



**JAMES MADISON CHARTER
ACADEMY**

FINANCIAL STATEMENTS
With Independent Auditors' Report

For the Year Ended June 30, 2014

JAMES MADISON CHARTER ACADEMY
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JUNE 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
James Madison Charter Academy

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of James Madison Charter Academy, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of James Madison Charter Academy, as of June 30, 2014, and the respective changes in

financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise James Madison Charter Academy's financial statements as a whole. The other supplemental information is presented for the purpose of additional analysis and is not a required part of the financial statements. The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hoelting & Company Inc.

Colorado Springs, Colorado
October 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of James Madison Charter Academy (JMCA), offers readers of the financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2014. Readers are encouraged to consider the information presented here in conjunction with additional information that can be found in the notes to the financial statements.

FINANCIAL HIGHLIGHTS

The liabilities of JMCA exceeded its assets at the close of fiscal year 2013-2014 by \$29,262 with (\$66,962) in unrestricted net position. In comparison, at June 30, 2013, liabilities exceeded assets by \$162,957 (\$190,029) in unrestricted net position.

The total liabilities at June 30, 2014 were \$1,924,821 compared to \$1,891,400 at June 30, 2013. For the 2013-2014 fiscal year, JMCA's revenues were \$1,462, 280 compared to \$1,110,865 for fiscal year 2012-2013. Total expenses for the fiscal year 2013-2014 were \$1,328,585 compared to \$1,114,467 for the fiscal year 2012-2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to JMCA's basic financial statements. This report consists of three parts: 1) Management's Discussion and Analysis, 2) Basic Financial Statements, including Notes to the Financial Statements, and 3) Required and Other Supplemental Information.

SCHOOL-WIDE FINANCIAL STATEMENTS

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

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

The Statement of Activities presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. earned but unpaid salary and benefits).

The School-wide statement of activities distinguishes functions of the School supported primarily by per pupil revenue or other revenues passed through from Widefield School District No. 3. The governmental activities of the School include instruction and supporting services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the School-wide financial statements. However, unlike the school-wide financial statements, governmental funds financial statements focus on near term inflows and outflows of resources available to spend at the end of the fiscal year. Such information may be useful in evaluating the school's near term financing requirements.

Because the focus of governmental funds is narrower than that of the School-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the School-wide financial statements. By doing so, readers may better understand the long-term impact of the school's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary funds. JMCA reports one proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the district-wide financial statements. The School uses an enterprise fund to account for its building lease activities. Proprietary funds provide the same type of information as the district-wide financial statements, only in more detail. Individual fund data for the Enterprise fund is provided in the other supplemental information in this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the School-wide and fund financial statements.

FINANCIAL ANALYSIS OF THE SCHOOL

One of the most important questions asked about a school's finances is "Is the school as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the School's activities in a way that can help answer that question. These two statements report the net position of the school and changes in them. The School's net position (the difference between assets and liabilities) are one way to measure financial health or financial position. In addition, readers also need to consider other non-financial factors such as changes in economic conditions, student population growth, or changes in governmental legislation.

NET POSITION

As part of the analysis, below is a summary of the school's comparative Statement of Net Position and Statement of Activities below.

Condensed Statement of Net Position June 30, 2014 and 2013

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Current assets	\$ 315,251	\$ 94,231	\$ 28,125	\$ 28,500	\$ 343,376	\$ 122,731
Noncurrent assets	-	-	220,275	216,104	220,275	216,104
Capital assets (net)	-	-	1,331,908	1,389,608	1,331,908	1,389,608
Total Assets	315,251	94,231	1,580,308	1,634,212	1,895,559	1,728,443
Current liabilities	82,365	19,902	23,125	23,500	105,490	43,402
Long-term liabilities	-	-	1,819,331	1,847,998	1,819,331	1,847,998
Total Liabilities	82,365	19,902	1,842,456	1,871,498	1,924,821	1,891,400
Restricted	37,700	27,072	-	-	37,700	27,072
Unrestricted	195,186	47,257	(262,148)	(237,286)	(66,962)	(190,029)
Total Net Position	\$ 232,886	\$ 74,329	\$ (262,148)	\$ (237,286)	\$ (29,262)	\$ (162,957)

Condensed Statement of Activities For the Years Ended June 30, 2014 and 2013

	Governmental Activities		Business-Type Activities		Totals	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 174,791	\$ 178,397	\$ 174,791	\$ 178,397
Operating grants and contributions	50,874	42,940	-	-	50,874	42,940
General revenues:						
Property taxes	81,147	61,514	-	-	81,147	61,514
Per pupil revenue	1,139,145	823,560	-	-	1,139,145	823,560
Other	16,296	4,429	27	25	16,323	4,454
Total Revenues	1,287,462	932,443	174,818	178,422	1,462,280	1,110,865
Expenses						
Instructional	600,743	428,284	-	-	600,743	428,284
Support services	528,162	484,520	-	-	528,162	484,520
Enterprise operations	-	-	199,680	201,663	199,680	201,663
Total Expenses	1,128,905	912,804	199,680	201,663	1,328,585	1,114,467
Change in net position	158,557	19,639	(24,862)	(23,241)	133,695	(3,602)
Beginning net position	74,329	54,690	(237,286)	(214,045)	(162,957)	(159,355)
Ending Net Position	\$ 232,886	\$ 74,329	\$ (262,148)	\$ (237,286)	\$ (29,262)	\$ (162,957)

GENERAL FUND BUDGETARY HIGHLIGHTS

The School developed its budget for Fiscal Year 2014 in the spring of 2013. The actual expenditures for the year were more than the final budget for expenditures by \$50,037.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The School-wide investment in capital assets for the primary government, including business-type activities, as of June 30, 2014 totaled \$1,331,908 (net of accumulated depreciation of \$399,092).

Long-term debt. At the end of the current fiscal year, the School had total long-term debt outstanding of \$1,850,000 including \$30,000 due within the next twelve months. The School's debt is non-rated. For comparison, at the end of the previous fiscal year, the School had total long-term debt outstanding, of \$1,880,000 including \$30,000 due within the next twelve months.

For more detailed information on capital assets and debt administration, see Notes 4 and 5 in the Notes to the Basic Financial Statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Assets with a useful life of more than one year and a unit cost of greater than \$5,000 are capitalized. Assets are recorded at cost and depreciated using the straight-line method over the estimated useful life of the assets. JMCA itself does not own any assets that meet these criteria, however, James Madison Building Corporation acquired the building in which JMCA is operating the Charter School, therefore, the cost and accumulated depreciation for this building are reported in the financial statements of the reporting entity.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The primary factor driving the budget for the school is student enrollment. The enrollment projected for the 2014-2015 school year is 129.5 FTE. The School is also projecting grant revenue of over \$40,000 for the 2014-2015 school year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the James Madison Charter Academy's finances for all those with an interest in them. Questions concerning any of the information provided in this report should be directed to the school at James Madison Charter Academy, 660 Syracuse Street, Colorado Springs, CO 80911.

BASIC FINANCIAL STATEMENTS

JAMES MADISON CHARTER ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 28,608	\$ 28,125	\$ 56,733
Intergovernmental receivable	284,143	-	284,143
Prepaid expenses	2,500	-	2,500
Restricted cash and cash equivalents	-	220,275	220,275
Capital assets:			
Building	-	1,731,000	1,731,000
Less: accumulated depreciation	-	(399,092)	(399,092)
Total capital assets	-	1,331,908	1,331,908
Total assets	315,251	1,580,308	1,895,559
LIABILITIES			
Accounts payable	64,516	-	64,516
Accrued salaries and benefits	17,697	-	17,697
Accrued interest payable	-	23,125	23,125
Unearned revenues	152	-	152
Long-term liabilities:			
Due within one year			
Notes payable	-	30,000	30,000
Due in more than one year			
Note payable	-	1,789,331	1,789,331
Total liabilities	82,365	1,842,456	1,924,821
NET POSITION			
Restricted for:			
Emergency reserve (TABOR)	37,700	-	37,700
Unrestricted	195,186	(262,148)	(66,962)
Total net position	\$ 232,886	\$ (262,148)	\$ (29,262)

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

**JAMES MADISON CHARTER ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		<u>Total</u>
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Governmental activities:							
Instruction	\$ 600,743	\$ -	\$ 33,981	\$ -	\$ (566,762)	\$ -	\$ (566,762)
Instructional support	15,598	-	-	-	(15,598)	-	(15,598)
General administration	21,796	-	-	-	(21,796)	-	(21,796)
School administration	194,471	-	-	-	(194,471)	-	(194,471)
Business services	16,537	-	-	-	(16,537)	-	(16,537)
Maintenance and operations	278,731	-	16,893	-	(261,838)	-	(261,838)
Central support services	1,029	-	-	-	(1,029)	-	(1,029)
Total governmental activities	<u>1,128,905</u>	<u>-</u>	<u>50,874</u>	<u>-</u>	<u>(1,078,031)</u>	<u>-</u>	<u>(1,078,031)</u>
Business-type activities:							
Building Corporation	<u>199,680</u>	<u>174,791</u>	<u>-</u>	<u>-</u>		<u>(24,889)</u>	<u>(24,889)</u>
Total primary government	<u>\$ 1,328,585</u>	<u>\$ 174,791</u>	<u>\$ 50,874</u>	<u>\$ -</u>		<u>(24,889)</u>	<u>(1,102,920)</u>
General revenues:							
Property taxes					81,147	-	81,147
Per pupil revenue					1,139,145	-	1,139,145
Miscellaneous revenues					16,296	27	16,323
Total general revenues					<u>1,236,588</u>	<u>27</u>	<u>1,236,615</u>
Change in net position					158,557	(24,862)	133,695
Net position - beginning					74,329	(237,286)	(162,957)
Net position - ending					<u>\$ 232,886</u>	<u>\$ (262,148)</u>	<u>\$ (29,262)</u>

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

**JAMES MADISON CHARTER ACADEMY
BALANCE SHEET
GENERAL FUND
JUNE 30, 2014**

ASSETS

Cash and cash equivalents	\$ 28,608
Intergovernmental receivable	284,143
Prepaid expenses	<u>2,500</u>
 Total assets	 <u><u>\$ 315,251</u></u>

LIABILITIES

Accounts payable	64,516
Accrued salaries and benefits	17,697
Unearned revenues	<u>152</u>
 Total liabilities	 <u>82,365</u>

FUND BALANCES

Restricted for:	
Emergency reserve (TABOR)	37,700
Unassigned	<u>195,186</u>
 Total fund balances	 <u>232,886</u>

Total liabilities and fund balances	<u><u>\$ 315,251</u></u>
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The accompanying notes are an integral part of these financial statements.

**JAMES MADISON CHARTER ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

REVENUES

Local sources	\$ 97,443
State sources	1,157,428
Federal sources	<u>32,591</u>
 Total revenues	 <u>1,287,462</u>

EXPENDITURES

Instruction	600,743
Instructional staff	15,598
General administration	21,796
School administration	194,471
Business services	16,537
Operation and maintenance	278,731
Central support services	<u>1,029</u>
 Total expenditures	 <u>1,128,905</u>
 Net change in fund balance	 158,557
 Fund balance - beginning	 <u>74,329</u>
 Fund balance - ending	 <u><u>\$ 232,886</u></u>

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

**JAMES MADISON CHARTER ACADEMY
STATEMENT OF NET POSITION
ENTERPRISE FUND
JUNE 30, 2014**

ASSETS

Current assets:

Cash and cash equivalents	\$ 28,125
	28,125
Total current assets	28,125

Noncurrent assets:

Restricted cash and cash equivalents	220,275
Building	1,731,000
Less: accumulated depreciation	(399,092)
	1,552,183
Total noncurrent assets	1,552,183
Total assets	1,580,308

LIABILITIES

Current Liabilities:

Accrued interest payable	23,125
Bonds payable - current portion	30,000
	53,125
Total current liabilities	53,125

Noncurrent Liabilities:

Bonds payable	1,789,331
	1,789,331
Total noncurrent liabilities	1,789,331
Total liabilities	1,842,456

NET POSITION

Unrestricted (deficit)	(262,148)
	(262,148)
Total net position (deficit)	\$ (262,148)

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

JAMES MADISON CHARTER ACADEMY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2014

OPERATING REVENUES	
Rental income	\$ 170,625
Repair and maintenance fees	<u>4,166</u>
Total operating revenues	<u>174,791</u>
OPERATING EXPENSES	
Interest expense	<u>141,980</u>
Total operating expenses	<u>141,980</u>
Operating income (loss)	<u>32,811</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	27
Depreciation expense	<u>(57,700)</u>
Total nonoperating revenues (expenses)	<u>(57,673)</u>
Change in net position	<u>(24,862)</u>
Net position - beginning	<u>(237,286)</u>
Net position - ending	<u><u>\$ (262,148)</u></u>

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

**JAMES MADISON CHARTER ACADEMY
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from lessee	\$ 174,791
Interest payments to bondholders	<u>(141,022)</u>
Net cash provided (used) by operating activities	<u>33,769</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Principal payment on bonds	<u>(30,000)</u>
Net cash provided (used) by capital and related financing activities	<u>(30,000)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>27</u>
Net cash provided (used) by investing activities	<u>27</u>
Net increase (decrease) in cash and cash equivalents	3,796

Cash and cash equivalents - beginning	<u>244,604</u>
Cash and cash equivalents - ending	<u><u>\$ 248,400</u></u>
Unrestricted cash and cash equivalents	\$ 28,125
Restricted cash and cash equivalents	<u>220,275</u>
Total cash and cash equivalents	<u><u>\$ 248,400</u></u>

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	<u>\$ 32,811</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Amortization of bond discount	1,333
Change in assets and liabilities:	
Increase (decrease) in:	
Accrued interest payable	<u>(375)</u>
Total adjustments	<u>958</u>
Net cash provided (used) by operating activities	<u><u>\$ 33,769</u></u>

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

NOTES TO FINANCIAL STATEMENTS

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

James Madison Charter Academy (the School) began operations on July 1, 2005, pursuant to the Colorado Charter Schools Act, to form and operate a charter school within Widefield School District No. 3 (the District).

The financial statements of James Madison Charter Academy (the School) have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the School are described below.

A. REPORTING ENTITY

The accompanying financial statements present the School and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

Blended component unit. The James Madison Building Corporation (the Corporation) was organized for the purpose of acquiring, leasing, constructing, improving, equipping and financing various facilities, land, equipment and other improvements in connection with property intended to be leased to the School. The Corporation has no financial balances or transactions outside of those reported by the School, and therefore, are not reported separately in the financial statements. The Corporation does not issue separate financial statements.

The School is considered a component unit of the District. The School is deemed to be fiscally dependent upon the District because the District provides the majority of the support to the School in the form of per pupil operating revenue. The School operates under a charter with the District. The current charter runs through June 30, 2015 at which time the School may seek renewal of its charter in accordance with procedures set forth in state law and school district policy and regulations.

B. BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, and enterprise funds.

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. Governmental activities are normally supported by per pupil revenue and intergovernmental revenues. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS

The accounts of the School are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The School reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the School reports the following major proprietary fund:

Enterprise Funds are used to account for those operations financed and operated in a manner similar to a private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountabilities. The Building Corp. is accounted for as an enterprise fund.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

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 the related cash flows. Grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

The 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 collectible within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental revenues 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. Expenditure-driven grants recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The enterprise fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE

Cash and cash equivalents

Cash and cash equivalents include cash on hand and in the bank and short-term investments with original maturities of three months or less from the date of acquisition.

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 a building, are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. The capitalization level for equipment is \$5,000. Donated capital assets are valued at their estimated fair market value on the date received. Major outlays for capital assets and improvements are capitalized as projects are constructed.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE (CONTINUED)

Capital assets (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and are depreciated over the remaining useful lives of the related capital assets or remaining period of the lease, as applicable.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed.

Capital assets of the government are depreciated using the straight-line method over the following estimated useful lives:

Building	30 years
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Long-term liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net position flow assumption

The School may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE (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 School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications available to be used in the governmental fund financial statements are as follows:

Non-spendable – 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.

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.

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 that was used 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.

Assigned – This classification includes amounts that are constrained by the School's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to management through the budgetary process. This classification also includes the remaining positive fund balance for any governmental funds except for the General Fund.

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 School 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 resources first to defer the use of these other classified funds.

F. REVENUES AND EXPENDITURES/EXPENSES

Program revenues

Amounts reported as *program revenues* include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as programs revenues. Likewise, general revenues include all state equalization.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. REVENUES AND EXPENDITURES/EXPENSES (CONTINUED)

Proprietary funds operating and non-operating revenues and expenses

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the School's enterprise funds is rental income. Operating expenses for enterprise funds include interest expense. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

G. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGET INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. All annual appropriations lapse at fiscal year end. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year.

Budgets are required by Colorado State Statute for all funds. On or before June 1, management submits to the Board of Directors a proposed budget for all funds for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Public hearings are conducted by the Board of Directors to obtain taxpayer comments. Prior to June 30, the budget is adopted by formal resolution.

Formal budgetary integration is employed as a management control device during the year for the Governmental funds. The appropriated budget is prepared by fund. The legal level of control is the fund level.

Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

Appropriations are based on total funds expected to be available in each budget year, including beginning fund balances and reserves as established by the Board of Directors. Variances between budget and actual result from the non-expenditure of reserves, nonoccurrence of anticipated events, and normal operating variances. The Board of Directors may authorize supplemental appropriations during the year. For budgetary management purposes, funds are appropriated for capital outlays.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2014, expenditures exceeded appropriations in the General Fund by \$50,037, which may be a violation of state statutes. These over expenditures, which were primarily related to unbudgeted costs associated instructional expenses, were funded by additional per pupil revenues received in excess of the budget.

DEFICIT NET POSITION

The Enterprise fund had a deficit net position balance of \$262,148 as of June 30, 2014. The deficit balance is primarily due to accumulated depreciation expenses exceeding accumulated rental income. Because rental income is scheduled to recover debt service costs related to the assets being depreciated, the School expects a negative net assets balance to continue until accumulated rental income exceeds accumulated depreciation expenses.

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash deposits with financial institutions

Custodial credit risk—deposits. 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. 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 carrying amount of cash deposits for the governmental activities at June 30, 2014 was \$28,608 and the bank balances were \$28,608. All of the bank balances were covered by federal deposit insurance.

Investments

Credit Risk

The School is authorized by Colorado statutes to invest in the following:

- ◆ Obligations of the United States and certain U.S. government agencies' securities;
- ◆ Certain international agencies' securities;
- ◆ General obligation and revenue bonds of U.S. local government entities;
- ◆ Bankers' acceptances of certain banks;
- ◆ Certain commercial paper;
- ◆ Local government investment pools;
- ◆ Written repurchase agreements collateralized by certain authorized securities;
- ◆ Certain money market fund;
- ◆ Guaranteed investment contracts.

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (continued)

At June 30, 2014 the School's investment balances were as follows:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Money market	Less than 60 days	\$ <u>248,400</u>

These investments are Dreyfus money market funds which are not rated by rating agencies.

\$220,275 of investment balances was restricted for debt service.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Business-type Activities</i>				
Depreciable assets:				
Building	\$ 1,731,000	\$ -	\$ -	\$ 1,731,000
Less accumulated depreciation for:				
Building	<u>341,392</u>	<u>57,700</u>	<u>-</u>	<u>399,092</u>
<i>Business-type activities capital assets, net</i>	<u>\$ 1,389,608</u>	<u>\$ (57,700)</u>	<u>\$ -</u>	<u>\$ 1,331,908</u>

NOTE 5 – LONG-TERM LIABILITIES

Series 2007 Charter School Revenue Bonds

Principal
Balance

Bonds to finance acquiring the building the School operates in the original amount of \$2,040,000 due in varying annual installments through May 1, 2037 with a coupon rate of 7.50%

\$ 1,850,000

The changes in long-term debt for the year ended June 30, 2014 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds	\$ 1,880,000	\$ -	\$ 30,000	\$ 1,850,000	\$ 30,000
Unamortized bond discount	<u>(32,002)</u>	<u>-</u>	<u>(1,333)</u>	<u>(30,669)</u>	<u>-</u>
Total bonds payable	<u>\$ 1,847,998</u>	<u>\$ -</u>	<u>\$ (28,667)</u>	<u>\$ 1,819,331</u>	<u>\$ 30,000</u>

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

Annual debt service requirements to maturity for the note payable are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 30,000	\$ 138,750
2016	30,000	136,500
2017	35,000	134,250
2018	35,000	131,625
2019	40,000	129,000
2020-2024	250,000	594,750
2025-2029	350,000	487,500
2030-2034	505,000	334,875
2035-2037	<u>575,000</u>	<u>100,500</u>
Total	<u>\$ 1,850,000</u>	<u>\$ 2,187,750</u>

NOTE 6 – OPERATING LEASE

On July 1, 2007, James Madison Charter Academy executed a new lease agreement with their blended component unit, James Madison Building Corporation. The lease term includes the initial term from July 1, 2007 through June 30, 2008 and successive one year renewal terms. For the fiscal year ended June 30, 2014, the lease payments were \$170,625.

The future minimum lease payments for this lease are as follows:

<u>Fiscal Year</u> <u>Ending June 30</u>	
2015	\$ 168,375
2016	166,958
2017	168,813
2018	167,021
2019	169,333
2020-2024	844,125
2025-2029	837,291
2030-2034	840,229
2035-2037	<u>477,479</u>
Total	<u>\$ 3,839,624</u>

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 - DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION

The School 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). The SDTF provides retirement and disability, postretirement annual increases, and death benefits for members or their beneficiaries. All employees of the School are members of the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available Comprehensive 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, 1301 Pennsylvania Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

FUNDING POLICY

The School 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 C.R.S., as amended. The contribution rate for members is 8.0 percent and for the School it is 10.15 percent of covered salary. A portion of the School's contribution (1.02 percent of covered salary) is allocated to the Health Care Trust Fund (see Note 8). The School is also required to pay an amortization equalization disbursement (AED) equal to 3.80 percent of the total payroll for the calendar year 2014 (3.40 percent of total payroll for the calendar year 2013, and 3.00 percent of total payroll for the calendar year 2012). Additionally, the School is required to pay a supplemental amortization equalization disbursement (SAED) equal to 3.50 percent of the total payroll for the calendar year 2014 (3.00 percent of total payroll for the calendar year 2013, and 2.50 percent of total payroll for the calendar year ended 2012). For the years ending June 30, 2014, 2013, and 2012 the School's employer contributions to the SDTF were \$90,034, \$73,452, and \$56,518 respectively, equal to their required contributions for the year.

NOTE 8 - POST-EMPLOYMENT HEALTHCARE BENEFITS

PLAN DESCRIPTION

The School contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for the HCTF. That report may be obtained online at www.copera.org or 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).

JAMES MADISON CHARTER ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8 - POST-EMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)

FUNDING POLICY

The School is required to contribute at a rate of 1.02 percent of covered salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contribution to the HCTF from the defined benefit plan employer contribution (see Note 7) is established under Title 24, Article 51, Section 208 of the C.R.S., as amended. For the year ending June 30, 2014, 2013, and 2012, the School's employer contributions to the HCTF were \$5,747, \$4,957, and \$3,702 respectively, equal to their required contributions for each year.

NOTE 9 - RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The School carries commercial insurance for these risks of loss, including worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the last three fiscal years.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

GRANTS

The School has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to a request for reimbursement to grantor agencies for expenditures disallowed under terms of the grant. However, in the opinion of the School, any such adjustments will not have a material adverse affect on the financial position of the School.

NOTE 11 - AMENDMENT TO COLORADO CONSTITUTION

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities and other specific requirements of state and local governments.

The amendment requires emergency reserves be established. These reserves must be at least 3% of fiscal year spending. The School is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary and benefit increases. At June 30, 2014 there is a \$37,300 reservation of fund balance in the General Fund for the amendment.

The Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with the requirements of the amendment. However, the School has made certain interpretations of the amendment's language in order to determine its compliance.

NOTE 12 - COMPLIANCE

The School has complied with the requirements of the Financial Policies and Procedures Handbook for the 2014 audit period as required by Colorado Statute CRS 22-44-204(3).

REQUIRED SUPPLEMENTARY INFORMATION

JAMES MADISON CHARTER ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources	\$ 73,941	\$ 73,941	\$ 97,443	\$ 23,502
State sources	1,016,387	1,016,387	1,157,428	141,041
Federal sources	22,768	22,768	32,591	9,823
Total revenues	<u>1,113,096</u>	<u>1,113,096</u>	<u>1,287,462</u>	<u>174,366</u>
EXPENDITURES				
Instruction	543,198	543,198	600,743	(57,545)
Instructional support	12,835	12,835	15,598	(2,763)
General administration	18,602	18,602	21,796	(3,194)
School administration	184,020	184,020	194,471	(10,451)
Business services	15,155	15,155	16,537	(1,382)
Maintenance and operations	269,195	269,195	278,731	(9,536)
Central services	2,470	2,470	1,029	1,441
Appropriated reserves	33,393	33,393	-	33,393
Total expenditures	<u>1,078,868</u>	<u>1,078,868</u>	<u>1,128,905</u>	<u>(50,037)</u>
Net change in fund balance	34,228	34,228	158,557	124,329
Fund balance - beginning	<u>74,329</u>	<u>74,329</u>	<u>74,329</u>	<u>-</u>
Fund balance - ending	<u><u>\$ 108,557</u></u>	<u><u>\$ 108,557</u></u>	<u><u>\$ 232,886</u></u>	<u><u>\$ 124,329</u></u>

See the accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

JAMES MADISON CHARTER ACADEMY
SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
BUDGET AND ACTUAL
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2014

	Final Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Rental income	\$ 178,500	\$ 170,625	\$ (7,875)
Repair and maintenance fees	-	4,166	4,166
Total operating revenues	<u>178,500</u>	<u>174,791</u>	<u>(3,709)</u>
OPERATING EXPENSES			
Interest expense	<u>147,260</u>	<u>141,980</u>	<u>5,280</u>
Total operating expenses	<u>147,260</u>	<u>141,980</u>	<u>5,280</u>
Operating income (loss)	<u>31,240</u>	<u>32,811</u>	<u>1,571</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest income	-	27	27
Depreciation expense	<u>(57,700)</u>	<u>(57,700)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(57,700)</u>	<u>(57,673)</u>	<u>27</u>
Change in net position	<u>(26,460)</u>	<u>(24,862)</u>	<u>1,598</u>
Net position - beginning	<u>(158,083)</u>	<u>(237,286)</u>	<u>(79,203)</u>
Net position - ending	<u><u>\$ (184,543)</u></u>	<u><u>\$ (262,148)</u></u>	<u><u>\$ (77,605)</u></u>

See the accompanying independent auditors' report.