

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' Report

June 30, 2010

AXL Charter School
June 30, 2010

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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 28-J of the Counties of Adams and Arapahoe, Colorado
Aurora, Colorado

We have audited the accompanying financial statements of the governmental activities, 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, 2010, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of AXL Charter School as of June 30, 2010, 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.

As discussed in Note 13, during the year ended June 30, 2010, the School changed its method of accounting for tenant improvements by retroactively restating prior years' financial statements.

Board of Directors
AXL Charter School
and Board of Education
Joint School District 28-J of the Counties of Adams and Arapahoe, Colorado

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.

BKD, LLP

December 3, 2010

AXL Charter School

Management's Discussion and Analysis

As of and for the Year Ended June 30, 2010

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, 2010. 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, 2010, was the second year of operations for the School. Net assets amounted to \$138,082 and \$51,481 (restated as described in Note 13) as of June 30, 2010 and 2009, 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 \$1,961,731 and the School had two budget amendments during the year.

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.

The School adopts an annual budget for its general fund (which may be amended, as was the case during the year ended June 30, 2010). A budgetary comparison has been provided for the general fund in the basic financial statements to demonstrate compliance with the budget.

AXL Charter School
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2010

Notes to Basic 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, 2010, the School's net assets exceeded liabilities by \$138,082. Invested in capital assets, net of related debt, was \$118,611 and \$134,876 (restated) as of June 30, 2010 and 2009, respectively. Accordingly, these funds are not available to satisfy general operating expenses of the School. The School has a deficit in unrestricted net assets of (\$50,529) and (\$131,496) as of June 30, 2010 and 2009, respectively. The increase in current and restricted assets relates to an increase in cash resulting from improved cash flow from operations and the increase in current liabilities. The increase in current liabilities relates to deferred revenue in which cash from grant awards was received prior to the related grant expenditures being made. Net assets as of June 30, 2010 and 2009 were as follows:

	2010	Restated 2009
Assets		
Current assets	\$ 305,677	\$ 130,981
Restricted assets	175,363	-
Capital assets, net of accumulated depreciation	685,477	525,432
Other assets	59,148	9,657
Total assets	1,225,665	666,070
Liabilities		
Current liabilities	313,290	127,021
Other liabilities	168,279	92,355
Current portion of long-term debt	79,760	88,381
Long-term debt	526,254	306,832
Total liabilities	1,087,583	614,589
Net Assets (Deficit)		
Invested in capital assets, net of related debt	118,611	134,876
Restricted for TABOR	70,000	48,101
Unrestricted (deficit)	(50,529)	(131,496)
Total net assets	\$ 138,082	\$ 51,481

AXL Charter School
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2010

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, 2010 and 2009:

	2010	Restated 2009
Revenues		
General revenues		
State categorical revenue	\$ 1,961,731	\$ 1,471,681
Revenue from local sources	56,983	33,416
Program revenues		
Grant and contribution revenue	506,827	337,278
Charges for services	49,275	-
Total revenues	2,574,816	1,842,375
Expenses		
Functions/programs		
Governmental activities		
Instruction	1,174,102	887,234
Support services	1,264,957	949,810
Interest on long-term debt	49,156	19,657
Total governmental activities	2,488,215	1,856,701
Change in Net Assets	86,601	(14,326)
Net Assets - Beginning, as Restated	51,481	65,807
Net Assets - Ending	\$ 138,082	\$ 51,481

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 second year of operations, the School's General Fund ended the fiscal year with a fund balance of \$15,072. 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 deficit net assets of \$56,497.

AXL Charter School
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2010

General Fund Budgetary Highlights

The School budgeted General Fund expenditures of \$2,632,248 for the year ended June 30, 2010. Actual expenditures for the year were \$2,579,086. 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 refinanced 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 2009-2010 school year was 263. The FPC projected for the 2010-2011 school year is 302. This is a major factor used in preparing the School's budget for the fiscal year 2010-2011.

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, CO 80012.

AXL Charter School
Statement of Net Assets
June 30, 2010

	<u>Primary Government Governmental Activities</u>
Assets	
Cash	\$ 296,539
Restricted cash	175,363
Accounts receivable	5,938
Prepaid assets	3,200
Capital assets, net of accumulated depreciation	
Building improvements	505,970
Office equipment	179,507
Security deposit	20,000
Debt issuance costs, net	39,148
Total assets	<u>1,225,665</u>
Liabilities	
Accounts payable	95,849
Accrued salaries and benefits	38,160
Deferred rent	168,279
Accrued interest	2,685
Related party payable - APS	1,068
Deferred revenue	175,528
Current portion of long-term debt	79,760
Long-term debt	526,254
Total liabilities	<u>1,087,583</u>
Net Assets (Deficit)	
Invested in capital assets, net of related debt	118,611
Restricted for TABOR	70,000
Unrestricted	(50,529)
Total net assets	<u>\$ 138,082</u>

AXL Charter School
Statement of Activities
Year Ended June 30, 2010

	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		Governmental Activities
Functions/Programs					
Governmental activities					
Instruction	\$ 1,174,102	\$ -	\$ -	\$ -	\$ (1,174,102)
Support services	1,264,957	49,275	478,424	28,403	(708,855)
Interest on long-term debt	49,156	-	-	-	(49,156)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total governmental activities	<u>\$ 2,488,215</u>	<u>\$ 49,275</u>	<u>\$ 478,424</u>	<u>\$ 28,403</u>	<u>(1,932,113)</u>
General Revenues					
State categorical revenue					1,961,731
Revenue from local sources					<u>56,983</u>
					<u>2,018,714</u>
Change in Net Assets					86,601
Net Assets - Beginning, as Previously Reported					30,169
Adjustment for Change in Accounting Principle					<u>21,312</u>
Net Assets - Beginning, as Restated					<u>51,481</u>
Net Assets - Ending					<u>\$ 138,082</u>

AXL Charter School
Balance Sheet – Governmental Fund – General Fund
June 30, 2010

Assets

Cash	\$	296,539
Security deposit		20,000
Accounts receivable		5,938
Prepaid assets		<u>3,200</u>
Total assets	\$	<u><u>325,677</u></u>

Liabilities

Accounts payable	\$	95,849
Deferred revenue		175,528
Accrued salaries and benefits		38,160
Related party payable - APS		<u>1,068</u>
Total liabilities		<u>310,605</u>

Fund Balance

Reserved for TABOR		70,000
Reserved for prepaids and other assets		23,200
Unrestricted (deficit)		<u>(78,128)</u>
Total fund balance		<u>15,072</u>
Total liabilities and fund balance	\$	<u><u>325,677</u></u>

Total fund balance for governmental fund	\$	15,072
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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		(56,497)
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Capital assets are not included in the governmental fund statements but are included in the statement of net assets		<u>179,507</u>
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Net assets of governmental activities	\$	<u><u>138,082</u></u>
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AXL Charter School
Statement of Revenues, Expenditures, and Changes in
Fund Balance – Governmental Fund – General Fund
Year Ended June 30, 2010

Revenues	
State categorical revenue	\$ 1,961,731
Revenue from local sources	56,983
Other revenue	49,275
Grant and contribution revenue	<u>506,827</u>
Total revenues	<u>2,574,816</u>
Expenditures	
Current	
Instruction	1,272,812
Support services	1,234,050
Capital outlay	<u>72,224</u>
Total expenditures	<u>2,579,086</u>
Excess of Expenditures over Revenues	(4,270)
Fund Balance - Beginning	<u>19,342</u>
Fund Balance - Ending	<u><u>\$ 15,072</u></u>
Net changes in fund balance - governmental fund	\$ (4,270)
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	69,097
Certain expenditures for capital outlay (\$72,224) are included in the governmental fund statements while depreciation expense (\$50,450) is included in the governmental activities statements	<u>21,774</u>
Change in net assets of governmental activities	<u><u>\$ 86,601</u></u>

AXL Charter School
Statement of Net Assets – Proprietary Fund –
Building Fund
Year Ended June 30, 2010

	<u>Governmental Activities - Internal Service Fund</u>
Assets	
Capital assets	
Building improvements	\$ 505,970
Restricted cash	175,363
Debt issuance costs	<u>39,148</u>
Total assets	<u>720,481</u>
Liabilities	
Current Liabilities	
Current portion of notes payable	79,760
Deferred rent	168,279
Accrued interest	<u>2,685</u>
Total current liabilities	<u>250,724</u>
Noncurrent Liabilities	
Notes payable	<u>526,254</u>
Total liabilities	<u>776,978</u>
Net Assets (Deficit)	
Invested in capital assets, net of related debt (deficit)	(60,896)
Unrestricted	<u>4,399</u>
Total net assets (deficit)	<u>\$ (56,497)</u>

AXL Charter School
Statement of Revenues, Expenses, and Changes in
Fund Net Assets – Proprietary Fund – Building Fund
Year Ended June 30, 2010

	Governmental Activities - Internal Service Fund
Operating Revenues	
Charges for services	\$ 368,865
Operating Expenses	
Rent expense	350,499
Depreciation expense	63,347
Total operating expenses	413,846
Operating loss	(44,981)
Nonoperating Revenues (Expenses)	
Contribution from General Fund	175,363
Interest expense	(49,519)
Amortization expense	(11,766)
Total nonoperating revenues (expenses)	114,078
Change in Net Assets	69,097
Net Assets (Deficit) - Beginning, as Previously Reported	(146,906)
Adjustment for Change in Accounting Principle	21,312
Net Asset (Deficit) - Beginning, as Restated	(125,594)
Net Assets (Deficit) - Ending	\$ (56,497)

AXL Charter School
Statement of Cash Flows – Proprietary Fund – Building Fund
Year Ended June 30, 2010

	Governmental Activities - Internal Service Fund
Cash flows from operating activities	
Receipts from customers	\$ 358,865
Payments to suppliers	(274,575)
Net cash provided by operating activities	84,290
Cash flows from noncapital financing activities	
Contribution from General Fund	175,363
Cash flows from capital and related financing activities	
Proceeds from issuance of capital debt	603,163
Principal payments on capital debt	(635,237)
Interest payments on capital debt	(52,216)
Net cash used in capital and related financing activities	(84,290)
Change in cash and cash equivalents	175,363
Beginning, cash and cash equivalents	-
Ending, cash and cash equivalents	\$ 175,363
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (44,981)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation and amortization	63,347
Changes in operating assets and liabilities	
Interfund payable	(10,000)
Deferred rent	75,924
Net cash provided by operating activities	\$ 84,290
Noncash capital and related financing activities	
Acquisition of capital assets through issuance of debt including debt issuance costs	\$ 201,618
Amortization of debt issuance costs	\$ 11,766

AXL Charter School
Statement of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – General Fund
Year Ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues				
State of Colorado - per pupil funding	\$ 2,032,110	\$ 2,037,110	\$ 1,961,731	\$ (75,379)
Federal grant	-	40,000	181,903	141,903
State grant revenue		-	25,933	25,933
Revenue from local sources	25,000	-		
Other	-	57,442	56,983	(459)
Private grant and contribution revenue	15,000	-	49,275	34,275
	<u>380,188</u>	<u>587,786</u>	<u>298,991</u>	<u>(288,795)</u>
Total revenues	<u>2,437,298</u>	<u>2,737,338</u>	<u>2,574,816</u>	<u>(162,522)</u>
Expenditures				
Current				
Instruction	1,257,424	1,273,500	1,272,812	688
Support services	1,044,817	1,259,748	1,234,050	25,698
Capital outlay	30,007	99,000	72,224	26,776
	<u>2,332,248</u>	<u>2,632,248</u>	<u>2,579,086</u>	<u>53,162</u>
Total expenditures	<u>2,332,248</u>	<u>2,632,248</u>	<u>2,579,086</u>	<u>53,162</u>
Excess of Revenues over Expenditures	<u>\$ 105,050</u>	<u>\$ 105,090</u>	<u>(4,270)</u>	<u>\$ (109,360)</u>
Fund Balance - Beginning			<u>19,342</u>	
Fund Balance - Ending			<u>\$ 15,072</u>	

AXL Charter School
Notes to the Financial Statements
June 30, 2010

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, 2010, was the School's second 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 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 blended component unit, AXL Building Corporation, an entity for which the School is considered to be financially accountable. 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 leased 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.

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.

AXL Charter School
Notes to the Financial Statements
June 30, 2010

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. State per pupil funding under the School Finance Act is reported as a general revenue as state categorical revenue.

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 unreserved 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.

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.

AXL Charter School
Notes to the Financial Statements
June 30, 2010

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.

Compliance

Budget

An annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America, including accrued salaries and benefits.

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, 2010, one original and two amended budgets were presented to and approved by both Boards for the General Fund. Budgets are required by state statutes for all governmental funds. Total expenditures for each fund may not legally exceed the amount appropriated.

Net Assets Restricted for TABOR/Fund Balance Reserved for TABOR

Article X, Section 20 of the Colorado Constitution (TABOR Amendment) requires restrictions of net assets and reservations of fund balance for an emergency reserve equal to 3% of the General Fund's applicable operating revenues less transfers, federal funding, and donations. While the amount required to be reserved/restricted under TABOR is presented as such in the financial statements, the result is a deficit unrestricted net assets and therefore the School may not be in compliance with this requirement.

AXL Charter School
Notes to the Financial Statements
June 30, 2010

Capital Reserve

A minimum of \$293 per pupil must be appropriated to capital projects and/or risk related activities as prescribed by state statute. The School's capital reserve requirement was \$77,059 the total of which was expended on the building lease payments for the fiscal year ended June 30, 2010.

Deficit Net Assets

As of June 30, 2010 the General Fund had deficit unrestricted net assets in the amount of \$78,128 and the Building Fund had deficit net assets of \$56,497. The General Fund deficit is primarily the result of required reserved fund balances. The Building Fund deficit primarily relates to non cash items such as depreciation and straight-line rent. The School will continue to closely monitor both Funds.

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.

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.

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 five sick days and two 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.

AXL Charter School
Notes to the Financial Statements
June 30, 2010

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.

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.

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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, 2010, the School had not notified its financial institutions that they should be included as a governmental entity and therefore had deposits that were in excess of the FDIC insurance resulting in \$48,211 in uninsured and uncollateralized deposits exposed to custodial credit risk.

	Carrying Value	Bank Balance
Checking	\$ 295,366	\$ 298,211

At June 30, 2010 and 2009, the School had \$1,173 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.

Note 3: Capital Assets

As of June 30, 2010, capital assets of the School consisted of the following:

	July 1, 2009 (restated)	Additions	Deletions	June 30, 2010
Governmental activities				
Building improvements	\$ 333,760	\$ 264,018	\$ -	\$ 597,778
Office equipment	194,781	72,224	-	267,005
Building improvement CIP	62,400	-	62,400	-
Less: accumulated depreciation	(65,509)	(113,797)	-	(179,306)
Capital assets, net	\$ 525,432	\$ 222,445	\$ 62,400	\$ 685,477

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Note 4: Notes Payable

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

	July 1, 2009 (restated)	Additions	Deletions	June 30, 2010	Amounts Due within One Year
Note payable - Self Help	\$ 332,813	\$ -	\$ 332,813	\$ -	\$ -
Note payable - Konrath	62,400	201,618	264,018	-	-
Note payable - Tatonka	-	644,420	38,406	606,014	79,760
Total	\$ 395,213	\$ 846,038	\$ 635,237	\$ 606,014	\$ 79,760

The original Building Fund notes payable issued to fund the cost of leasehold improvements were refinanced during the year. The interest rate on the new note payable is 5.5%. Principal and interest payments are due monthly through December 1, 2016. The \$175,363 in Restricted Cash is required to be held in a separate account related to the note payable. As of June 30, 2010 remaining payments under the note are as follows:

Fiscal Year	Principal Due	Interest	Total Payment
2011	\$ 79,760	\$ 31,340	\$ 111,100
2012	84,260	26,841	111,101
2013	89,012	22,088	111,100
2014	94,034	17,067	111,101
2015	99,338	11,763	111,101
2016-2017	159,610	7,040	166,650
	\$ 606,014	\$ 116,139	\$ 722,153

In conjunction with the refinancing, a credit enhancement agreement was put into place. The Charter Schools Development Corporation issued a credit enhancement in the amount of \$290,000 in the form of a pledged checking account as collateral for the loan. The credit enhancement agreement terminates on December 3, 2016.

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Note 5: Accrued Salaries and Benefits

The salaries and benefits earned but unpaid as of June 30, 2010 total \$38,160. Accordingly, the accrued salaries and benefits are reflected as a liability in the accompanying basic financial statements.

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 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 2010 were \$274,575, including CAM charges of \$38,299. Lease expense for the fiscal year 2010 also includes \$75,924 of deferred rent which is the result of recognizing escalating rent payments over the term of the lease on a straight-line basis. The deferred rent calculation is based on certain expansion assumptions that are in the term of the lease. These assumptions may be subject to change. Future commitments under the lease are as follows:

Fiscal Year	Total Payment
2011	\$ 252,049
2012	252,949
2013	370,446
2014	480,518
2015	480,518
2016-2018	1,840,319

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 insurance claims resulting from these risks for fiscal year 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. While the amount required to be reserved/restricted under TABOR is presented as such in the financial statements, the result is a deficit unrestricted net assets and therefore the School may not be in compliance with this requirement.

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Note 9: 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 the 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 the 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.

Funding Policy

Plan members and the School are required to contribute to the 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, 2010 and 2009, the contribution rate for members was 8% and for the School was 12.95% effective January 1, 2009, through June 30, 2009 and 12.05% effective January 1, 2008 through December 31, 2008. The School's contributions to CSSDTF for the years ended June 30, 2010 and 2009 were \$142,940 and \$98,948, respectively, which equaled the required contributions.

Note 10: 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. 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 Colorado 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 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.

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Basis of Accounting for the 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, 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 the 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, 2010 and 2009 were \$10,897 and \$8,073, respectively, which equaled the required contributions.

Note 11: Related Party Transactions

State categorical revenue consists of cash payments passed through the Aurora School District totaling \$1,961,731 for the year ended June 30, 2010. 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, 2010, the School recorded expenses of \$194,934 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 12: 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, 2010:

	Governmental Activities	Building Fund
Total capital assets, net of accumulated depreciation	\$ 685,477	\$ 505,970
Less: Notes payable	(606,014)	(606,014)
Plus: Debt issuance costs	39,148	39,148
	\$ 118,611	\$ (60,896)

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Note 13: Restatement for Change in Accounting Principle

During fiscal year 2010 the School changed its method of accounting for landlord financed tenant improvements and the related liability. The School believes that the new method will improve its financial reporting as it will be more consistent with other charter schools in the District. The beginning balances for fiscal year 2010 have been retroactively restated for the change, which resulted in a \$611,186 and \$632,498 decrease to capital assets and rent liability, respectively, in the Building Fund and Governmental Activities, as well as a \$21,312 increase to the respective beginning net assets.