

The Classical Academy
(A Component Unit of Academy School District Twenty)
Financial Statements and Independent Accountants' Reports
June 30, 2011

The Classical Academy

June 30, 2011

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
The Classical Academy
Colorado Springs, Colorado

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of The Classical Academy (a component unit of Academy School District Twenty) (TCA) as of and for the year ended June 30, 2011, which collectively comprise TCA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of TCA's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of TCA as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9, as of July 1, 2010 TCA began reporting TCA Building Corporation, its blended component unit, as an internal service fund by retroactively restating prior years' financial statements.

Board of Directors
The Classical Academy

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

\s\ **BKD, LLP**

October 11, 2011

The Classical Academy

Management's Discussion and Analysis

June 30, 2011

As management of The Classical Academy (TCA), we offer readers of the basic financial statements this narrative and analysis of the financial activities of TCA for the year ended June 30, 2011.

Financial Highlights

The year ending June 30, 2011 was the fourteenth year of operations for TCA. The general fund balance increased from \$1,372,141 to \$3,583,787 in the year ending June 30, 2011. This was over the budgeted amount by \$2,167,487. (See Budgetary Comparison Schedule at page 31).

The operations of TCA are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue received under the Act for the year from Per Pupil Revenue was \$18,804,275. TCA operated within its General Fund budget during the fiscal year. A budget for each fund was approved for the fiscal year. A revised budget was approved in the second half of the fiscal year.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to TCA'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 TCA's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of TCA'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 TCA is improving or deteriorating.

The statement of activities presents information showing TCA'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 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).

The Classical Academy

Management's Discussion and Analysis

June 30, 2011

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. TCA keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements.

TCA adopts an annual budget for its General Fund. A budgetary comparison (page 31) has been provided for the General Fund to demonstrate actual results and variances to the budget.

TCA includes the TCA Building Corporation within its reporting entity, and presents it as an internal service fund; it is also considered a proprietary fund. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal operations. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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 TCA's financial position (see page 9). As of June 30, 2011, TCA's assets exceeded liabilities by \$6,278,176. Of this amount, \$599,996 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. In addition, \$5,643,379 of these funds is restricted either for capital projects or as reserves required as security for the bonds issued to finance the buildings and \$1,000 is considered nonspendable, representing prepaid expenses. Accordingly, these funds are not available to satisfy general operating expenses of TCA. In addition, (\$5,341,425) of these funds represent investments in capital assets (net of depreciation) and the long-term liabilities related to capital assets, and \$643,336 represent donor purpose designations. The remaining \$4,731,890 is unrestricted and available to meet TCA's ongoing financial obligations.

The Classical Academy
Management's Discussion and Analysis
June 30, 2011

Government Wide Summary and Comparison

	2011	As Restated * 2010
Assets		
Current and other assets	\$ 14,466,535	\$ 12,828,358
Capital assets	39,091,249	40,418,476
Total assets	53,557,784	53,246,834
Liabilities		
Current and other liabilities	2,658,986	2,212,163
Noncurrent liabilities	44,620,622	45,725,863
Total liabilities	47,279,608	47,938,026
Net Assets (Deficit)		
Invested in capital assets, net of related debt	(5,341,425)	(4,486,165)
Nonspendable	1,000	-
Restricted, debt service	5,282,197	6,289,467
TABOR	599,996	590,600
Repair and replacement	361,182	248,682
Donor purpose	643,336	-
Unrestricted	4,731,890	2,666,224
Total net assets	\$ 6,278,176	\$ 5,308,808

The Classical Academy
Management's Discussion and Analysis
June 30, 2011

Government Wide Summary and Comparison

	2011	As Restated * 2010
Revenues		
Program revenues		
Charges for services	\$ 1,129,378	\$ 689,715
Operating grants	298,850	424,495
Capital grants	255,755	1,320,835
	<u>1,683,983</u>	<u>2,435,045</u>
General revenues		
Per pupil revenue	18,804,275	18,457,764
Mill levy override	1,904,933	1,096,017
Capital construction	-	271,422
Grants and donations	678,590	1,158,105
Grant and contribution revenue	30,416	87,450
Charges for services	189,813	68,159
	<u>21,608,027</u>	<u>21,138,917</u>
Total general	<u>21,608,027</u>	<u>21,138,917</u>
Total revenues	<u>23,292,010</u>	<u>23,573,962</u>
Expenses		
Instruction	14,728,173	12,017,978
Support services	4,654,663	5,952,210
Debt service	2,939,806	4,220,727
	<u>22,322,642</u>	<u>22,190,915</u>
Change in Net Assets	<u>969,368</u>	<u>1,383,047</u>
Net Assets - Beginning	<u>5,308,808</u>	<u>3,925,761</u>
Net Assets - Ending	<u>\$ 6,278,176</u>	<u>\$ 5,308,808</u>

* TCA began reporting the TCA Building Corporation, its blended component unit as an internal service fund resulting in an increase to governmental activities net assets (see Note 9 for further explanation).

The Classical Academy

Management's Discussion and Analysis

June 30, 2011

Financial Analysis of TCA's Funds

Governmental Funds. The focus of TCA's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing TCA's financing requirements. In particular, unassigned fund balance may serve as a useful measure of TCA's net resources available for spending at the end of the fiscal year (page 11).

The General Fund is the major operating fund of TCA. For the current fiscal year the fund balance increased by \$2,211,646 to \$3,583,787 (page 12). The increase was largely due to favorable variances in expenditures for instructional and support services.

The Fundraising Fund is used for a number of student activities, including athletics, food service, clubs, fundraising, PTOs, etc. The fund balance increased by \$433,165 during the year primarily due to an annual fundraising campaign, the proceeds of which will be spent in subsequent periods (page 12).

As of the end of the current fiscal year TCA's governmental funds in the aggregate reported a combined ending fund balance of \$5,784,493, an increase of \$2,644,811 from the previous year (page 12).

Proprietary Fund. The Building Corporation is treated as a proprietary fund and is used for capital assets such as land, buildings, improvements, etc. The Building Corporation is classified as an internal service fund in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* (GASB No. 34). Lease payments made from the General Fund to the Building Corporation Fund for the use of facilities are recorded as an expenditure to the General Fund and revenue to the Building Corporation Fund. These amounts are eliminated in the government-wide financial statements. Debt service payments are made from the Building Corporation to service the bonds. The net assets decreased \$326,842 during the year. Rental transfers amounted to \$4,049,822, while interest and amortization expense related to bonds, amounted to \$3,000,123 (page 14). In addition, there were principal payments of \$1,171,111 (page 15).

General Fund Budgetary Highlights

TCA originally budgeted for expenditures of \$21,344,000 for the year ended June 30, 2011. The budget was amended during the year to increase expected expenditures to \$21,714,800. Actual expenditures were \$21,058,721. All expense figures are given including transfers for lease payments (page 31).

The Classical Academy
Management's Discussion and Analysis
June 30, 2011

Variances in the general fund were spread across departments and programs and were not substantial for any individual program.

Capital Asset and Debt Administration

Capital Assets. TCA's investment in capital assets as of June 30, 2011, amounts to \$39,091,249 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements.

Long-term Debt. As of June 30, 2011, the Corporation had outstanding debt of \$45,934,535 (including the current and noncurrent portions of the bonds payable and compensated absences) (page 23). This debt is the result of bonds issued in 2000 and additional bonds issued in 2003 and 2008. The 2000 bond issuance was defeased using proceeds from the 2003 bond issuance. The 2003 and 2008 bond issuance are collateralized by land and buildings. The 2008 bond issuance was used to finance the new East Campus construction project. Long-term debt is detailed in Note 4 to the financial statements.

Economic Factors and Next Year's Budget

The primary factors driving the budget for TCA are student enrollment and per pupil funding (PPF). Enrollment for 2010-11 school year was 2,912.0 full time equivalent (FTE) students. The enrollment projected for the 2011-12 school year is expected to be approximately 3,189.0 FTE students. This factor was considered in preparing TCA's budget for 2011-12 fiscal year. Offsetting the growth in General Fund revenues derived from the increase in student FTE is a decrease due to a reduction in per pupil funding. PPF for fiscal year 2010-11 was \$6,432.59 and is anticipated to be \$6,110.00 for fiscal year 2011-12.

Requests for Information

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

Mark Van Gampleare
Chief Financial Officer

The Classical Academy
975 Stout Road
Colorado Springs, Colorado 80921
(719) 488-6291

The Classical Academy
Statement of Net Assets
June 30, 2011

	<u>Primary Government Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 4,206,893
Investments	2,950,000
Accounts receivable	150,993
Grants receivable	104,166
Accrued interest receivable	10,983
Prepaid expenses	1,000
Debt issuance costs, net	1,399,121
Restricted cash and cash equivalents	4,530,490
Restricted investments	1,112,889
Capital assets, not being depreciated	4,552,789
Capital assets, net	<u>34,538,460</u>
Total assets	<u>53,557,784</u>
Liabilities	
Accounts payable	272,555
Accrued salaries and benefits	848,073
Accrued interest	224,225
Deferred revenue	220
Compensated absences	116,700
Current portion of long-term debt	1,197,213
Long-term debt	<u>44,620,622</u>
Total liabilities	<u>47,279,608</u>
Net Assets (Deficit)	
Invested in capital assets, net of related debt	(5,341,425)
Nonspendable	1,000
Restricted	
TABOR	599,996
Debt service	5,282,197
Replacement, repair and contingency	361,182
Donor purpose	643,336
Unrestricted	<u>4,731,890</u>
Total net assets	<u><u>\$ 6,278,176</u></u>

The Classical Academy
Statement of Activities
Year Ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Functions/Programs					
Governmental activities					
Instruction	\$14,728,173	\$ 1,129,378	\$ 298,850	\$ 255,755	\$ (13,044,190)
Support services	4,654,663	-	-	-	(4,654,663)
Interest on long-term debt	2,939,806	-	-	-	(2,939,806)
Total govern- mental activities	\$22,322,642	\$ 1,129,378	\$ 298,850	\$ 255,755	(20,638,659)
General Revenues					
State categorical revenue					18,804,275
Mill levy override					1,904,933
Grants and contributions not restricted to specific programs					678,590
Investment income					30,416
Other revenue					189,813
Total general revenues					21,608,027
Change in Net Assets					969,368
Net Assets - Beginning, as Previously Reported					4,385,543
Adjustment to Report the Building Fund as an Internal Service Fund					923,265
Net Assets - Beginning, as Restated					5,308,808
Net Assets - Ending					\$ 6,278,176

The Classical Academy
Balance Sheet
Governmental Funds
June 30, 2011

	General	Fundraising	Total
Assets			
Cash and cash equivalents	\$ 2,467,721	\$ 1,231,461	\$ 3,699,182
Accounts receivable	122,185	28,808	150,993
Grants receivable	104,166	-	104,166
Prepaid assets	-	1,000	1,000
Investments	2,000,000	950,000	2,950,000
Total assets	\$ 4,694,072	\$ 2,211,269	\$ 6,905,341
Liabilities			
Accounts payable	\$ 262,212	\$ 10,343	\$ 272,555
Accrued salaries and benefits	848,073	-	848,073
Deferred revenue	-	220	220
Total liabilities	1,110,285	10,563	1,120,848
Fund Balance			
Nonspendable for prepaid items	-	1,000	1,000
Restricted for TABOR	599,996	-	599,996
Donor restricted	-	643,336	643,336
Committed for student activities	-	431,480	431,480
Assigned for student activities	-	1,124,890	1,124,890
Unassigned	2,983,791	-	2,983,791
Total fund balance	3,583,787	2,200,706	5,784,493
Total liabilities and fund balance	\$ 4,694,072	\$ 2,211,269	\$ 6,905,341
Total fund balance for governmental fund			\$ 5,784,493
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund			13,960
Compensated absences payable are not due and payable in the current year and, therefore, are not reported in the funds			(116,700)
Internal service fund is used to charge the costs of certain activities to the individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets			596,423
Total net assets of governmental activities			\$ 6,278,176

The Classical Academy
Statement of Revenues, Expenditures and Change in Fund Balance
Governmental Funds
Year Ended June 30, 2011

	General	Fundraising	Total
Revenues			
Revenue from local sources	\$ 20,729,885	\$ 1,326,737	\$ 22,056,622
Revenue from state sources	1,762,613	-	1,762,613
Revenue from federal sources	573,381	-	573,381
Other revenue	200,195	7,780	207,975
Total revenues	23,266,074	1,334,517	24,600,591
Expenditures			
Current			
Instruction	14,106,014	597,192	14,703,206
Support services	1,733,838	299,867	2,033,705
Building lease	4,049,822	-	4,049,822
Capital outlay	1,169,047	-	1,169,047
Total expenditures	21,058,721	897,059	21,955,780
Excess of Expenditures Over Revenues	2,207,353	437,458	2,644,811
Other Financing Sources (Uses)			
Transfer in	4,293	-	4,293
Transfer out	-	(4,293)	(4,293)
Net Change in Fund Balance	2,211,646	433,165	2,644,811
Fund Balance - Beginning	1,372,141	1,767,541	3,139,682
Fund Balance - Ending	\$ 3,583,787	\$ 2,200,706	\$ 5,784,493
Net changes in fund balance - governmental fund			\$ 2,644,811

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 funds is reported with governmental activities	(326,842)
Some expenses reporting in the statement of activities do not require the use of current financial resources and are, therefore, not reported as expenditures in the governmental funds. This includes the change in accrued compensated absences	(24,967)
Depreciation does not require the use of current financial resources and, therefore, is not reported in the funds	(2,799)
Grant revenue previously deferred in the governmental funds is recognized during the current year, when the same revenue was recognized in the statement of activities in a prior year	(1,320,835)
Change in net assets of governmental activities	\$ 969,368

The Classical Academy
Statement of Net Assets
Proprietary Fund
June 30, 2011

	Governmental Activities - Internal Service Fund
Assets	
Current Assets	
Cash and cash equivalents	\$ 507,711
Accrued interest receivable	10,983
Total current assets	518,694
Noncurrent Assets	
Restricted cash and cash equivalents	4,530,490
Restricted investments	1,112,889
Capital assets	
Land	4,552,789
Buildings and improvements, net of accumulated depreciation	34,524,500
Debt issuance costs, net of accumulated amortization	1,399,121
Total noncurrent assets	46,119,789
Total assets	46,638,483
Liabilities	
Current Liabilities	
Accrued interest payable	224,225
Current portion of bonds and note payable	1,197,213
Total current liabilities	1,421,438
Noncurrent Liabilities	
Bonds and note payable	44,620,622
Total liabilities	46,042,060
Net Assets (Deficit)	
Invested in capital assets, net of related debt	(5,341,425)
Restricted for repair and replacement	286,182
Restricted for contingency	75,000
Restricted for debt service	5,282,197
Unrestricted (deficit)	294,469
Total net assets	\$ 596,423

The Classical Academy
Statement of Revenues, Expenses and Changes in
Proprietary Fund
Year Ended June 30, 2011

	Governmental Activities - Internal Service Fund
Operating Revenues	
Lease revenue	\$ 4,049,822
Operating Expenses	
Depreciation expense	1,440,244
Fees	64,367
Total operating expenses	1,504,611
Operating income	2,545,211
Nonoperating Revenues (Expenses)	
Investment earnings	12,254
Interest expense	(2,939,806)
Amortization expense	(60,317)
Total nonoperating revenues (expenses)	(2,987,869)
Loss Before Capital Contributions and Transfers	(442,658)
Capital contributions	115,816
Change in Net Assets	(326,842)
Net Assets - Beginning	923,265
Net Assets - Ending	\$ 596,423

The Classical Academy
Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2011

	Governmental Activities - Internal Service Fund
Cash Flows from Operating Activities	
Lease payments from The Classical Academy	\$ 4,049,822
Fees paid	<u>(64,367)</u>
Net cash provided by operating activities	<u>3,985,455</u>
Cash Flows from Capital and Related Financing Activities	
Principal payments on capital debt	(1,171,111)
Interest payments on capital debt	<u>(2,746,352)</u>
Net cash used in capital and related financing activities	<u>(3,917,463)</u>
Cash Flows from Investing Activities	
Interest earnings	60,963
Proceeds on sale of investments	<u>1,009,657</u>
Net cash provided by investing activities	<u>1,070,620</u>
Change in Cash and Cash Equivalents	1,138,612
Beginning, Cash and Cash Equivalents	<u>3,899,589</u>
Ending, Cash and Cash Equivalents	<u><u>\$ 5,038,201</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating income	\$ 2,545,211
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	<u>1,440,244</u>
Net cash provided by operating activities	<u><u>\$ 3,985,455</u></u>
Noncash Capital and Related Financing Activities	
Capital contributions	\$ 115,816
Amortization of deferred amount of refunding and discount	196,468
Amortization of debt issuance costs	60,317
Unrealized gains	12,254

The Classical Academy

Notes to the Financial Statements

June 30, 2011

Note 1: Summary of Significant Accounting Policies

The Classical Academy (TCA) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within Academy School District Twenty (the District) in the State of Colorado. TCA began operations in 1996.

The accounting policies of TCA conform to accounting principles generally accepted in the United States of America as applicable to governmental units. Following is a summary of the more significant accounting policies.

Reporting Entity

The financial reporting entity consists of TCA and organizations for which TCA is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of TCA. In addition, any legally separate organizations for which TCA is financially accountable are considered part of the reporting entity. Financial accountability exists if TCA 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, TCA.

As required by accounting principles generally accepted in the United States of America, these basic financial statements present the financial activities of TCA and its component units. A component unit is a legally separate organization for which TCA is financially accountable or that provide services to TCA. TCA 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.

TCA includes the TCA Building Corporation (Building Corporation) within its reporting entity. The Building Corporation was organized exclusively for the purpose of holding title to real and personal property and to make that property available for use by TCA. As TCA has the ability to elect and remove Board members of the Building Corporation and the Building Corporation provides services entirely to TCA, the Building Corporation is recorded as a blended component unit under the provisions of GASB Statement No. 14, *The Financial Reporting Entity* and the Building Corporation is presented as an internal service fund (Building Fund). Separate financial statements are not prepared.

The Building Corporation leases facilities to TCA. Lease payments between TCA and the Building Corporation are treated as lease revenue to the Building Corporation and lease expense to the general fund. Lease revenue and expense are eliminated in the governmental activities.

The Classical Academy

Notes to the Financial Statements

June 30, 2011

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

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements (*i.e.*, the statement of net assets and the statement of activities) report information on all of TCA'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. TCA 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. Per pupil funding under the School Finance Act is reported 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 unassigned fund balance is a measure of available spendable resources. This means that only current liabilities are generally included on the governmental fund balance sheet.

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

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

The Classical Academy

Notes to the Financial Statements

June 30, 2011

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 fund is charges for rent related to the lease of the building. Operating expenses for the internal service fund include depreciation on capital assets and various fees. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Fund Accounting

The accounts of TCA 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.

TCA reports the following major funds:

General fund – This fund is the general operating fund of TCA and is used to account for and report all financial resources not accounted for and reported in another fund.

Building Corporation – This fund is used to account for financial activities of the Building Corporation, primarily related to capital assets and the related debt service.

In addition, TCA reports one nonmajor fund:

Fundraising fund – This fund qualifies as a special revenue fund and is used to account for revenue from contributions, grants, and student activities used to support certain Academy activities.

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.

TCA prepares an annual budget and presents it to its Board for approval. During the year ended June 30, 2011, one original and one amended budget was presented to and approved by the Board. Budgets are required by state statutes for all governmental funds. Total expenditures for each fund may not legally exceed the amount appropriated.

The Classical Academy
Notes to the Financial Statements
June 30, 2011

Net Assets Fund Balance Restricted 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, grant revenues, and donations.

Assets, Liabilities and Equity

Cash and Cash Equivalents

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. TCA considers investments with maturities of three months or less from the date of purchase to be cash equivalents.

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 \$5,000. Interest incurred during construction is included in the capitalized value of the capital assets in the proprietary fund. TCA's capital assets are depreciated using the straight-line method over the estimated useful lives of the capital assets as follows:

<u>Assets</u>	<u>Years</u>
Equipment	5
Buildings and Improvements	30

Accrued Salaries and Benefits/Compensated Absences

These amounts represent salaries and benefits earned by Academy employees, but unpaid at year-end. TCA's policy allows certain classes of employees to accumulate vacation and staff leave. Accumulated leave is paid upon termination of employment if the employee has accrued a minimum number of days.

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) (see Note 10) TCA reports its fund balance based primarily on the extent to which TCA is bound to honor constraints. Restricted fund balance represents amount constrained to specific purposes by external parties, enabling legislation and/or constitutional provisions. TCA's restricted fund balance is constrained by constitutional provision (TABOR) and donor restrictions.

The Classical Academy

Notes to the Financial Statements

June 30, 2011

Committed fund balance represents amounts constrained by the highest level of decision making authority (TCA's Board) and has been constrained through Board action. Only through similar Board action can the commitment be changed.

Assigned fund balance represents funds that are intended to be used for a specific purpose but the constraint need not be from the highest level of decision making authority. Assignment of funds are largely through the adherence to Academy policy relating to the purpose of the special revenue fund the amounts are initially recorded in.

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. TCA 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 and Investments

Investment Policy and Compliance

TCA'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 TCA's name, and (3) held at a Federal Reserve Bank or another depository.

Colorado State statutes govern TCA's deposit of cash. The Colorado Public Deposit Protection Act (PDPA) requires TCA 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.

The Classical Academy
Notes to the Financial Statements
June 30, 2011

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, TCA’s deposits may not be returned. As of June 30, 2011, TCA had no deposits deemed to be exposed to custodial credit risk.

	Carrying Value	Bank Balance
Cash deposits	\$ 4,206,893	\$ 4,460,048
Restricted cash and cash equivalents	4,530,490	4,530,490
Total	\$ 8,737,383	\$ 8,990,538

TCA is required to comply with state statutes which specify investment instruments meeting defined rating; maturity and concentration risk criteria in which local governments may invest. State statutes do not address custodial risk. Local governments may invest in the following.

- Obligations of the United States and certain U.S. Agency securities
- Certain international agency securities
- General obligation and revenue bonds of U.S. local government entities
- Bankers’ acceptances of certain banks
- Commercial paper
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts
- Local government investment pools

At June 30, 2011, TCA had the following investments:

Investment Type	S&P Rating	Moody's Rating	Fitch Rating	Investment Maturities (in Years) Less than 1	Fair Value
Certificate of Deposit	Not Rated	Not Rated	Not Rated	\$ 2,950,000	\$ 2,950,000
Federal Home Loan Bank	AAA	Aaa	AAA	1,112,889	1,112,889
Total				\$ 4,062,889	\$ 4,062,889

The Classical Academy
Notes to the Financial Statements
June 30, 2011

Interest Rate Risk

State statutes limit the maturity date of U.S. Agency securities to five years from the date of purchase, unless the governing board authorized the investment for a period in excess of five years. TCA's securities mature in one year or less.

Credit Risk

State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with Rule 2a-7, and either have assets of one billion dollars or the highest rating issued by a nationally recognized statistical rating organization (NRSRO). State statutes limit investments in U.S. Agency securities to the highest rating issued by two or more NRSROs. TCA's investments meet this criteria with the exception of the certificates of deposit which are not rated.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of the custodian, TCA may not be able to recover the value of deposits that are in the possession of a third-party. TCA's investments in U.S. Agency securities were held by the counterparty (the broker) but not in TCA's name.

Concentration of Credit Risk

State statutes generally do not limit the amount TCA may invest in one issuer. At June 30, 2011, TCA's investments in the Federal Home Loan Bank comprised 100% of total investments.

Restricted Cash and Investments

Cash and investments of \$5,282,197 have been restricted by the Building Corporation for debt services in accordance with the bond agreements. In addition, \$361,182 has been restricted by the Building Corporation for replacements, repairs, and contingencies relating to the building in accordance with the lease agreements.

The Classical Academy
Notes to the Financial Statements
June 30, 2011

Note 3: Capital Assets

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

	July 1, 2010	Additions	Deletions	June 30, 2011
Governmental activities				
Capital assets not being depreciated				
Land	\$ 4,552,789	\$ -	\$ -	\$ 4,552,789
Total capital assets not being depreciated	<u>4,552,789</u>	<u>-</u>	<u>-</u>	<u>4,552,789</u>
Capital assets being depreciated				
Building and improvements	43,103,473	115,816	-	43,219,289
Transportation and facility equipment	40,612	-	-	40,612
Less: accumulated depreciation	<u>(7,278,398)</u>	<u>(1,443,043)</u>	<u>-</u>	<u>(8,721,441)</u>
Total capital assets being depreciated	<u>35,865,687</u>	<u>(1,327,227)</u>	<u>-</u>	<u>34,538,460</u>
Capital assets, net	<u>\$ 40,418,476</u>	<u>\$ (1,327,227)</u>	<u>\$ -</u>	<u>\$ 39,091,249</u>

Note 4: Long-term Debt

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

	July 1, 2010	Additions	Deletions	June 30, 2011	Amounts Due within One Year
Compensated absences	\$ 91,733	\$ 86,602	\$ 61,635	\$ 116,700	\$ -
Building loans	49,765,000	-	1,020,000	48,745,000	1,055,000
Discount	(48,204)	-	1,696	(46,508)	-
Loss on refunding	(4,495,809)	-	194,772	(4,301,037)	-
Notes payable	<u>1,571,805</u>	<u>-</u>	<u>151,425</u>	<u>1,420,380</u>	<u>142,213</u>
Total	<u>\$ 46,884,525</u>	<u>\$ 86,602</u>	<u>\$ 1,429,528</u>	<u>\$ 45,934,535</u>	<u>\$1,197,213</u>

The Classical Academy

Notes to the Financial Statements

June 30, 2011

Compensated Absences

Compensated absences are expected to be liquidated with revenues of the General Fund.

Building Loans

In October 2008, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$12,825,000 Charter School Revenue Bonds (The Classical Academy Project), Series 2008A, and \$1,200,000 Charter School Revenue Bonds (The Classical Academy Project), Series 2008B. Proceeds of the Bonds were loaned to the Building Corporation to finance the construction of educational facilities for use by TCA and Pikes Peak Community College. Pikes Peak Community College is obligated under a lease agreement to make monthly rental payments of \$7,083 to TCA from September 1, 2009 through June 30, 2039, with optional monthly payments of \$3,542 thereafter, through June 30, 2048, and to reimburse TCA for utilities, janitorial and maintenance costs. TCA is obligated under a lease agreement to make monthly lease payments to the Building Corporation for using the facilities. The Building Corporation is required to make equal loan payments to the trustee for payment of the Bonds. Annual principal payments and semi-annual interest payments, with interest accruing at rates ranging from 6.75% to 8%, are required under the Bond indenture. The Bonds mature on December 1, 2038.

In October 2003, CECFA issued \$39,595,000 Charter School Refunding and Improvement Revenue Bonds (The Classical Academy Project), Series 2003. Proceeds of the Bonds were used to refund the CECFA Charter School Revenue Bonds, Series 2000. Additional proceeds of \$12,500,000 were loaned to the Building Corporation under a loan agreement to construct educational facilities. TCA is obligated under a lease agreement to make monthly lease payments to the Building Corporation for use of the facilities. The Building Corporation is required to make equal loan payments to the trustee, for payment of the Bonds. Annual principal payments and semi-annual interest payments, with interest accruing at rates ranging from 2.5% to 4.5%, are required under the Bond indenture. The Bonds mature on December 1, 2033.

The Classical Academy
Notes to the Financial Statements
June 30, 2011

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,055,000	\$ 2,690,703	\$ 3,745,703
2013	1,090,000	2,649,741	3,739,741
2014	1,140,000	2,605,103	3,745,103
2015	1,190,000	2,556,916	3,746,916
2016	1,240,000	2,503,903	3,743,903
2017-2021	7,125,000	11,593,878	18,718,878
2022-2026	9,265,000	9,464,725	18,729,725
2027-2031	12,095,000	6,626,780	18,721,780
2032-2036	10,555,000	3,027,670	13,582,670
2037-2039	3,990,000	692,010	4,682,010
Total	<u>\$ 48,745,000</u>	<u>\$ 44,411,429</u>	<u>\$ 93,156,429</u>

Notes Payable

TCA entered into an agreement with the District to purchase an existing District school facility for \$1,900,000. TCA paid \$400,000 to the District in January 2004, and entered into a loan agreement for the remainder of the purchase price. Interest accrues on the note at 2.5% per annum and monthly principal and interest payments are made through November 1, 2019. The note is held within the Building Corporation.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 142,213	\$ 34,061	\$ 176,274
2013	158,850	30,143	188,993
2014	162,867	26,126	188,993
2015	166,985	22,008	188,993
2016	171,208	17,785	188,993
2017-2020	618,257	27,426	645,683
Total	<u>\$ 1,420,380</u>	<u>\$ 157,549</u>	<u>\$ 1,577,929</u>

The Classical Academy
Notes to the Financial Statements
June 30, 2011

Note 5: Defined Benefit Pension Plan

Plan Description

TCA contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees Retirement Association of Colorado (PERA). SDTF provides retirement and disability, annual increases, and death benefits for members or their beneficiaries. All employees of TCA are members of 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 SDTF. That report may be obtained by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203 or by calling PERA at 303.832.9550 or 1.800.759.PERA (7372).

Funding Policy

Plan members and TCA are required to contribute at a rate set by statute. The contribution requirements of Plan members and TCA are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members was 8%. TCA's contribution rate for calendar years 2009, 2010, and 2011 was 12.95%, 13.85%, and 14.75% of covered payroll, respectively. A portion of TCA's contribution (1.02% of covered payroll) is allocated to the Health Care Trust Fund (see Note 6). TCA's contributions to SDTF for the years ended June 30, 2009, 2010, and 2011 were \$1,182,429, \$1,384,078, and \$1,503,811, respectively, equal to the required contributions for each year.

Note 6: Postemployment Healthcare Benefits

Plan Description

TCA contributes to the Health Care Trust Fund (HCTF); a cost-sharing multiple employer postemployment healthcare plans administered by PERA. HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for HCTF. That report may be obtained as described previously.

The Classical Academy
Notes to the Financial Statements
June 30, 2011

Funding Policy

TCA was required to contribute at a rate of 1.02% of covered payroll for all PERA members as set by statute. No member contributions are required. The contribution requirements for TCA are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions of HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. TCA's contributions to HCTF for the years ended June 30, 2009, 2010, and 2011 were \$96,455, \$104,715, and \$120,305, respectively, equal to the required contributions for each year.

Note 7: Commitments and Contingencies Liabilities

TABOR Amendment

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. At June 30, 2011, TCA's reserve of \$599,996 was reported as a restricted fund balance in the general fund.

Defeased Bonds

With the issuance of the 2003 CECFA bonds, proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments for the 2000 Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. The outstanding balance of the defeased bonds at June 30, 2011 was \$17,275,000.

Note 8: Related Party Transactions

State categorical revenue consists of cash payments passed through the District totaling \$18,804,275 for the year ended June 30, 2011.

TCA entered into a loan agreement with the District to purchase an existing District building (see Note 4). The balance on the note at June 30, 2011 was \$1,420,380. The note requires monthly payments and matures on November 1, 2019.

The Classical Academy
Notes to the Financial Statements
June 30, 2011

Note 9: Adjustment to Beginning Net Assets

Effective July 1, 2010, TCA began reporting the TCA Building Corporation (the Corporation), its blended component unit, as an internal service fund in accordance with Governmental Accounting Standards Board Statements No. 14 and 34, *The Financial Reporting Entity*, and *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, respectively. Prior to July 1, 2010, the Corporation had been reported as an enterprise fund. Beginning governmental activities net assets as of July 1, 2010 were increased by \$923,265 as a result of the change.

Note 10: Adoption of Accounting Principle

During fiscal year ended June 30, 2011, TCA adopted Governmental Accounting Standards Board Statement (GASB) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 requires TCA to classify fund balance based primarily on the extent to which TCA is bound to honor constraints on how the funds can be spent. GASB 54 also clarifies the definitions of governmental fund types. Adoption of GASB 54 had no effect on beginning fund balance or change in fund balance. However, with the adoption of GASB 54, the fund balance categories of committed, assigned and unassigned are now presented. These fund balance classifications did not have any beginning of the year fund balance as the fund balance reported in these categories were reported as unreserved in prior years.

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

Board of Directors
The Classical Academy
Colorado Springs, Colorado

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of The Classical Academy (TCA) as of and for the year ended June 30, 2011, which collectively comprise TCA's basic financial statements and have issued our report thereon dated October 11, 2011, which contained an explanatory paragraph related to the reporting of the blended component unit as an internal service fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Board of Directors
The Classical Academy

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

Compliance and Other Matters

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

We noted certain matters that we reported to TCA's management in a separate letter dated October 11, 2011.

This report is intended solely for the information and use of the governing body, management and others within TCA and is not intended to be and should not be used by anyone other than these specified parties.

\s\ **BKD, LLP**

October 11, 2011

The Classical Academy
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2011

	<u>Budget</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		
Revenue				
Local sources				
Per pupil revenue	\$ 18,664,000	\$ 18,664,000	\$ 18,804,275	\$ 140,275
Mill levy override	1,413,000	1,413,000	1,454,933	41,933
Grants	450,000	450,000	450,000	-
Rental income	-	130,000	122,337	(7,663)
Investment income	25,000	25,000	10,382	(14,618)
Miscellaneous	105,000	105,000	88,153	(16,847)
State sources				
Special education	142,190	142,190	183,216	41,026
English language proficiency act	-	-	2,702	2,702
Capital construction	260,000	260,000	1,576,695	1,316,695
Federal sources				
Impact aid	51,000	51,000	54,503	3,503
Special education	240,810	518,810	518,878	68
Total revenues	<u>21,351,000</u>	<u>21,759,000</u>	<u>23,266,074</u>	<u>1,507,074</u>
Expenditures				
Instructional and supporting services	<u>21,344,000</u>	<u>21,714,800</u>	<u>21,058,721</u>	<u>656,079</u>
Total expenditures	<u>21,344,000</u>	<u>21,714,800</u>	<u>21,058,721</u>	<u>656,079</u>
Other Financing Sources (Uses)				
Transfers in	<u>-</u>	<u>-</u>	<u>4,293</u>	<u>4,293</u>
Net Change in Fund Balance	7,000	44,200	2,211,646	2,167,446
Fund Balance, Beginning	<u>1,372,100</u>	<u>1,372,100</u>	<u>1,372,141</u>	<u>41</u>
Fund Balance, Ending	<u>\$ 1,379,100</u>	<u>\$ 1,416,300</u>	<u>\$ 3,583,787</u>	<u>\$ 2,167,487</u>