutes for all governmental funds. Total expenditures for each fund may not legally exceed the amount appropriated.

Deficit Net Assets

As of June 30, 2011, the General Fund had deficit unassigned fund balance in the amount of \$24,672. The General Fund deficit primarily is the result of required restricted fund balance. The School will continue to closely monitor the General Fund.

Assets, Liabilities and Equity

Cash

The definition of cash for purposes of the statement of cash flows is restricted and/or unrestricted cash held in checking accounts and money market accounts.

Cash with Fiscal Agent

In January 2010, the School modified its charter school contract with the Aurora School District to expand its special education capacity. Under the agreement, the School and the Aurora School District are required to maintain a segregated account in the amount of \$100,000 that is funded 50-50 to be used to respond to special education due process and Section 504 hearing requests. The School is required to contribute \$25,000 in fiscal year 2010-11 and fiscal year 2011-12.

Capital Assets

Capital assets are utilized for general operations and are capitalized at cost if purchased or fair market value if donated, at the time of purchase or donation. Capital assets are reported in the government-wide financial statements and the internal services fund.

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The monetary threshold for capitalization of assets is \$1,000. Leasehold improvements financed by the Building Corporation are being depreciated over the life of the lease which is 10 years. Leasehold improvements under operating leases financed by the landlord through the use of a tenant allowance have not been capitalized. The School's capital assets are depreciated using the straight-line method over the estimated useful lives of the capital assets as follows:

Assets	Years
Technology equipment	3
Furniture and fixtures	5
Playground	7

Accrued Salaries and Benefits/Compensated Absences

These amounts represent salaries and benefits earned by School employees, but unpaid at year-end. Each eligible employee earns four sick days and four personal days per year. School policy does not allow employees to carry over unused time to the following year. Unused sick and personal days are not paid upon resignation or termination.

Revenue and Expenditures

Revenue for the governmental funds are recorded when they are determined to be both measurable and available. Generally, State of Colorado per pupil funding, donations and other income are recognized when received. Grants are recognized when qualifying expenditures are incurred. Expenditures for the governmental funds are recorded when the related fund liability is incurred and expected to be paid with current available resources. The School does not utilize encumbrance accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

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Notes to the Financial Statements
June 30, 2011

Note 2: Cash

Investment Policy and Compliance

The School's investment policy conforms to state statute for governmental entities. All accounts established at financial institutions should, in the aggregate, total less than \$250,000 so as to provide maximum insurance coverage provided by the FDIC. If, however, deposits exceed the \$250,000 insurance coverage level, the excess must be (1) fully collateralized at face value with government securities, (2) separately segregated in the School's name, and (3) held at a Federal Reserve Bank or another depository.

Colorado State statutes govern the School's deposit of cash. The Colorado Public Deposit Protection Act (PDPA) requires the School to make deposits only in eligible public depositories as defined by the regulators. Amounts on deposits in excess of federal insurance levels must be collateralized. The PDPA requires the eligible depository with public deposits in excess of the federal insurance levels to create single institution collateral pools for all public funds. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group. Up to \$250,000 of daily deposit balances on hand at banking institutions is covered by federal depository insurance. Under the provision of GASB 40, *Deposit and Investment Risk Disclosure – an amendment of GASB Statement No. 3*, deposits are not deemed exposed to custodial credit risk if they are collateralized with securities held by the pledging financial institutions under PDPA, as discussed above. Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned. As of June 30, 2011, the School had no deposits deemed to be exposed to custodial credit risk.

	Carrying Value	Bank Balance
Checking	\$ 147,123	\$ 224,788

Additionally, at June 30, 2011 and 2010, the School had cash on hand of \$100 and \$1,175 invested in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds. The pool is regulated by the Colorado Securities Commissioner. The pool operates similar to a money market fund and each share is equal in value to \$1.00. Investments of the pool consist of U.S. Treasury bills, notes and note strips, and repurchase agreements collateralized by U.S. Treasury securities. A designated custodial bank provides safekeeping and depository services to the pool in connection with the direct investment and withdrawal functions of the pool. Substantially all securities owned by the pool are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the specific pool. COLOTRUST is rated AAA by Standard and Poor's.

The Building Fund has deposits with a carrying value and bank balance of \$13 as of June 30, 2011.

AXL Charter School
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Counties of Adams and Arapahoe, Colorado)

Notes to the Financial Statements
June 30, 2011

Note 3: Capital Assets

As of June 30, 2011, capital assets of the School consisted of the following:

	July 1, 2010	Additions	Deletions	June 30, 2011
Governmental activities				
Building improvements	\$ 597,778	\$ 136,519	\$ 51,060	\$ 683,237
Office equipment	267,005	-	-	267,005
Building improvement CIP	-	194,450	-	194,450
Less: accumulated depreciation	(179,306)	(140,167)	-	(319,473)
Capital assets, net	<u>\$ 685,477</u>	<u>\$ 190,802</u>	<u>\$ 51,060</u>	<u>\$ 825,219</u>

Note 4: Notes Payable

Long-term debt activity for the fiscal year was as follows:

	July 1, 2010	Additions	Deletions	June 30, 2011	Amounts Due Within One Year
Note payable - Tatonka	\$ 606,014	\$ -	\$ 606,014	\$ -	\$ -
Note payable - CSDC	-	554,840	3,082	551,758	34,474
Total	<u>\$ 606,014</u>	<u>\$ 554,840</u>	<u>\$ 609,096</u>	<u>\$ 551,758</u>	<u>\$ 34,474</u>

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The original Building Fund notes payable issued to fund the cost of leasehold improvements were refinanced during the year. The new Building Fund note payable has a maximum principal amount of \$875,000 of which \$551,770 was provided at closing and \$323,230 is to be advanced on July 30, 2011 to cover additional leasehold improvements associated with the middle school expansion. Per the loan repayment schedule, the June 30, 2011 interest payment of \$3,070 was added to the outstanding principal balance. The interest rate on the new note payable is 6.5%. Principal and interest payments are due monthly through June 30, 2016. As of June 30, 2011, remaining payments under the note are as follows:

<u>Fiscal Year</u>	<u>Principal Due</u>	<u>Interest</u>	<u>Total Payment</u>
2012	\$ 34,474	\$ 54,945	\$ 89,419
2013	74,495	52,440	126,935
2014	79,484	47,451	126,935
2015	84,808	42,128	126,936
2016	<u>601,727</u>	<u>36,448</u>	<u>638,175</u>
	874,988	<u>\$ 233,412</u>	<u>\$ 1,108,400</u>
Less subsequent proceeds	<u>323,230</u>		
Debt outstanding at June 30, 2011	<u>\$ 551,758</u>		

Note 5: Accrued Salaries and Benefits

The salaries and benefits earned but unpaid as of June 30, 2011 total \$101,743. Accordingly, the accrued salaries and benefits are reflected as a liability in the accompanying basic financial statements.

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Notes to the Financial Statements
June 30, 2011

Note 6: Leases

The Building Fund entered into a lease agreement with an unrelated party, Preferred Properties, Ltd., which commenced on April 4, 2008 and expires on June 30, 2018. The lease agreement allows for expansion as the School expands. The School then entered into an operating lease arrangement with the Building Fund for the School facilities. The total lease payments to external parties for fiscal year 2011 were \$290,348 including common area maintenance (CAM) charges of \$38,299. Future commitments under the lease are as follows:

Fiscal Year	Total Payment
2012	\$ 252,049
2013	370,446
2014	480,518
2015	480,518
2016	504,024
2017-2018	1,336,294
	\$ 3,423,849

Note 7: Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries commercial insurance for risks of loss, including liability, property, errors and omissions, workers' compensation, fidelity (employee dishonesty), fiduciary, and abuse or molestation. There have been no changes in coverage from the prior period and no insurance claims resulting from these risks for fiscal years 2011, 2010 or 2009.

Note 8: Contingent Liabilities

Article X, Section 20 of the Colorado Constitution (TABOR Amendment) requires state and local governments to establish an emergency reserve, limits spending to a predefined benchmark and places restrictions on multiple fiscal year debt. The TABOR Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with the provisions of TABOR for the year ended June 30, 2011.

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Note 9: Interfund Transfers

Transfer Out	Transfer In General Fund
Building Fund	\$ 175,890

Restricted cash reserves previously held in the building fund relating to the Tatonka note payable were no longer required and were transferred to the general fund to use for operational purposes.

Note 10: Defined Benefit Pension Plan

Plan Description

The School contributes to the Combined State and School Division Trust Fund (CSSDTF), a cost sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). CSSDTF provides retirement and disability, annual increases, and death benefits for members or their beneficiaries. All employees of the School are members of CSSDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the Colorado State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for CSSDTF. That report may be obtained by writing to PERA of Colorado, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303.832.9550 or 1.800.759.7372.

Basis of Accounting for CSSDTF

The financial statements of CSSDTF are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. CSSDTF plan investments are presented at fair value except for short-term investments, which are recorded at cost, which approximates fair value.

AXL Charter School
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Notes to the Financial Statements
June 30, 2011

Funding Policy

Plan members and the School are required to contribute to CSSDTF at a rate set by state statute. The contribution requirements of plan members and the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. For the fiscal years ended June 30, 2011, 2010 and 2009, the contribution rate for members was 8% and for the School was 14.75% effective January 1, 2011 through June 30, 2011, 13.85% effective January 1, 2010 through December 31, 2010 and 12.95% effective January 1, 2009 through December 31, 2009. The School's contributions to SSDTF for the years ended June 30, 2011, 2010 and 2009 were \$173,705, \$142,940 and \$98,948, respectively, which equaled the required contributions.

Note 11: Postemployment Health Care Benefits

Plan Description

The School contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple employer postemployment health care plan administered by PERA. 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 HCTF benefit provisions to the Colorado State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for HCTF. That report may be obtained by writing to PERA of Colorado, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303.832.9550 or 1.800.759.7372.

Basis of Accounting for HCTF

The financial statements of HCTF are prepared using the accrual basis of accounting. Member and employer contributions are recognized as revenue in the period in which the employer pays compensation to the member. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. HCTF plan investments are presented at fair value except for short-term investments, which are recorded at cost, which approximates fair value.

Funding Policy

For the fiscal years ended June 30, 2011, 2010 and 2009, the School was required to contribute at a rate of 1.02% for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contribution to HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's contributions to HCTF for the years ended June 30, 2011, 2010 and 2009 were \$13,336, \$10,897 and \$8,073, respectively, which equaled the required contributions.

AXL Charter School
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Counties of Adams and Arapahoe, Colorado)

Notes to the Financial Statements
June 30, 2011

Note 12: Related Party Transactions

State categorical revenue consists of cash payments passed through the Aurora School District totaling \$2,159,840 for the year ended June 30, 2011. Under state statute, the Aurora School District may charge the charter schools for various services provided by the Aurora School District. For the fiscal year ended June 30, 2011, the School recorded expenses of \$216,036 relating to such services. One of the School's Board members is an employee of the lender holding the outstanding note payable described in Note 4.

Note 13: Invested in Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt, is comprised of the following as of June 30, 2011:

	Governmental Activities	Building Fund
Total capital assets, net of accumulated depreciation	\$ 825,219	\$ 713,441
Less: Notes payable	(551,758)	(551,758)
Plus: Debt issuance costs	11,105	11,105
Less: Accounts payable incurred for capital asset purchases	(190,950)	(190,950)
	\$ 93,616	\$ (18,162)

Note 14: Restatement of Prior Year Financial Statements

Fiscal year 2010 has been restated to remove deferred rent in the amount of \$168,279 as the AXL Building Corporation re-evaluated the lease and determined it is not incentive based and thus rent should not be straight-lined as prescribed by GASB 13, *Accounting for Operating Leases with Scheduled Rent Increases*. The restatement increased fiscal year 2011 beginning net assets by \$168,279 and previously reported fiscal year 2010 changes in net assets and beginning net assets by \$75,924 and \$92,355, respectively, for both the Building Fund and Governmental Activities.

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Notes to the Financial Statements
June 30, 2011

Note 15: Adoption of Accounting Principle

During fiscal year ended June 30, 2011, the School adopted Governmental Accounting Standards Board Statement (GASB) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 requires the School to classify fund balance based primarily on the extent to which the School is bound to honor constraints on how the funds can be spent. GASB 54 also clarifies the definitions of governmental fund types. Adoption of GASB 54 had no effect on beginning fund balance or change in fund balance.

**Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Directors
AXL Charter School
and Board of Education
Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado
Aurora, Colorado

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of AXL Charter School (the School), a component unit of the Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado, as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 14, 2011, which contained an explanatory paragraph related to a restatement for the correction of an error. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness on the School's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Board of Directors
AXL Charter School
and Board of Education
Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including the Colorado Department of Education's *Financial Policies and Procedures Handbook*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, the Board of Education of Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado, management and others within the School and is not intended to be and should not be used by anyone other than these specified parties.

\s\ **BKD, LLP**

September 14, 2011