

EXCELSIOR ACADEMY

Financial Statements

June 30, 2011

(With Independent Auditors' Report Thereon)

EXCELSIOR ACADEMY
Financial Statements
Government Auditing Standards and Other Required Reports
Years Ended June 30, 2011 and 2010

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report.....	1
Financial Statements:	
Statements of Financial Position.....	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows.....	5
Notes to the Financial Statements.....	6
<u>Government Auditing Standards:</u>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12
Schedule of Findings and Responses.....	14
Independent Auditors' Report on Legal Compliance in Accordance With the State of Utah Legal Compliance Guide	15



INDEPENDENT AUDITORS' REPORT

The Board of Directors of Excelsior Academy, Inc.

We have audited the accompanying statements of financial position of Excelsior Academy (the "Academy") (a nonprofit corporation) as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Excelsior Academy, as of June 30, 2011 and 2010, and the change in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011, on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Schmitt, Griffiths, Smith & Co.

November 30, 2011

EXCELSIOR ACADEMY
Statements of Financial Position
June 30, 2011 and 2010

	2011	2010
<u>ASSETS</u>		
Current assets:		
Cash	\$ 611,659	\$ 321,259
Accounts receivable, net of allowance of \$0	130,736	53,051
Total current assets	742,395	374,310
Property and equipment, net	9,146,093	9,312,421
Restricted cash	21,112	3,016
Deferred fees, net	275,500	283,575
	\$ 10,185,100	\$ 9,973,322
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable	\$ 29,581	\$ 19,165
Accrued liabilities	204,449	176,014
Accrued interest	37,575	-
Capital lease payable, current portion	3,726	3,475
Notes payable, current portion	149,920	109,964
Total current liabilities	425,251	308,618
Capital lease payable, less current portion	9,395	13,120
Notes payable, less current portion	9,565,944	9,719,069
Total liabilities	10,000,590	10,040,807
Net assets:		
Unrestricted	184,510	(67,485)
Total net assets	184,510	(67,485)
	\$ 10,185,100	\$ 9,973,322

See accompanying notes and independent auditors' report.

EXCELSIOR ACADEMY
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	June 30, 2011		
	Unrestricted	Temporarily Restricted	Total
Revenue:			
Federal	\$ 550,603	\$ -	\$ 550,603
State	3,376,652	-	3,376,652
Local	107,204	-	107,204
Total revenue, net of assets released from restriction	4,034,459	-	4,034,459
Expenses:			
Instructional	2,029,937	-	2,029,937
Administration operations	412,532	-	412,532
Student support service	126,707	-	126,707
Operation and maintenance of facility	343,780	-	343,780
Interest	601,917	-	601,917
Amortization	8,075	-	8,075
Depreciation	259,516	-	259,516
Total expenses	3,782,464	-	3,782,464
Increase in net assets	251,995	-	251,995
Net assets, beginning	(67,485)	-	(67,485)
Net assets, ending	\$ 184,510	\$ -	\$ 184,510

EXCELSIOR ACADEMY
Statements of Activities and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	June 30, 2010		
	Unrestricted	Temporarily Restricted	Total
Revenue:			
Federal	\$ 457,495	\$ -	\$ 457,495
State	3,137,493	-	3,137,493
Local	111,465	-	111,465
Total revenue, net of assets released from restriction	3,706,453	-	3,706,453
Expenses:			
Instructional	2,061,948	-	2,061,948
Administration operations	420,930	-	420,930
Student support service	114,595	-	114,595
Operation and maintenance of facility	930,161	-	930,161
Interest	6,393	-	6,393
Amortization	1,425	-	1,425
Depreciation	249,825	-	249,825
Total expenses	3,785,277	-	3,785,277
Decrease in net assets	(78,824)	-	(78,824)
Net assets, beginning	11,339	-	11,339
Net assets, ending	\$ (67,485)	\$ -	\$ (67,485)

See accompanying notes and independent auditors' report.

EXCELSIOR ACADEMY
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 251,995	\$ (78,824)
Adjustments to reconcile increase (decrease) in net assets to net cash flows from operating activities:		
Depreciation	259,516	249,825
Amortization	8,075	1,425
Changes in operating assets and liabilities:		
Accounts receivable	(77,685)	25,167
Accounts payable	10,416	19,165
Accrued liabilities	28,435	176,014
Accrued interest	37,575	-
Total adjustments	<u>266,332</u>	<u>471,596</u>
Net cash flows from operating activities	<u>518,327</u>	<u>392,772</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(94,715)	(9,531,396)
Disposal of property and equipment	<u>1,527</u>	<u>-</u>
Net cash flows from investing activities	<u>(93,188)</u>	<u>(9,531,396)</u>
Cash flows from financing activities:		
Payments on capital leases	(3,474)	(2,124)
Proceeds from notes issuance	-	9,665,000
Payments on notes payable	(113,169)	(21,258)
Deferred fees	<u>-</u>	<u>(285,000)</u>
Net cash flows from financing activities	<u>(116,643)</u>	<u>9,356,618</u>
Net change in cash	308,496	217,994
Cash, beginning	<u>324,275</u>	<u>106,281</u>
Cash, ending	<u>\$ 632,771</u>	<u>\$ 324,275</u>
Cash and cash equivalents	\$ 611,659	\$ 321,259
Restricted cash	<u>21,112</u>	<u>3,016</u>
	<u>\$ 632,771</u>	<u>\$ 324,275</u>
Cash paid for interest	<u>\$ 564,342</u>	<u>\$ 6,393</u>

See accompanying notes and independent auditors' report.

EXCELSIOR ACADEMY
Notes to Financial Statements
June 30, 2011 and 2010

(1) Summary of Significant Accounting Policies

This summary of significant accounting policies of Excelsior Academy (the “Academy”) is presented to assist in understanding the Academy’s financial statements. The financial statements and notes are representations of the Academy’s management, who are responsible for their integrity and objectivity.

Operations and Purpose

The Academy was formed in 2007 and is a nonprofit institution, which was organized under the nonprofit corporation laws of the State of Utah. The Academy was organized by a group of parents, teachers, and business professionals to provide an educational opportunity in Erda that was not governed by the local school district. The Academy was founded on the premise that parents as partners in the learning process leads to success for each child. Every parent is asked to be involved with the school either through committees or through volunteering time in the classroom or with other needs the school may have as they arise.

Financial Statement Presentation

The Academy reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as applicable. The Academy did not have any temporarily or permanently restricted net assets as of June 30, 2011 and 2010.

Basis of Accounting

The Academy prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles.

Estimates and Assumptions

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

EXCELSIOR ACADEMY
Notes to Financial Statements, Continued
June 30, 2011 and 2010

(1) Summary of Significant Accounting Policies (continued)

Revenue Recognition

State Funding - The Academy receives funding from the State of Utah as administered by the Utah State Office of Education based on the number of students enrolled in its school. The State provides unrestricted funding for normal school operations and restricted funds for specific school-related activities or functions. Unrestricted funding is recognized as revenue when received. Funding for which qualifying expenses have not been incurred is recorded as temporarily restricted net assets in the Academy's Statement of Financial Position.

Federal Grants - The Academy has received federal charter school grants, which are paid through the Utah State Office of Education. Funds are generally received on a reimbursement basis and, accordingly, revenues related to these federal grants are recognized when qualifying expenses have been incurred and when all other grant requirements have been met.

Contributions and Donated Services - Unrestricted contributions are recognized as revenue when received. Contributions of goods are recorded at fair value. Contributions of services are recorded at fair value as revenue at the time the service is rendered when specialized skills are required and when the Academy would otherwise purchase the services. No amounts have been reflected in the accompanying financial statements for contributed goods or services during the years ended June 30, 2011 and 2010 because items did not meet the definition above. Restricted contributions received are recorded as increases in temporarily restricted or permanently restricted net assets depending on the nature of the restriction. *Temporarily restricted* net assets are recognized as revenue when the terms of the restrictions are met. *Permanently restricted* net assets represent the cumulative amount of endowment contributions received. Endowment contributions are principal amounts donated with the agreement that only future earnings on the principal be available for the operations of the Academy. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Cash Equivalents

The Academy considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. Restricted cash and cash equivalents are restricted for debt payments, see Note 4.

EXCELSIOR ACADEMY
Notes to Financial Statements, Continued
June 30, 2011 and 2010

(1) Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is recorded at cost. The Academy provides for depreciation of property and equipment using the straight-line method in accordance with accounting principles generally accepted in the United States of America for nonprofit organizations. The estimated useful lives are between three and forty years and individual items with a purchase cost over \$1,000 are depreciated rather than expensed.

Allocated Expenses

Expenses by function have been allocated among program and supporting service classifications on the basis of time records and on estimates made by the Academy's management.

Tax Status

The Academy is exempt from federal income taxes or excise taxes under Section 501(c)(3) of the Internal Revenue Code. The federal income tax returns of the Academy are subject to examination by the IRS, generally for three years after they are filed.

Deferred Fees

Deferred fees are amortized over the life of the related debt. Amortization is calculated using a method equivalent to the effective interest rate method.

Subsequent Events

Subsequent events have been evaluated through November 30, 2011, the date of issuance of these financial statements.

(2) Concentrations

Cash Deposits – At June 30, 2011 and 2010, the Academy's book balance of cash totaled \$632,771 and \$324,275, respectively, and the bank balance was \$822,830 and \$433,279, respectively, of which \$300,240 and \$352,313, respectively, was covered by federal depository insurance.

EXCELSIOR ACADEMY
Notes to Financial Statements, Continued
June 30, 2011 and 2010

(2) Concentrations (continued)

Revenue and Support – The majority of the Academy’s revenue comes from the U.S. Department of Education (passed through the Utah State Office of Education) and the State of Utah. Federal and State revenues were 97% of total revenue and support for the years ended June 30, 2011 and 2010.

(3) Property and Equipment

Property and equipment at June 30, 2011 and 2010 are comprised of the following:

	<u>2011</u>	<u>2010</u>
Land	\$ 400,000	\$ 97,388
Building	8,980,000	400,000
Leasehold improvements	55,263	8,980,000
Furniture and fixtures	95,861	30,104
Equipment	72,121	55,263
Construction in process	52,698	-
	<u>9,655,943</u>	<u>9,562,755</u>
Less accumulated depreciation	<u>(509,850)</u>	<u>(250,334)</u>
	<u>\$ 9,146,093</u>	<u>\$ 9,312,421</u>

Depreciation expense was \$259,516 and \$249,825 for the years ended June 30, 2011 and 2010, respectively.

(4) Notes Payable

The Academy has a note payable to the Utah State Office of Education (USOE) due in monthly installments of principal and interest of \$4,005, through January 1, 2014. The note bears interest at 1.405% and is unsecured. As of June 30, 2011 and 2010 the balance of the note was \$117,986 and 164,033, respectively.

EXCELSIOR ACADEMY
Notes to Financial Statements, Continued
June 30, 2011 and 2010

(4) Notes Payable (continued)

In May 2010, the Academy secured financing to purchase its facility. The financing consists of notes payable with an aggregate principal amount of \$9,665,000. The Academy has pledged certain future State revenues for payment of the notes. The notes consist of two notes as follows, together with their face amounts, coupon rates and maturity dates:

<u>Face Amount</u>	<u>Coupon Rate</u>	<u>Maturity Date</u>
\$ 6,165,000	7.125%	June 1, 2040
\$ 3,500,000	4.125%	April 28, 2050

At June 30, 2011 and 2010 the outstanding balance was \$9,597,878 and \$9,665,000. Interest and principal are payable in monthly installments which commenced June 1, 2010.

The Academy is required to meet certain covenants, associated with this note payable. The Academy was in compliance with these covenants as of June 30, 2011 and 2010.

Scheduled maturities of the notes payable as of June 30, 2011 are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2012	\$ 149,920
2013	156,993
2014	140,565
2015	123,811
2016	131,579
Thereafter	9,012,996
	<u>9,715,864</u>
Less current portion	<u>(149,920)</u>
	<u>\$ 9,565,944</u>

EXCELSIOR ACADEMY
Notes to Financial Statements, Continued
June 30, 2011 and 2010

(5) Capital Lease

The Academy acquired certain equipment under a capital lease agreement. Future minimum payments under the capital lease, together with their present values as of June 30, 2011, are summarized as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2012	\$ 4,524
2013	4,524
2014	4,524
2015	<u>1,131</u>
Total minimum lease payments	14,703
Amount representing interest	<u>(1,582)</u>
Present value of minimum lease payments	<u><u>\$ 13,121</u></u>

(6) Grants

The Academy received grants from federal, state, and local sources. The total amount of grants received for the years ended June 30, 2011 and 2010 was \$550,603 and \$457,495, respectively.

(7) Retirement Plan

The Academy has a defined contribution retirement plan covering all full-time, salaried employees. Eligible employees may contribute into an account at their option and discretion. The Academy contributes a non-elective contribution of 3% of eligible employees' salaries. The Academy matches employee contributions dollar for dollar up to 6% of employees' salaries. The Academy's contribution expense for the year ended June 30, 2011 and 2010 was \$81,353 and \$77,716, respectively.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**To the Board of Directors of
Excelsior Academy, Inc.**

We have audited the financial statements of Excelsior Academy, Inc., (the "Academy") a nonprofit organization, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 11-1.

The Academy's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Academy's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Schmitt, Griffiths, Smith & Co.

November 30, 2011

EXCELSIOR ACADEMY, INC.
Schedule of Findings and Responses
Year Ended June 30, 2011

FINDINGS – FINANCIAL STATEMENT AUDIT

11-1 Reconciliations

Finding: We noted that several accounts had not been properly reconciled prior to the audit, resulting in several journal entry adjustments. We further noted that reconciliations have not been reviewed and approved in a timely manner by someone independent of the person performing the reconciliation.

Recommendation: We recommend that accounting personnel be adequately trained and supervised to ensure reconciliations are completed in a timely manner. We further recommend that policies and procedures be implemented to ensure a timely and thorough review of reconciliations.

Management Response: The accounting manager previously in charge of these accounts has been terminated and replaced with a new manager. Management will ensure the manager receives adequate training and that her reconciliations are reviewed in a timely and thorough manner.

PRIOR FINDINGS – FINANCIAL STATEMENT AUDIT

None



**INDEPENDENT AUDITORS' REPORT ON LEGAL
COMPLIANCE IN ACCORDANCE WITH THE
STATE OF UTAH LEGAL COMPLIANCE AUDIT GUIDE**

**To the Board of Directors of
Excelsior Academy, Inc.**

We have audited the accompanying financial statements of Excelsior Academy, Inc., (the "Academy") a nonprofit corporation, for the year ended June 30, 2011, and have issued our report thereon dated November 30, 2011. As part of our audit, we have audited the Academy's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions applicable to each of its major State assistance programs as required by the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2011. The Academy received the following major assistance programs from the State of Utah (passed through the State Office of Education):

Minimum School Program

The management of the Academy is responsible for its compliance with the compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Our audit does not provide a legal determination on the Academy's compliance with these requirements.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Excelsior Academy, Inc. complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the year ended June 30, 2011.

The report is intended solely for the information and use of management of the Academy and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

Schmitt, Giffels, Smith & Co.

November 30, 2011