

HIGHLINE ACADEMY CHARTER SCHOOL

BASIC FINANCIAL STATEMENTS

June 30, 2011

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FINANCIAL SECTION



**JOHN CUTLER
& ASSOCIATES**

Board of Directors
Highline Academy Charter School
Denver, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of Highline Academy Charter School, component unit of the Denver Public School District, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the Academy, as listed in the table of contents. These financial statements are the responsibility of Highline Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Highline Academy Charter School, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

John Cutler & Associates, LLC

August 26, 2011

Highline Academy Charter School

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2011

As management of Highline Academy, we offer readers of Highline's basic financial statements this narrative and analysis of the financial activities of the school for the year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

Financial Highlights

The year ended June 30, 2011 is the seventh year of operations for Highline Academy. The assets of Highline Academy exceeded its liabilities at the close of the 2010-11 fiscal year by \$835,182.

The operations of Highline Academy are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue was \$3,490,646.

Overview of Financial Statements

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

Government-Wide Financial Statements

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

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

The statement of activities presents information showing how Highline Academy's net assets changed during the year. All changes in net worth are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of 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. Highline Academy keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. In compliance with governmental requirements, Highline Academy maintains two funds: a general fund and a capital reserve fund which includes activities of the Highline Academy Building Corporation. Within the general fund, Highline Academy further tracks expenditures by additional funds set up to denote their intended purpose. This allows the school to analyze the impact of its expenses on mission-driven programs.

Highline Academy adopts an annual budget for its general fund and capital reserve fund. A budgetary comparison has been provided for both funds to demonstrate compliance with this budget.

Notes to Financial Statements

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

Government-Wide Financial Analysis

As noted previously, net assets may serve over time as a useful indicator of the Academy's financial position. For the year ended June 30, 2011, Highline Academy's assets exceeded liabilities by \$835,182. Approximately \$120,000 of these funds is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. An additional \$369,893 is invested in capital assets. The remaining \$345,289 is unrestricted and available to meet the Academy's ongoing financial obligations.

Statement of Net Assets

	2011	2010
Assets		
Cash and Investments	\$ 833,618	\$ 474,763
Restricted Cash & Investments	2,705,264	-
Cash with District	99,387	94,521
Accounts Receivable	5,755	5,627
Deposits	74,004	114,004
Bond Issuance Costs	265,550	-
Capital Assets, Net	<u>6,039,629</u>	<u>256,412</u>
Total Assets	<u>\$10,023,027</u>	<u>\$ 945,327</u>

Liabilities	2011	2010
Accounts Payable	444,760	63,388
Accrued Expenses	340,393	2,717
Deposits	21,000	19,450
Noncurrent Liabilities		
Due in One Year	-	129,727
Due in More than One Year	<u>8,375,000</u>	<u>-</u>
Total Liabilities	<u>\$9,181,153</u>	<u>\$ 215,282</u>
Net Assets		
Invested in Capital Assets, Net	369,893	18,665
Restricted for Emergencies	120,000	114,000
Unrestricted	<u>345,289</u>	<u>597,380</u>
Total Net Assets	<u>\$ 835,182</u>	<u>\$ 730,045</u>

Changes in Net Assets

Revenues	2011	2010
Per Pupil Revenue	\$3,490,646	\$3,333,765
Charges for Services	179,663	200,178
Operating Grants & Contributions	136,397	47,525
Capital Grants & Contributions	43,650	43,339
Mill Levy Override	178,921	190,962
Investment Earnings	4,405	4,790
Other	<u>48,667</u>	<u>52,136</u>
Total Revenue	<u>\$4,082,349</u>	<u>\$3,872,695</u>
Expenses		
Instruction	2,006,403	1,917,300
Support Services	1,714,731	1,687,935
Interest on Long-Term Debt	<u>256,078</u>	<u>16,369</u>
Total Expenses	<u>3,977,212</u>	<u>\$3,621,604</u>
Increase (Decrease) in Net Assets	105,137	251,091
Net Assets, Beginning of Year	<u>730,045</u>	<u>478,954</u>
Net Assets, End of Year	<u>\$ 835,182</u>	<u>\$ 730,045</u>

Financial Analysis of the Academy's Funds

As noted earlier, Highline Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of Highline Academy's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Highline Academy's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the school's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Highline Academy's governmental funds reported a combined ended fund balance of \$2905,003, an increase of \$2,301,643. This increase is due to the building & land purchase completed in January 2011.

The general fund is the major operating fund of Highline Academy. At the end of the current fiscal year, the general fund balance was \$961,384 an increase of \$372,166 from 2009-10.

Proprietary Funds. There is one proprietary fund associated with Highline Academy, which is for business-type activities. The Highline Academy Building Corporation (HABC), a Colorado non-profit corporation, was established as a separate legal entity designed to assist Highline Academy with the process of doing leasehold facility improvements.

As of June 30, 2011, the HABC had a general fund balance of \$1,943,619. The general fund balance contains the remaining funds allocated for construction of the new facility that will open in August 2011.

General Fund Budgetary Highlights

Highline Academy budgeted for expenditures and transfers of \$4,006,983 for the year ended June 30, 2011. Actual expenditures and transfers were \$3,710,183. There was one budget amendment made during the year.

Capital Asset and Debt Administration

Capital assets. Highline Academy's investment in capital assets as of June 30, 2011, amounts to \$6,039,629 (net of accumulated depreciation). This investment in capital assets includes construction in progress for the new facility. The detail of this investment is in Note 4 to the financial statements.

Long-term debt. As of June 30, 2011 Highline Academy has long-term revenue bonds totaling \$8,375,000 as part of the new facility. The school enters into a one-year lease with the Highline Academy Building Corporation at the beginning of each year.

The Highline Academy Building Corporation is currently in the sixth year of a six-year lease for the property at 7808 Cherry Creek Drive South. This lease expires on July 31, 2011. The Highline Academy Building Corporation also had a six-year loan through Tatonka Capital Corporation. This loan was established to fund leasehold improvements needed to make the building a long-term facility for the school. The Tatonka loan was paid off April 1, 2011.

Economic Factors and Next Year's Budget

The primary factor driving the budget for Highline Academy is student enrollment. Enrollment for the 2010-2011 school year was 484.68 FTE (full-time equivalents). The enrollment projected for the 2011-2012 school year is expected to be 484.68 FTE. This factor was considered in preparing Highline Academy's budget for 2011-2012.

Requests for Information

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

Business Manager
Highline Academy
2170 South Dahlia St.
Denver, CO 80222
720-449-0317
Fax: 720-449-0328

BASIC FINANCIAL STATEMENTS

HIGHLINE ACADEMY CHARTER SCHOOL

STATEMENT OF NET ASSETS

As of June 30, 2011

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and Investments	\$ 833,618	\$ 474,763
Restricted Cash and Investments	2,705,264	-
Cash with District	99,387	94,521
Accounts Receivable	5,755	5,627
Deposits	74,004	114,004
Bond Issuance Costs, net of Accumulated Amortization	265,550	-
Capital Assets, Not Depreciated	6,026,438	108,020
Capital Assets, Depreciated, Net of Accumulated Depreciation	<u>13,191</u>	<u>148,392</u>
TOTAL ASSETS	<u>10,023,207</u>	<u>945,327</u>
LIABILITIES		
Accounts Payable	444,760	63,388
Accrued Expenses	340,393	2,717
Deferred Revenue	6,872	-
Deposits	21,000	19,450
Noncurrent Liabilities		
Due in One Year	-	129,727
Due in More than One Year	<u>8,375,000</u>	<u>-</u>
TOTAL LIABILITIES	<u>9,188,025</u>	<u>215,282</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	369,893	18,665
Restricted for Emergencies	120,000	114,000
Unrestricted	<u>345,289</u>	<u>597,380</u>
TOTAL NET ASSETS	<u>\$ 835,182</u>	<u>\$ 730,045</u>

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

HIGHLINE ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2011	2010
PRIMARY GOVERNMENT						
Governmental Activities						
Instructional	\$ 2,006,403	\$ 179,663	\$ 45,529	\$ -	\$ (1,781,211)	\$ (2,202,973)
Supporting Services	1,714,731	-	90,868	43,650	(1,580,213)	(1,111,220)
Interest on Long-term Debt	256,078	-	-	-	(256,078)	(16,369)
Total Governmental Activities	<u>\$ 3,977,212</u>	<u>\$ 179,663</u>	<u>\$ 136,397</u>	<u>\$ 43,650</u>	<u>(3,617,502)</u>	<u>(3,330,562)</u>
GENERAL REVENUES						
					3,490,646	3,333,765
					178,921	190,962
					4,405	4,790
					48,667	52,136
					<u>3,722,639</u>	<u>3,581,653</u>
TOTAL GENERAL REVENUES						
CHANGE IN NET ASSETS					105,137	251,091
NET ASSETS, Beginning					730,045	478,954
NET ASSETS, Ending					<u>\$ 835,182</u>	<u>\$ 730,045</u>

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

HIGHLINE ACADEMY CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	GENERAL FUND	BUILDING CORPORATION	TOTAL GOVERNMENTAL FUNDS	
			2011	2010
ASSETS				
Cash and Investments	\$ 832,326	\$ 1,292	\$ 833,618	\$ 474,763
Restricted Cash and Investments	-	2,705,264	2,705,264	-
Cash Held by District	99,387	-	99,387	94,521
Accounts Receivable	5,755	-	5,755	5,627
Deposits	43,850	30,154	74,004	114,004
TOTAL ASSETS	\$ 981,318	\$ 2,736,710	\$ 3,718,028	\$ 688,915
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 4,360	\$ 440,400	\$ 444,760	\$ 63,388
Accrued Expenses	5,202	335,191	340,393	2,717
Deferred Revenues	6,872	-	6,872	-
Deposits	3,500	17,500	21,000	19,450
TOTAL LIABILITIES	19,934	793,091	813,025	85,555
FUND BALANCES				
Nonspendable	43,850	30,154	74,004	114,004
Restricted for Emergencies	120,000	-	120,000	114,000
Restricted for Capital Outlay	-	1,913,465	1,913,465	-
Unassigned	797,534	-	797,534	375,356
TOTAL FUND BALANCES	961,384	1,943,619	2,905,003	603,360
TOTAL LIABILITIES AND FUND BALANCES	\$ 981,318	\$ 2,736,710		

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.

6,039,629 256,412

Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. These are bonds of \$8,375,000 and bond issuance costs of (\$265,550).

(8,109,450) (129,727)

Net assets of governmental activities

\$ 835,182 \$ 730,045

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

HIGHLINE ACADEMY CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	GENERAL FUND	BUILDING CORPORATION	TOTAL GOVERNMENTAL FUNDS	
			2011	2010
REVENUES				
Local Sources	\$ 3,993,170	\$ -	\$ 3,993,170	\$ 3,786,831
State Sources	56,332	-	56,332	53,938
Federal Sources	32,847	-	32,847	31,926
TOTAL REVENUES	4,082,349	-	4,082,349	3,872,695
EXPENDITURES				
Current				
Instruction	2,006,403	-	2,006,403	2,450,676
Supporting Services	1,107,868	467,162	1,575,030	1,127,379
Bond Issuance Costs	-	270,050	270,050	-
Debt Service				
Principal	-	129,727	129,727	138,311
Interest	-	256,078	256,078	16,369
Capital Outlay	-	5,918,418	5,918,418	-
TOTAL EXPENDITURES	3,114,271	7,041,435	10,155,706	3,732,735
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	968,078	(7,041,435)	(6,073,357)	139,960
OTHER FINANCING SOURCES (USES)				
Proceeds from Issuance of Bonds	-	8,375,000	8,375,000	-
Transfers In	-	595,912	595,912	611,916
Transfers Out	(595,912)	-	(595,912)	(611,916)
TOTAL OTHER FINANCING SOURCES (USES)	(595,912)	8,970,912	8,375,000	-
NET CHANGE IN FUND BALANCES	372,166	1,929,477	2,301,643	139,960
FUND BALANCES, Beginning	589,218	14,142	603,360	463,400
FUND BALANCES, Ending	\$ 961,384	\$ 1,943,619	\$ 2,905,003	\$ 603,360

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

HIGHLINE ACADEMY CHARTER SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

Amounts Reported for Governmental Activities in the Statement of Activities
are Different Because:

Net Changes in Fund Balances - Total Governmental Funds	\$ 2,301,643
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$5,918,418 exceeded depreciation expense (\$135,201) for the current period.	5,783,217
Bond proceeds are reported as financing sources in the governmental funds and increase fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not effect the statement of activities.	(8,375,000)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. These are the note payments for the year.	129,727
Bond Issuance costs are an expenditure in the governmental funds, but are capitalized and amortized in the government-wide financial statements. This amount includes bond issuance costs \$270,050 and amortization expense (\$4,500).	<u>265,550</u>
Change in Net Assets of Governmental Activities	<u>\$ 105,137</u>

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

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Highline Academy Charter School (the “Academy”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Denver Public School District of the State of Colorado.

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

Reporting Entity

The financial reporting entity consists of the Academy and organizations for which the Academy is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the Academy. In addition, any legally separate organizations for which the Academy is financially accountable are considered part of the reporting entity. Financial accountability exists if the Academy appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the Academy.

The Academy includes the Highline Academy Building Corporation (the “Building Corporation”) within its reporting entity. The Building Corporation was formed to support and assist the Academy to perform its function and to carry out its purpose, specifically to assist in the financing of the Academy’s facilities. The Building Corporation is blended into the Academy’s financial statements as a special revenue fund. Separate financial statements are not available for this entity. The Academy is a component unit of the Denver Public School District.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

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

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

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

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Academy reports the following major governmental funds:

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

Building Corporation – This fund is used to account for the activities of the Building Corporation.

Assets, Liabilities and Fund Balance/Net Assets

Investments – Investments are stated at fair value.

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

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net assets in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: leasehold improvements 57 to 80 months.

Long-term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Balance Classification – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Academy is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Academy has classified Deposits as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Academy has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Academy did not have any committed resources as of June 30, 2011.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Academy would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

The Academy's policy allows employees to accumulate sick and vacation leave. Upon termination of employment, no financial compensation is paid for these unused compensated absences. Therefore, no liability for accumulated sick leave is reported in the financial statements.

Risk Management

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

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Academy's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

A budget is adopted for all funds on a basis consistent with generally accepted accounting principles.

Academy management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget is adopted by the Board of Directors prior to June 30. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year end.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 3: CASH AND INVESTMENTS

A reconciliation of the cash and investment components on the balance sheet to the cash and investments categories in this footnote are as follows:

Deposits	\$ 795,989
Cash Held by District	99,387
Investments	<u>2,742,893</u>
 Total Cash and Investments	 <u>\$ 3,638,269</u>

The above amounts are classified in the statement of net assets as follows:

Cash and Investments	\$ 833,618
Cash with District	99,387
Restricted Cash and Investments	<u>2,705,264</u>
 Total	 <u>\$ 3,638,269</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2011, State regulatory commissioners have indicated that all financial institutions holding deposits for the Academy are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The Academy has no policy regarding custodial credit risk for deposits.

At June 30, 2011, the Academy had deposits with financial institutions with a carrying amount of \$795,989. The bank balances with the financial institutions were \$803,539. Of this amount, \$250,000 was covered by federal depository insurance and \$553,539 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 3: CASH AND INVESTMENTS (Continued)

Pooled Cash with the District

Cash deposits are pooled with the District cash and investments which were held by several banking institutions. Pooled investments represent investments in local government investment pools or in money market funds. At June 30, 2011 the Academy's balance in equity in pooled cash of the District totaled \$99,387.

Investments

Interest Rate Risk

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

Credit Risk

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

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

At June 30, 2011, the Academy had \$2,705,264 invested in a money market fund. The fund invests only in U.S. Treasury obligations and is rated Aaa by Moody's.

The Academy had invested \$37,629 in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds and is registered with the State Securities Commissioner. The Fund operates similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned 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 entities. The Fund is rated AAA by Standard and Poor's.

The Academy has no policy for managing credit risk or interest rate risk.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 3: CASH AND INVESTMENTS (Continued)

Restricted Cash and Investments

Cash in the amount of \$99,387 is restricted in the General Fund as an emergency reserve related to the TABOR amendment. Cash in the amount of \$2,705,264 is restricted in the Building Corporation Fund for construction expenses and debt service payments.

NOTE 4: CAPITAL ASSETS

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

	Balance <u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2011</u>
Governmental Activities				
Capital Assets, Not Depreciated				
Construction in Progress	\$ 108,020	\$ 5,918,418	\$ -	\$ 6,026,438
Capital Assets, Depreciated				
Leasehold Improvements	811,204	-	-	811,204
Accumulated Depreciation				
Leasehold Improvements	662,812	135,201	-	798,013
Total Capital Assets, Depreciated, Net				
	148,392	(135,201)	-	13,191
Total Capital Assets, Net				
	<u>\$ 256,412</u>	<u>\$ 5,783,217</u>	<u>\$ -</u>	<u>\$ 6,039,629</u>

Depreciation expense is charged to the Supporting Services Activity.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 5: LONG-TERM DEBT

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

	Balance			Balance	Due In
	<u>June 30, 2010</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2011</u>	<u>One Year</u>
2011A Revenue Bonds	\$ -	\$ 8,260,000	\$ -	\$ 8,260,000	\$ -
2011B Revenue Bonds	-	115,000	-	115,000	-
Loan Payable Series B	<u>129,727</u>	<u>-</u>	<u>129,727</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 129,727</u>	<u>\$ 8,375,000</u>	<u>\$ 129,727</u>	<u>\$ 8,375,000</u>	<u>\$ -</u>

Series 2011A Charter School Revenue Bonds

In January 2011, the Public Finance Authority issued \$8,260,000 Charter School Revenue Bonds, Series 2011A. Proceeds from the bonds were used to purchase the Academy's building and provide funding for improvements. The Academy is required to make equal lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at rates ranging from 6.25% to 7.375% per year. The bond matures in December, 2040.

Series 2011B Charter School Revenue Bonds

In January 2011, the Public Finance Authority issued \$115,000 Charter School Revenue Bonds, Series 2011B. Proceeds from the bonds were used to purchase the Academy's building and provide funding for improvements. The Academy is required to make equal lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at 7.00% per year. The bond matures in December, 2013.

Building Lease

In March, 2005, the Building Corporation entered into two \$350,000 promissory notes with Tatonka Capital Corporation ("Tatonka") to finance leasehold improvements for the Academy's facilities. Principal and interest at 12.45% are due monthly on the Series A Loan and principal and interest at 6.61% is due monthly on the Series B Loan. The Series A and B Loans mature in November 2008 and April 2011, respectively. Under the loan agreement, the Charter Schools Development Corporation provided Tatonka with a credit enhancement in the form of a \$350,000 stand-by letter of credit which expired in March 2009.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 5: LONG-TERM DEBT (Continued)

Under the lease agreement between the Building Corporation and the Academy, the Academy is obligated to make monthly lease payments to the Building Corporation for use of the facilities and a portion of the lease payments are assigned to Tatonka for the debt service on the loans.

As of June 30, 2011 the lease was paid in full.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ -	\$ 557,507	\$ 557,507
2013	90,000	600,906	690,906
2014	95,000	594,606	689,606
2015	105,000	588,481	693,481
2016	110,000	581,916	691,916
2017-2021	660,000	2,798,032	3,458,032
2022-2026	910,000	2,553,882	3,463,882
2027-2031	1,280,000	2,187,057	3,467,057
2032-2036	1,825,000	1,639,832	3,464,832
2037-2041	<u>3,300,000</u>	<u>860,295</u>	<u>4,160,295</u>
Totals	<u>\$ 8,375,000</u>	<u>\$ 12,962,514</u>	<u>\$ 21,337,514</u>

NOTE 6: INTERFUND TRANSFERS

Interfund transfers at June 30, 2011 were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Building Corporation	General Fund	<u>\$ 595,912</u>

The General Fund transferred funds to the Building Corporation for debt service requirements.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 7: PENSION PLAN

Defined Benefit Pension Plan

Plan Description. Beginning on January 1, 2010, the Academy contributes to the Denver Public Schools Retirement System Division of the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The SDTF provides retirement and disability, post-retirement annual increases, and death benefits for members or their beneficiaries. All employees of the Academy are members of the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the SDTF. That report may be obtained online at www.copera.org or by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

Funding Policy. The Academy is required to contribute member and employer contributions to PERA at a rate set by statute. The contribution requirements of plan members and the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members is 8.0 % and for the Academy it is 2.41 % of covered salary for calendar year 2010 (3.63% of covered salary for calendar year 2011). If the Academy rehires a PERA retiree as an employee or under any other work arrangement, it is required to report and pay employer contributions on the amounts paid for the retiree, however no member contributions are required. For the year ending June 30, 2011 and 2010, the Academy's employer contributions for the SDTF were \$52,802 and \$20,337, respectively, equal to the required contributions for each year.

Taxable Pension Certificates of Participation (PCOPs)

The District issued Taxable Pension Certificates of Participation (PCOPs) on July 17, 1997 to fully fund the unfunded actuarial accrued liability (UAAL) of the Plan. Full funding of the UAAL reduced the employer contribution rate from the full funding rate of 15.75% to the normal cost rate of 4.98%. This rate is based upon actuarially determined contribution requirements, the approval and recommendation of the Plan's Board and approval of the District's Board of Education. The Academy contributed 10.39%, 10.72%, and 14.10% of covered payroll for the fiscal years ended June 30, 2011, 2010 and 2009, respectively, to the District to cover its obligation relating to the PCOPs.

During the fiscal years ended June 30, 2011, 2010 and 2009, the Academy made contributions totaling \$187,597, \$191,236, and \$186,450, respectively, to the District towards its PCOPs obligation.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

NOTE 8: COMMITMENTS AND CONTINGENCIES

Operating Lease

The Building Corporation entered into a non-cancellable operating lease for their building. Monthly lease payments ranging from \$28,500 to \$39,004 are due through July 31, 2011. Future minimum lease payments are as follows:

Year Ended

June 30

2012

\$ 39,004

Total rent expense for the year ended June 30, 2011 for this lease was \$467,162.

Claims and Judgments

The Academy participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Academy may be required to reimburse the grantor government. As of June 30, 2011, significant amounts of grant expenditures have not been audited, but the Academy believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Academy.

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The Academy believes it has complied with the Amendment. As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2010, the reserve of \$120,000 was recorded as a reservation of fund balance in the General Fund. The District also holds \$99,387 in pooled cash on behalf of the Academy for this reserve.

REQUIRED SUPPLEMENTARY INFORMATION

HIGHLINE ACADEMY CHARTER SCHOOL

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2011

	2011			VARIANCE Positive (Negative)	2010 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
REVENUES					
Local Sources					
Per Pupil Revenue	\$ 3,309,915	\$ 3,490,646	\$ 3,490,646	\$ -	\$ 3,333,765
Mill Levy Override	197,680	178,921	178,921	-	190,962
Tuition and Fees	109,000	145,051	179,663	34,612	200,178
Grants and Donations	50,500	55,500	90,868	35,368	5,000
Interest	8,000	6,000	4,405	(1,595)	4,790
Other	41,236	41,536	48,667	7,131	52,136
State Sources					
Grants and Donations	49,980	56,483	56,332	(151)	53,938
Federal Sources					
Grants and Donations	29,671	32,846	32,847	1	31,926
TOTAL REVENUES	3,795,982	4,006,983	4,082,349	75,366	3,872,695
EXPENDITURES					
Salaries	1,764,273	1,799,576	1,802,315	(2,739)	1,750,384
Employee Benefits	456,568	435,630	383,650	51,980	353,190
Purchased Services	688,476	702,438	654,345	48,093	796,620
Supplies and Materials	140,400	167,497	154,460	13,037	149,795
Property	39,384	39,384	29,729	9,655	29,078
Other	110,969	265,546	89,772	175,774	42,459
TOTAL EXPENDITURES	3,200,070	3,410,071	3,114,271	295,800	3,121,526
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	595,912	596,912	968,078	371,166	751,169
OTHER FINANCING USES					
Transfers Out	(595,912)	(596,912)	(595,912)	1,000	(611,916)
NET CHANGE IN FUND BALANCE	-	-	372,166	372,166	139,253
FUND BALANCE, Beginning	-	-	589,218	589,218	449,965
FUND BALANCE, Ending	\$ -	\$ -	\$ 961,384	\$ 961,384	\$ 589,218

See the accompanying independent auditors' report.

HIGHLINE ACADEMY CHARTER SCHOOL

BUILDING CORPORATION
 BUDGETARY COMPARISON SCHEDULE
 Year Ended June 30, 2011

	2011			VARIANCE Positive (Negative)	2010 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
EXPENDITURES					
Purchased Services	\$ 467,162	\$ 467,162	\$ 467,162	\$ -	\$ 456,529
Bond Issuance Costs	247,264	248,264	270,050	(21,786)	-
Capital outlay	5,165,812	5,941,812	5,918,418	23,394	-
Debt Service					
Principle	110,395	110,395	129,727	(19,332)	138,311
Interest	275,212	275,209	256,078	19,131	16,369
TOTAL EXPENDITURES	6,265,845	7,042,842	7,041,435	1,407	611,209
EXCESS OF EXPENDITURES OVER REVENUES	(6,265,845)	(7,042,842)	(7,041,435)	1,407	(611,209)
OTHER FINANCING SOURCES					
Proceeds from Issuance of Bonds	8,375,000	8,375,000	8,375,000	-	-
Transfers In	595,912	595,912	595,912	-	611,916
TOTAL OTHER FINANCING SOURCES	8,970,912	8,970,912	8,970,912	-	611,916
NET CHANGE IN FUND BALANCE	2,705,067	1,928,070	1,929,477	1,407	707
FUND BALANCE, Beginning	-	-	14,142	14,142	13,435
FUND BALANCE, Ending	\$ 2,705,067	\$ 1,928,070	\$ 1,943,619	\$ 15,549	\$ 14,142

See the accompanying independent auditors' report.