

ORTON ACADEMY

FINANCIAL STATEMENTS
With Independent Auditors' Report

For the Year Ended June 30, 2023

**ORTON ACADEMY
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JUNE 30, 2023**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Orton Academy

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Orton Academy, as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise the Orton Academy's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Orton Academy, as of June 30, 2023 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Orton Academy and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 10 to the financial statements, Orton Academy implemented GASB Statement No. 87, *Leases* effective July 1, 2022. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Orton Academy's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Orton Academy's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Orton Academy's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Hoelting & Company, Inc.

Colorado Springs, Colorado
October 18, 2023

**ORTON ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2023**

As management of Orton Academy (the School) we offer readers of the School's annual financial report this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2023. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

FINANCIAL HIGHLIGHTS

- Assets and deferred outflows of the school exceeded the liabilities and deferred inflows of the school by \$359,517 during the fiscal year resulting in a positive net position balance.
- The School's total net position increased by \$95,893 for a total of \$359,517. This was the School's third year of operations.
- Long-term liabilities of consist of a \$26,000 loan and \$150,530 leases outstanding.
- As of the close of the current fiscal year, the School's general fund reported an ending fund balance surplus of \$391,582.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serve as an introduction to the School's basic financial statements. The School's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the School's finances as a whole, in a manner similar to a private-sector business and include two statements:

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, increases 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 reporting 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. Accrued interest expense is an example of this type of item.

Both government-wide financial statements distinguish functions of the School that are principally supported by per pupil revenues and district mill levy revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School include the running of a K-8 contract school in Colorado Springs, Colorado.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The fund financial statements provide more detailed information about the School's operations, focusing on its most significant funds, not the School as a whole.

Governmental Funds. The School's basic services are included in this governmental fund, which focuses on (1) how money flows into and out of the fund and (2) the balances left at year-end that are available for spending or reserves. Consequently, the governmental fund statements provide a detailed short-term view that helps determine the status of financial resources that can be spent in the near future to finance the School's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Thus, readers may better understand the long-term impact of the School's near-term financing decisions. To facilitate this comparison between governmental funds and governmental activities, reconciliations are provided for both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balance.

Notes to the Basic Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the School. The School adopts an annual appropriated budget for the general fund. A budgetary comparison schedule has been provided to demonstrate compliance with the budget.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position. As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of the School, total assets and deferred outflows exceeded liabilities and deferred inflows by \$359,517 as of June 30, 2023 resulting in a positive net position balance.

A portion of the School's net position represents resources that are subject to external restrictions on how they may be used \$31,500 of these funds are restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. The remaining balance consists of \$(32,065) net investment in capital assets and \$360,082 is unrestricted.

Condensed Statement of Net Position

	<u>2023</u>	<u>2022</u>
Current and other assets	\$497,608	\$369,631
Capital assets	<u>144,465</u>	<u>0</u>
Total assets	\$642,073	\$369,631
Deferred Outflows	<u>0</u>	<u>0</u>
Long-term liabilities	\$ 176,530	\$ 38,000
Other liabilities	<u>\$106,026</u>	<u>\$68,007</u>
Total liabilities	<u>\$282,556</u>	<u>\$106,007</u>
Deferred Inflows	<u>0</u>	<u>0</u>
Net position:		
Net investment in capital assets	\$(32,065)	0
Restricted, TABOR	\$ 31,500	\$ 34,000
Unrestricted	<u>\$360,082</u>	<u>\$229,624</u>
Total net position	<u>\$359,517</u>	<u>\$263,624</u>

Condensed Statement of Activities

	<u>2023</u>	<u>2022</u>
Revenues:		
General revenues:		
Per pupil revenue	\$868,123	\$961,419
District mill levy	0	0
Other	42,221	7,068
Program Revenue:		
Charges for Services	0	0
Operating grants and contributions	\$550,216	\$399,858
Capital grants and contributions	<u>0</u>	<u>0</u>
Total revenues	<u>\$1,460,560</u>	<u>\$1,368,345</u>
Expenses:		
Instruction	\$533,649	\$411,939
Supporting services	\$816,572	\$749,025
Interest	<u>\$ 14,446</u>	<u>\$ 0</u>
Total expenses	<u>\$1,364,667</u>	<u>\$1,160,964</u>
Change in net position	95,893	207,381
Net position, beginning	<u>\$263,624</u>	<u>\$56,243</u>
Net position, ending	<u>\$359,517</u>	<u>\$263,624</u>

Governmental Activities. During the current fiscal year, net position for governmental activities increased \$95,893 from the prior fiscal year for an ending balance of \$359,517. The increase in net position results primarily from vacancies in staff positions throughout the year.

ANALYSIS OF THE SCHOOL'S FUNDS

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

The General Fund is the principal operating fund of the School. As of June 30, 2023, the total general fund balance was \$391,582 an increase of \$89,958 in comparison with the prior year. \$31,500 of this total was restricted for TABOR emergency reserves, \$(32,065) is the net investment in capital assets, resulting in a \$360,082 unassigned fund balance.

The general fund balance increase of \$89,958 during the current year is primarily due to vacancies in staffing (both internal and third-party) throughout the year, with a 4.5% decrease in expenditures from what was budgeted.

Revenues for the General Fund totaled \$1,460,560 in fiscal year 2023 compared to \$1,368,345 in fiscal year 2022, an increase of \$89,958. Despite have 17 less FTE, the increase in revenue was due to an increase of \$215,366 in IDEA funding. Overall expenditures increased \$203,703. Instructional and supporting expenditures increased as a result of increased staffing to meet the diverse needs of our students, as well as the direct expenses for serving those students.

BUDGETARY HIGHLIGHTS

The School's budget is prepared in accordance with Colorado law. During the year, the School amended its budget primarily to reflect the following changes:

- The final (supplemental) budget increased total revenues by \$109,054 from the preliminary budget to update per pupil, local source, state and federal revenue.
- Staffing was increased to allocate for needed positions, however, the positions were unable to be filled.

Actual General Fund revenue and other financing sources in the 2023 fiscal year was \$1,460,560 and actual expenditures were \$1,370,602 which resulted in an increase in fund balance of \$89,958.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The School's capital assets consist of a building lease asset in the amount of \$288,929 at June 30, 2023.

Debt Administration

At the end of current fiscal year, the School had \$26,000 in debt outstanding. During the FY21 fiscal year, the School entered into a \$50,000 operating loan, interest free paid back at \$12,000 per year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The primary factor driving the School's budget is student enrollment. Enrollment decreased by 16 student full time equivalents (sFTE) in the School's third year of operations. The final sFTE for in 2022-2023 was 94; compared to 111 in 2021-2022. Enrollment for the 2023-2024 school year is estimated to increase to 116.5 students. The School has been experiencing an increase in Per Pupil Revenue (PPR) due to the state budget's focus on education funding for the 2022-23 school year was \$9,235.35 and estimated to be \$10,117.29 for the 2023-2024 school year. Federal revenue related to specific school teachings is available, IDEA, and was a large part of the increase in revenues for the year and is expected to continue.

The 2023-2024 School budget has been prepared with the School's strategic plan in mind and with the priority of providing financial resources for the quality education of Orton Academy's students.

REQUESTS FOR INFORMATION

This financial report is designed to provide the School's stakeholders and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ted Harvey at 3115 Larkspur Drive, Colorado Springs, CO 80907.

BASIC FINANCIAL STATEMENTS

ORTON ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2023

	Governmental Activities
ASSETS	
Cash and investments	\$ 484,437
Prepays	13,171
Capital assets, net of accumulated depreciation/amortization	144,465
Total Assets	642,073
LIABILITIES	
Accounts payable and other accrued liabilities	5,080
Accrued salaries and benefits	100,946
Long-term liabilities:	
Due within one year	162,530
Due in more than one year	14,000
Total Liabilities	282,556
NET POSITION	
Net investment in capital assets	(32,065)
Restricted for emergencies	31,500
Unrestricted	360,082
Total Net Position	\$ 359,517

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

**ORTON ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Governmental Activities</u>
Governmental activities:					
Instruction	\$ 533,649	\$ -	\$ 550,216	\$ -	\$ 16,567
Supporting services	816,572	-	-	-	(816,572)
Interest	14,446	-	-	-	(14,446)
Total governmental activities	<u>\$ 1,364,667</u>	<u>\$ -</u>	<u>\$ 550,216</u>	<u>\$ -</u>	<u>(814,451)</u>
General revenues:					
Per pupil revenue					868,123
Grants and contributions not restricted to specific programs					15,960
Miscellaneous					26,261
Total general revenues					<u>910,344</u>
Change in net position					95,893
Net position - beginning					<u>263,624</u>
Net position - ending					<u>\$ 359,517</u>

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

**ORTON ACADEMY
BALANCE SHEET
GENERAL FUND
JUNE 30, 2023**

ASSETS

Cash and investments	\$ 484,437
Prepays	<u>13,171</u>
Total Assets	<u><u>\$ 497,608</u></u>

LIABILITIES

Accounts payable and other accrued liabilities	\$ 5,080
Accrued salaries and benefits	<u>100,946</u>
Total Liabilities	<u>106,026</u>

FUND BALANCE

Restricted for:	
Emergencies	31,500
Unassigned	<u>360,082</u>
Total Fund Balance	<u>391,582</u>

Total Liabilities and Fund Balance	<u><u>\$ 497,608</u></u>
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The accompanying notes are an integral part of these financial statements.

**ORTON ACADEMY
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2023**

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total Fund Balance of Governmental Funds	\$	391,582
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.</p>		
Capital assets, net of accumulated depreciation/amortization		144,465
<p>Long-term liabilities and related items are not due and payable in the current year and, therefore, are not reported in government funds:</p>		
Lease payable	\$ (150,530)	
Loan Payable	<u>(26,000)</u>	<u>(176,530)</u>
Total Net Position of Governmental Activities	\$	<u><u>359,517</u></u>

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

ORTON ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2023

REVENUES

Local sources	\$ 42,221
State sources	1,011,412
Federal sources	<u>406,927</u>
 Total revenues	 <u>1,460,560</u>

EXPENDITURES

Instruction	533,649
Supporting services	672,108
Debt service:	
Interest	14,446
Principal	<u>150,399</u>

Total expenditures	<u>1,370,602</u>
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Net change in fund balance	89,958
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Fund balance, beginning	<u>301,624</u>
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Fund balance, ending	<u><u>\$ 391,582</u></u>
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The accompanying notes are an integral part of these financial statements.

**ORTON ACADEMY
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net Change in Fund Balance of Governmental Funds	\$	89,958
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation/amortization expense		(144,464)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt.

Lease principal payment	\$	138,399	
Loan principal payment		12,000	150,399

Change in Net Position of Governmental Activities	\$	<u>95,893</u>
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The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

ORTON ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Orton Academy (the School) have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the School are discussed below.

A. REPORTING ENTITY

The School is a state nonprofit corporation established pursuant to the Colorado Charter Schools Act to form and operate a contract school in Colorado. The School contracts with Education ReEnvisioned Board of Cooperative Education Services (BOCES) for funding and administrative support.

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

Based on the application of these criteria, the School does not include additional organizations within its reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

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 School and its component units. Any fiduciary activities are reported only in the fund financial statements. *Governmental activities* are supported by per pupil revenue and intergovernmental revenues.

The statement of activities demonstrates the degree to which direct expenses of given functions or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to students or other service users who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as *general revenues* rather than as program revenues.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for interfund services provided and used, the elimination of which would distort the direct costs and program revenues reported for the various functions.

The emphasis of fund financial statements is on major funds. Major individual funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds.

ORTON ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The School reports the following major governmental funds:

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

C. 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.

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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as 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 School 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. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due. General capital asset acquisitions, including entering into contracts giving the School the right to use leased assets, are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under leases are reported as other financing sources.

Interest and charges for services 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 are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 120 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the School.

*D. 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.

ORTON ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, and other nonparticipating investments are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

Local government investment pools in Colorado must be organized under Colorado Revised Statutes, which allows certain types of governments within the state to pool their funds for investment purposes. Investments in such pools are reported at net asset value.

Receivables

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

Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital assets

Capital assets include tangible and intangible assets that are reported in the governmental activities column in the government-wide financial statements. Capital assets, except for lease assets, are defined by the School as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. For lease assets, only those intangible lease assets that cost more than \$15,000 are reported as capital assets.

As the School constructs or acquires capital assets each period they are capitalized and reported at historical cost (except for intangible right-to-use lease assets, the measurement of which is discussed in Note 1 D. *Leases* below). The reported value excludes normal maintenance and repairs, which are amounts spent in relation to capital assets that do not increase the asset's capacity or efficiency or increase its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of the donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class.

Land and construction in progress are not depreciated. The other tangible and intangible assets of the School are depreciated/amortized using the straight-line method over the following estimated useful lives:

Buildings	3 years
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Accrued Salaries and Benefits

Salaries and benefits of teachers and other contracted personnel are paid over a twelve-month period, but are earned during a school year of approximately nine months. The salaries and benefits earned, but unpaid, are reported as a liability in the respective funds and have been fully funded as of the fiscal year end.

ORTON ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unearned Revenue

Unearned revenue includes resources received by the School before the related revenue can be recognized because the earnings process is not complete.

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.

Leases

Lessee: The School is a lessee for a noncancellable lease of the building. The School recognizes a lease liability and an intangible right-to-use lease assets in the government-wide financial statements. The School recognizes lease liabilities with an initial, individual value of \$15,000 or more.

At the commencement of a lease, the School initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the School determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The School uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the School generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the School is reasonably certain to exercise.

The School monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

ORTON ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-term liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. Bonds payable are reported net of the applicable premium or discount.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net position

For government-wide reporting, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.

Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Sometimes the School will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund 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.

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:

ORTON ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

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 resolution 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 Education 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.

E. REVENUES AND EXPENDITURES/EXPENSES

Compensated Absences

The School’s policy allows employees to accumulate paid time off (PTO). PTO is paid out upon termination of employment. No liability is reported in the financial statements for compensated absences due to insufficient balances.

F. 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.

ORTON ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgets are required by State law for all funds, except fiduciary funds. The Head of School submits a proposed budget to the Board of Directors for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. It also includes a statement describing the major objectives of the educational program to be undertaken by the School and the manner in which the budget proposes to fulfill such objectives. Public hearings are conducted by the Board of Directors to obtain public comments.

On or before June 30, the budget is adopted by formal resolution. After the adoption of the budget, the board may review and change the budget at any time prior to January 31 of the fiscal year for which the budget was adopted. After January 31, the board may not review or change the budget except where money for a specific purpose from other than ad valorem taxes becomes available which could not have been reasonable foreseen at the time of the adoption of the budget. Expenditures may not legally exceed appropriations at the fund level. Authorization to transfer budgeted amounts between line items within any fund rests with the Head of School. Revisions that alter the total expenditures in 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 as established by the Board of Directors.

Budgets for all fund types are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). GAAP-basis accounting requires that expenditures of salaries and related benefits be recorded in the fiscal year earned. Thus, the School budgets for all accrued salaries and related benefits earned but unpaid at June 30. Budgeted amounts reported in the accompanying financial statements are as originally adopted and as amended by the Head of School and/or Board of Directors throughout the year. All appropriations lapse at the end of each fiscal year.

ORTON ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 3 – DEPOSITS AND INVESTMENTS

A summary of deposits and investments as of June 30, 2023 is as follows:

Deposits	<u>\$ 484,437</u>
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Deposits and investments are reported in the financial statements as follows:

Cash and investments	<u>\$ 484,437</u>
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Cash deposits with financial institutions

Custodial Credit Risk—deposits: Custodial credit risk is the risk that, in the event of a bank failure, the School's deposits might not be recovered. 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 the School's deposits at June 30, 2023 was \$484,437 and the bank balances were \$497,608. Of the bank balances, \$250,000 were covered by federal deposit insurance, and the remaining balance was uninsured but collateralized in accordance with the provisions of the PDPA.

Investments

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.

The School had no investments as of June 30, 2023.

ORTON ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023 was as follows:

	<u>Beginning Balance, As restated</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<i>Governmental activities</i>				
Lease assets being amortized:				
Buildings	\$ 288,929	\$ -	-	\$ 288,929
Total lease assets being amortized	<u>288,929</u>	<u>-</u>	<u>-</u>	<u>288,929</u>
Less accumulated amortization for:				
Buildings	-	(144,464)	-	(144,464)
Total accumulated amortization	<u>-</u>	<u>(144,464)</u>	<u>-</u>	<u>(144,464)</u>
Total lease assets being amortized, net	<u>288,929</u>	<u>(144,464)</u>	<u>-</u>	<u>144,465</u>
Capital assets, net of accumulated depreciation/amortization	<u>\$ 288,929</u>	<u>\$ (144,464)</u>	<u>\$ -</u>	<u>\$ 144,465</u>

Depreciation/amortization expense was charged to the functions/programs of the governmental activities of the School as follows:

Governmental Activities

Supporting services	<u>\$ 144,464</u>
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NOTE 5 – LEASES

School as lessee

The School, as a lessee, has entered into lease agreements involving educational facilities with a lease term of 3 years. The total costs of these right-to-use lease assets are recorded as \$288,929, less accumulated amortization of (\$144,464). The School has determined that as of June 30, 2023, there is no loss associated with an impairment of the right-to-use lease asset.

The future lease payments under lease agreements as of June 30, 2023 are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	<u>\$ 150,530</u>	<u>\$ 7,526</u>	<u>\$ 158,056</u>

ORTON ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 6 – LONG-TERM LIABILITIES

2020 Loan Agreement

On July 6, 2020, the School obtained a loan from Education reEnvisioned BOCES in the amount of \$50,000. Principal is paid monthly beginning July 15, 2021. The note does not bear interest. Final maturity is August 15, 2025.

Annual debt service requirements to maturity for loan payable is as follows:

Fiscal Year Ending June 30	Governmental Activities
	<u>Principal</u>
2024	12,000
2025	12,000
2026	2,000
Total	\$ 26,000

Changes in the School’s long-term liabilities for the year ended June 30, 2023, are as follows:

	<u>Beginning Balance, As Restated</u>	<u>Debt Issued And Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One year</u>
<i>Governmental Activities</i>					
Loan	\$ 38,000	\$ -	\$ (12,000)	\$ 26,000	\$ 12,000
Leases	288,929	-	(138,399)	150,530	150,530
<i>Total Governmental Activities</i>	\$ 326,929	\$ -	\$ (150,399)	\$ 176,530	\$ 162,530

All long-term liabilities are liquidated in the General fund.

NOTE 7 - 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.

ORTON ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 8 – 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 effect on the financial position of the School.

NOTE 9 - TAX, SPENDING, AND DEBT LIMITATIONS

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, 2023 there is a \$31,500 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 10 – ADOPTION OF NEW ACCOUNTING STANDARD

Orton Academy implemented GASB Statement No. 87, *Leases*, effective July 1, 2022. This Statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. There is no effect on fund balance or net position as a result of the implementation of this standard. However, beginning lease assets and lease liabilities were restated by \$288,929 to reflect the net present value of financing leases as of June 30, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

ORTON ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2023

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources	\$ 66,481	\$ 17,000	\$ 42,221	\$ 25,221
State sources	1,138,127	1,018,945	1,011,412	(7,533)
Federal sources	132,002	409,719	406,927	(2,792)
 Total revenues	 <u>1,336,610</u>	 <u>1,445,664</u>	 <u>1,460,560</u>	 <u>14,896</u>
EXPENDITURES				
Salaries	653,992	724,145	683,451	40,694
Benefits	135,977	164,580	104,429	60,151
Purchased services	453,048	467,155	342,830	124,325
Supplies	48,920	42,652	42,384	268
Property	10,250	25,025	32,653	(7,628)
Other	705	705	10	695
Debt service:				
Interest	-	-	14,446	(14,446)
Principal	12,000	12,000	150,399	(138,399)
 Total expenditures	 <u>1,314,892</u>	 <u>1,436,262</u>	 <u>1,370,602</u>	 <u>65,660</u>
 Net change in fund balances	 21,718	 9,402	 89,958	 80,556
 Fund balances - beginning	 <u>235,635</u>	 <u>301,624</u>	 <u>301,624</u>	 <u>-</u>
 Fund balance - ending	 <u><u>\$ 257,353</u></u>	 <u><u>\$ 311,026</u></u>	 <u><u>\$ 391,582</u></u>	 <u><u>\$ 80,556</u></u>

See the accompanying Independent Auditors' Report.