

Stone Creek Charter School

Financial Report

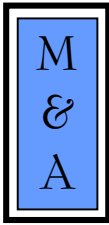
June 30, 2011



**Stone Creek Charter School
June 30, 2011**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors Stone Creek Charter School Avon, Colorado

We have audited the accompanying basic financial statements of the governmental activities, and each major fund of the Stone Creek Charter School (the "School"), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the School. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Stone Creek Charter School, as of June 30, 2011, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Stone Creek Charter School will continue as a going concern. As discussed in Note IV.D. to the financial statements, the School has a deficit fund balance and significant liabilities which are due within one year. Because operations of the School could be substantially impeded as a result of this limitation of available resources and ongoing substantial debt service requirements, these factors raise substantial doubt about the School's ability to continue as a going concern. The Board of Directors of the School has developed plans to address these concerns, which are also described in Note IV.D. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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U.S. generally accepted accounting principles require that the Management's Discussion and Analysis in Section B 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 U.S. generally accepted auditing standards, 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.

McMahan and Associates, L.L.C.
November 09, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Stone Creek Charter School
Management's Discussion and Analysis
As of and for the fiscal year ended June 30, 2011**

As management of the Stone Creek Charter School (the "School"), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2011.

Financial Highlights

- The assets of the School exceeded its liabilities as of June 30, 2011 by \$289,047 (net assets). The School was unable to report a positive amount for unrestricted asset, which would be used to fund the School's ongoing obligations.
- During the year, the School retired a \$70,295 of principal on the loan with Wells Fargo Bank.
- Aged Accounts Payable balances from June 30, 2009 of \$233,666 have been settled with the vendors through partial payment, partial balance forgiveness and conversion to a note payable of \$78,178.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements have three components: 1) School-wide financial statements; 2) Fund financial statements; and 3) Notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

School-wide Financial Statements: The School-wide financial statements are designed to provide readers with a broad overview of the School's finances, using accounting methods similar to those used by a private-sector business.

The Statement of Net Assets presents information on all the School's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and changes in long-term compensated absences).

The School-wide financial statements distinguish functions of the School that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion their costs through user fees and charges (business-type activities). The school only reports governmental activities.

- **Governmental activities:** Most of the School's basic services are included here, such as instructional services, support services and student activities. Other services include activities relating to building maintenance and operations, student transportation, technology and administration.

The School-wide financial statements can be found on pages C1 and C2 of this report.

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 fund financial statements provide more detailed information about the operations of the School by fund instead of the School as a whole. All of the funds of the School are governmental funds.

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 fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. The School's only governmental fund is the General Fund.

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 government's near-term financing decisions. Both the governmental fund Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The School adopts an annual appropriated budget for all of its funds. Budgetary comparison statements have been provided to demonstrate compliance with state budget statutes.

The basic major governmental fund financial statement can be found on page C3.

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. The Notes to the Financial Statements can be found at section D this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents supplementary information concerning the School's annual appropriated budgets.

School-wide Financial Analysis:

The following table provides a comparative summary of the School's net assets as of June 30, 2011 and 2010:

Stone Creek Charter School Summary of Net Assets			
	2011	2010	
Assets:			
Current and other assets	\$ 154,927	\$ 159,657	
Capital assets	1,205,957	1,540,654	
Total Assets	1,360,884	1,700,311	
Liabilities:			
Other liabilities	1,035,159	1,072,727	
Long-term liabilities	36,678	71,678	
Total Liabilities	1,071,837	1,144,405	
Net Assets:			
Invested in capital assets	283,528	512,930	
Restricted for emergency	45,536	51,473	
Unrestricted	(40,017)	(8,497)	
Total Net Assets	\$ 289,047	\$ 555,906	

Of total assets, 91% are capital assets (e.g. land, buildings, and equipment). The decrease is due to current year depreciation expense of \$66,412. The School uses these assets to provide instruction and related services to its students.

Note that net assets may serve as an indicator of the School's financial position over time. The School's net assets for governmental activities have decreased during the current year (see further discussion below).

The following table presents a summary of activities and changes in net assets for the fiscal years ended June 30, 2011 and 2010:

Stone Creek Charter School Summary of Activities and Changes in Net Assets

	2011	2010
Revenues:		
Per pupil funding	\$ 1,323,067	\$ 1,314,019
Capital reserve allocation	-	59,626
Tuition and fees	52,375	85,125
Investment income	229	135
Contribution from private sources	210,322	378,692
State sources	40,280	32,807
Federal sources	46,851	28,113
Other	1,070	13,032
Total Revenues	1,674,194	1,911,549
Expenditures/Expenses:		
Direct instruction	1,104,712	1,089,380
Operation and maintenance	28,270	35,748
General and school administration	457,231	489,289
Debt service:		
Interest	79,038	95,421
Loss on capital asset	271,802	-
Total Expenditures/Expenses	1,941,053	1,709,838
Change in Net Assets	(266,859)	201,711
Net Assets - January 1	555,906	354,195
Net Assets - December 31	\$ 289,047	\$ 555,906

Governmental Activities: Net assets from governmental activities decreased \$266,859. This decrease was primarily a result of the loss on capital assets due for assets disposed for the school relocation.

The majority of School's operating revenues are generated from Total Program Funding as determined by the School Finance Act of 1994 (see further discussion in Economic Factors below). Total Program Funding is comprised of general fund property taxes, specific ownership taxes, and state equalization as enumerated above.

Financial Analysis of the School's Funds

The School utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the School's governmental funds reported ending fund balances of \$6,351 a decrease of \$37,974 from the prior year ending fund balances.

Budget Variances in the General Fund: The School's budget is prepared according to Colorado law and is based on accounting for certain transactions on a basis of cash receipts and disbursements. Original and final adopted budgets, as well as variances between actual revenues, expenditures, and final budgeted amounts are reflected in the Required Supplementary Information on page C3 of the audited financial statements. The most significant budgeted fund is the General Fund.

Variances between budgeted and actual revenues for the General Fund:

General Fund revenues exceed amounts by \$151,642, largely due to contributions from private sources exceeding expectations due to amounts originally due to vendors and forgiven in the current year.

Capital Assets: The School's capital assets, net of accumulated depreciation, totaled \$1,205,957 as of June 30, 2011. The School capitalizes assets, including land, buildings and improvements, and equipment, with an original cost greater than \$5,000 and a useful life of more than two years. Additional information as well as a detailed classification of the School's net capital assets can be found in the Notes to the Financial Statement.

Long-Term Debt: As of the end of the current fiscal year, the School's long-term liabilities totaled \$36,678. Of the short term liability balance of \$895,751 approximately \$891,751 is July 31, 2011.

Additional information, as well as a detailed classification of the School's total long-term liabilities, can be found in the Notes to the Financial Statements section of this report.

Economic Factors:

Enrollment at the end of June 30, 2011 increased slightly to 192 as compared to enrollment at June 30, 2010, of 188 students. The District is anticipating future growth by striving toward full class sizes for all grades at the School.

Next Year's Budget and Fund Balance: The School's General Fund fund balance at the end of fiscal year 2011 totaled \$6,351. The fiscal year 2012 budget is fiscally balanced.

Request for Information

This financial report is designed to provide a general overview of the School's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Stone Creek Charter School, School Headmaster, P. O. Box 5670, Avon, Colorado 81620.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS/
FUND FINANCIAL STATEMENTS**

**Stone Creek Charter School
Balance Sheet/Statement of Net Assets
June 30, 2011**

	General Fund	Adjustments	Statement of Net Assets
Assets:			
Cash and cash equivalents	110,412	-	110,412
Accounts receivable	33,927	-	33,927
Deposits	10,588	-	10,588
Capital assets, net of accumulated depreciation	-	1,205,957	1,205,957
Total Assets	154,927	1,205,957	1,360,884
Liabilities:			
Accounts payable	48,078	-	48,078
Accrued interest	-	832	832
Accrued payroll and related liabilities	50,691	-	50,691
Deferred revenue	49,807	-	49,807
Loan payable:			
Due within one year	-	885,751	885,751
Due in more than one year	-	36,678	36,678
Total Liabilities	148,576	923,261	1,071,837
Fund Balances/Net Assets:			
Fund balance:			
Reserved for emergencies	45,536	(45,536)	
Unassigned	(39,185)	39,185	
Total fund balance	6,351	(6,351)	
Total Liabilities and Fund Balance	154,927		
Net assets:			
Invested in capital assets, net of related debt		283,528	283,528
Restricted for emergencies		45,536	45,536
Unrestricted		(40,017)	(40,017)
Total Net Assets		289,047	289,047

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

Stone Creek Charter School
Statement of Revenues, Expenditures and
Changes in Fund Balance/Statement of Activities
For the Year Ended June 30, 2011

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues:			
Per pupil funding	1,323,067	-	1,323,067
Tuition and fees	52,375	-	52,375
Investment income	229	-	229
Contributions from private sources	210,322	-	210,322
State sources	40,280	-	40,280
Federal sources	46,851	-	46,851
Other	1,070	-	1,070
Total Revenues	<u>1,674,194</u>	<u>-</u>	<u>1,674,194</u>
Expenditures/Expenses:			
Direct Instruction	1,064,864	39,848	1,104,712
Operation and maintenance	1,705	26,565	28,270
General and school administration	457,231	-	457,231
Capital outlay	3,518	(3,518)	-
Principal	105,295	(105,295)	-
Interest	79,554	(516)	79,038
Loss on capital asset	-	271,802	271,802
Total Expenditures/Expenses	<u>1,712,167</u>	<u>228,886</u>	<u>1,941,053</u>
Excess (Deficiency) of Revenues Over Expenditures	(37,973)	(228,886)	
Change in Net Assets		(266,859)	(266,859)
Fund Balance/Net Assets:			
Beginning of the Year	<u>44,324</u>		<u>555,906</u>
End of the Year	<u>6,351</u>		<u>289,047</u>

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

Stone Creek Charter School
Statement of Revenues and Expenditures
Budget and Actual
General Fund
For the Year Ended June 30, 2011
(With Comparative Actual Amounts for the Year Ended June 30, 2010)

	2011			2010
	Original and Final Budget	Actual	Variance Positive (Negative)	Actual
Revenues:				
Per pupil funding	1,392,532	1,323,067	(69,465)	1,373,645
Tuition and fees	52,500	52,375	(125)	85,125
Investment income	-	229	229	135
Contributions from private sources	56,700	210,322	153,622	378,692
State sources	20,820	40,280	19,460	32,807
Federal sources	-	46,851	46,851	28,113
Other	-	1,070	1,070	13,032
Total Revenues	<u>1,522,552</u>	<u>1,674,194</u>	<u>151,642</u>	<u>1,911,549</u>
Expenditures:				
Direct Instruction	1,129,046	1,064,865	64,181	1,049,793
Operation and maintenance	-	1,705	(1,705)	9,357
General and school administration	365,932	457,231	(91,299)	489,289
Capital outlay	-	3,518	(3,518)	820
Interest	-	79,554	(79,554)	94,072
Total Expenditures	<u>1,494,978</u>	<u>1,606,873</u>	<u>(111,895)</u>	<u>1,643,331</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>27,574</u>	<u>67,321</u>	<u>39,747</u>	<u>268,218</u>
Other Financing Sources (Uses):				
Long-term Loan proceeds	-	-	-	78,178
Transfers (out) to Capital Reserve Fund	-	-	-	(59,626)
Repayment of principal debt	-	(105,295)	(105,295)	(12,804)
Total Other Financing (Uses):	<u>-</u>	<u>(105,295)</u>	<u>(105,295)</u>	<u>5,748</u>
Net Change in Fund Balance	<u>27,574</u>	<u>(37,974)</u>	<u>(65,548)</u>	<u>273,966</u>
Fund Balance (Deficit) - Beginning of the Year		<u>44,325</u>		<u>(229,641)</u>
Fund Balance (Deficit) - End of the Year		<u>6,351</u>		<u>44,325</u>

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

NOTES TO THE FINANCIAL STATEMENTS

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2011

I. Summary of Significant Accounting Policies

Stone Creek Charter School (the "School") was formed in 2005 to enable students to achieve academic excellence and to become self-motivated, competent, lifelong learners by providing a multi-cultural, student-centered environment, utilizing the tools of rigorous, sequenced, research-based education programs.

The School was incorporated in the State of Colorado as a non-profit organization, pursuant to the articles of incorporation dated October 29, 2005.

Additionally, on January 26, 2006, The Colorado Charter School Institute approved a charter to the School, operating within the geographical boundaries of Eagle County, Colorado, beginning with the 2006-2007 school year. As a result, the School is both a non-profit organization and a public entity.

The Colorado Charter School Institute is an independent agency within the Colorado Department of Education, established as a local education agency and public authority legally constituted within the State for the administrative control and direction of public elementary schools and secondary schools in the State of Colorado. All Charter Schools within the Colorado Charter School Institute are part of the free public school system and are required to be established and maintained in accordance with Section 2 of Article IX of the State Constitution. Charter Schools are financed from a portion of School Finance Act revenues and from revenues generated by the School, within the limits established by the Charter School Act, *CRS Section 22-30-101*. The School operates under an elected Board of Directors and follows state and federal accounting and reporting requirements in compliance with the terms of its approved charter.

The School's financial statements are 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 School is also required to follow the pronouncements of the Financial Accounting Standards Board ("FASB") issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established by GAAP used by the School are discussed below.

A. Reporting Entity

The reporting entity consists of (a) the primary government; i.e., the School, and (b) organizations for which the School is financially accountable. The School is considered financially accountable for legally separate organizations if it is able to appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the School. Consideration is also given to other organizations, which are fiscally dependent; i.e., unable to adopt a budget, levy taxes, or issue debt without approval by the School. Organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are also included in the reporting entity.

Based on the criteria above, the School is not financially accountable for any other organization, nor is the School a component unit of any other governmental entity.

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2011
(Continued)

I. Summary of Significant Accounting Policies (continued)

B. School-wide and Fund Financial Statements

1. School-wide Financial Statements

The School's basic financial statements include both School-wide (financial activities of the overall School) and fund financial statements (reporting the School's major funds). Both the School-wide and fund financial statements categorize primary activities as either governmental or business type. The School does not have any business-type activities, only governmental activities. Governmental activities generally are financed through per pupil revenue allocations from the State Department of Education, fees charged for services, intergovernmental revenues, and other non-exchange transactions.

In the School-wide Balance Sheet/Statement of Net Assets, the Statement of Net Assets column is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The School-wide focus is on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities.

2. Fund Financial Statements

The financial transactions of the School are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The fund focus is on current available resources and budget compliance.

The School reports the following major governmental fund:

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to whether financial statements measure changes in current resources only (current financial focus) or changes in both current and long-term resources (long-term economic focus). Basis of accounting refers to the point at which revenues, expenditures, or expenses are recognized in the accounts and reported in the financial statements. Financial statement presentation refers to classification of revenues by source and expenses by function.

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2011
(Continued)

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

1. Long-term Economic Focus and Accrual Basis

Governmental activities in the school-wide financial statements use the long-term economic focus and are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

2. Current Financial Focus and Modified Accrual Basis

The School fund financial statements use the current financial focus and are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. The School considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

D. Financial Statement Accounts

1. Cash and Cash Equivalents

Cash and cash equivalents are defined as deposits that can be withdrawn at any time without notice or penalty and investments with original maturities of three months or less.

2. Receivables

The School uses the allowance method for recognition of uncollectible receivables, whereby an allowance for possible uncollectibility is established when collection becomes doubtful. No allowance was established at June 30, 2011, as all amounts were considered collectible.

3. Capital Assets

Capital assets, which include buildings and improvements, furniture, fixtures, and equipment, are reported in the school-wide financial statements. The School defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost where historical records are available and at an estimated historical cost where no historical record exists. Donated capital assets are recorded at estimated fair value at the date of donation.

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2011
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

3. Capital Assets (continued)

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

Capital outlay for projects is capitalized as projects are constructed. Interest incurred during the construction phase, if applicable, is not capitalized as part of the value of the assets.

Buildings and improvements, furniture, fixtures and equipment are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	39
Furniture, fixtures, and equipment	5 - 7

4. Long-term Obligations

In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statements of Net Assets. In the fund financial statements, the School records the face amount of debt issued as other financing sources.

5. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the School's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenditures or expenses during the reporting period. Actual results could differ from those estimates.

6. Fund Balance

The School classifies governmental fund balances as follows:

Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority which is the Board of Directors.

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2011
(Continued)

I. Summary of Significant Accounting Policies (continued)

D. Financial Statement Accounts (continued)

6. Fund Balance (continued)

Assigned – includes spendable fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Board of Directors or its management designee.

Unassigned - includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

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

II. Reconciliation of School-wide and Fund Financial Statements

A. Explanation of differences between the governmental fund Balance Sheet and the school-wide Statement of Net Assets

The governmental fund Balance Sheet/school-wide Statement of Net Assets includes an adjustment column. Explanations of adjustments included in this column are as follows:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The adjustment of \$1,205,957 represents the net book value of capital assets at June 30, 2011.

Another element of the reconciliation represents long-term liabilities that are not due and payable with current financial resources. The adjustment of \$922,429 represents the notes payable balance at June 30, 2011. Accrued interest related to the long-term liabilities is reported in the amount of \$833.

B. Explanation of differences between the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and the school-wide Statement of Activities

The governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance/school-wide Statement of Activities includes an adjustment column. Explanations of adjustments included in this column are as follows:

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2011
(Continued)

II. Reconciliation of School-wide and Fund Financial Statements (continued)

B. Explanation of differences between the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and the school-wide Statement of Activities (continued)

One element of the adjustment column accounts for governmental funds reporting capital outlays as expenditures. However, in the Statement of Net Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Depreciation expense of \$66,412 was less than capital outlay of \$3,518 for the year, resulting in a net adjustment of \$62,894.

Another element of the adjustment column accounts for the repayment of debt principal. Repayment of debt principal is expended in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. The School's principal repayments totaled \$105,295. Also related the School's debt is the accrual for interest in the amount of a \$516 decrease in expense. The remaining reconciling item of \$271,802 is the loss on disposal of leasehold improvements due to the termination of the lease with the Town of Avon (See Note IV.E.1.).

III. Stewardship, Compliance, and Accountability

A. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. As required by Colorado Statutes, all funds have legally adopted budgets and appropriations. The total expenditures for each fund may not exceed the amount appropriated. Appropriations for a fund may be increased if unanticipated revenues offset them. All appropriations lapse at year-end.

As required by Colorado Statutes, the School followed the required timetable noted below in preparing, approving, and enacting its budget for 2011.

1. The proposed budget was submitted to the Board of Education by May 31 of the year proceeding the budget year. The proposed budget must include a description of major educational objectives and how the proposed budget fulfills those objectives.
2. Notice was published within ten (10) days which contained: availability of proposed budget for inspection, date and time of budget adoption meeting, and that any County taxpayer may file objections prior to the adoption of the budget.
3. The Board of Education certified revenue requirements to the local County Commissioners prior to December 15.
4. The final budget was adopted prior to June 30, along with an appropriation resolution.

The School's General Fund expenses exceeded the budgeted amount. This may be a violation of state statutes.

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2011
(Continued)

III. Stewardship, Compliance, and Accountability (continued)

B. TABOR Amendment – Revenue and Spending Limitation Amendment

In November 1992, Colorado voters amended Article X of the Colorado Constitution by adding Section 20; commonly known as the Taxpayer's Bill of Rights ("TABOR"). TABOR contains revenue, spending, tax and debt limitations that apply to the State of Colorado and local governments. TABOR requires, with certain exceptions, advance voter approval for any new tax, tax rate increase, mill levy above that for the prior year, extension of any expiring tax, or tax policy change directly causing a net tax revenues gain to any local government.

Except for refinancing bonded debt at a lower interest rate or adding new employees to existing pension plans, TABOR requires advance voter approval for the creation of any multiple fiscal year debt or other financial obligation unless adequate present cash reserves are pledged irrevocably and held for payments in all future fiscal years.

TABOR also requires local governments to establish emergency reserves to be used for declared emergencies only. Emergencies, as defined by TABOR, exclude economic conditions, revenue shortfalls, or salary or fringe benefit increases. These reserves are required to be 3% or more of fiscal year revenues. The School has reserved a portion of its June 30, 2011 year-end fund balance in the General Fund for emergencies as required under TABOR in the amount of \$45,536.

The School's management believes it is in compliance with the financial provisions of TABOR. However, TABOR is complex and subject to interpretation. Many of its provisions, including the interpretation of how to calculate fiscal year spending limits, will require judicial interpretation.

IV. Detailed Notes on all Funds

A. Deposits

The School's deposits are entirely covered by federal depository insurance (FDIC) or by collateral held under Colorado's Public Deposit Protection Act ("PDPA"). The FDIC insures the first \$250,000 of the School's interest-bearing deposits at each financial institution. Non-interest bearing deposits are fully insured by the FDIC. Interest-bearing deposit balances over \$250,000 are collateralized as required by PDPA.

The deposits held by the School at June 30, 2011, were as follows:

	Standard and Poors Rating	Carrying Amounts	Maturities	
			Less than One Year	Less than Five Years
Deposits:				
Checking	Not rated	37,586	37,586	-
Savings	Not rated	72,826	72,826	-
		<u>\$ 110,412</u>	<u>110,412</u>	<u>-</u>

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2011
(Continued)

IV. Detailed Notes on all Funds (continued)

A. Deposits (continued)

Credit Risk. Colorado statutes specify instruments in which local governments may invest, including:

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

B. Receivables

Receivables as of year-end for the School's funds, including applicable allowances for uncollectible accounts, are as follows:

	General Fund	Total Governmenta I Funds
Current Receivables:		
Trade accounts	\$ 33,927	33,927
Gross Receivables	33,927	33,927
Less: Allowance for uncollectible	-	-
Total per School-wide Financial Statements	\$ 33,927	33,927

C. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Buildings and Building improvements	\$ 1,597,193	-	(298,599)	1,298,594
Furniture, fixtures and equipment	138,512	3,518	-	142,030
Total capital assets, being depreciated	1,735,705	3,518	(298,599)	1,440,624
Less accumulated depreciation for:				
Buildings and Building improvements	(143,337)	(40,954)	26,797	(157,494)
Furniture, fixtures and equipment	(51,714)	(25,459)	-	(77,173)
Total accumulated depreciation	(195,051)	(66,413)	26,797	(234,667)
Total Capital Assets, Net	\$ 1,540,654	(62,895)	(271,802)	1,205,957

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2011
(Continued)

IV. Detailed Notes on all Funds (continued)

C. Capital Assets (continued)

The School's depreciation expense for the year ended June 30, 2011 was as follows:

Function:

Direct instruction	\$ 39,848
Operations and maintenance	<u>26,565</u>
Total Depreciation	<u><u>\$ 66,413</u></u>

The School has a loss on capital assets of \$271,802 due to the end of the lease with the Town of Avon (see Note IV.E.1.) and represents improvements to the leased property no longer in use by the School.

D. Operating Leases

The School entered into a lease with the Town of Avon, Colorado ("the Town") for the land where the School is located. The initial lease term, beginning July 1, 2006 and expiring June 30, 2007, called for a yearly rental fee of \$21,200. The lease was amended on March 21, 2007 allowing the School to have the option to extend the lease for three additional one-year periods; the option is to be exercised in writing no later than 30 days before the end of the prior lease period. This amendment calls for a security deposit in the amount of \$150,000 to ensure the land will be returned to its original condition. The School has provided \$10,588 of the deposit with the remaining balance of \$139,412 provided by parents. At the termination of the agreement the School may need to provide this additional amount as it has not been donated to the School. On November 24, 2009 the Town approved a second amendment to the original lease agreement extending the term to June 30, 2011. The Town has a need of the site on or after June 30, 2011. Therefore, the lease will not be renewed or extended for any reason beyond that date. Total lease expense of \$21,200 was paid to the Town for the year ended June 30, 2011.

On June 15, 2011 the School entered into a lease with Gracious Savior Lutheran Church for use of space to provide class room space for the 2011 – 2012 school year. The lease has an initial term of three years with annual rent of \$36,000, \$48,000 and \$60,000 for the periods ending June 15 of 2012, 2013 and 2014 respectively and due in twelve equal monthly payments. The lease includes one optional three year renewal with monthly rent of \$5,500, \$6,000 and \$6,500 for each successive year of the renewal term. Additionally, the School is responsible for monthly operating costs of the facilities.

Effective August 1, 2011 the School entered into a lease with Eagle Valley Religious Foundation for a term ending June 15, 2012. The lease calls for ten monthly payments of \$4,000 through May 1, 2012 with a one monthly payment of \$2,000.

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2011
(Continued)

IV. Detailed Notes on all Funds (continued)

E. Long-term Debt

1. Note Payable – Wells Fargo Bank

On August 10, 2006, the School entered into a Note with Wells Fargo Bank (“the Bank”) to purchase a modular building for the classrooms of the School. The amount of the Note was \$1,275,496. This Note bears an interest rate of 8.5% per annum. The School was in default to the original Note agreement because they did not make the scheduled Note payments on October 31, 2006, March 1, 2007 and April 1, 2007. Therefore, a Forbearance Agreement was signed on April 13, 2007. The Forbearance Agreement stated that all monthly payments to Wells Fargo are to be made in the amount of \$24,000. Wells Fargo applied \$14,000 of this total payment to the then \$130,000 outstanding line of credit until it was paid off in April 2008. At that time the entire \$24,000 payment was applied to the principal and accruing interest of the original Note.

In February 2009 the school did not make the scheduled payment per the Agreement dated April 13, 2007. As a result Wells Fargo modified the Note. The new Agreement, dated February 17, 2009 provides for the School to make monthly payments of principal and interest in the amount of \$10,000 and extended the maturity date of the Note to July 31, 2009.

During fiscal year 2010 Wells Fargo agreed to an additional modification to the Note to, dated August 25, 2009, extending maturity date of the Note to July 1, 2010.

On August 25, 2010 Wells Fargo agreed to a modification to the Note extending maturity to July 31, 2011. The modification calls for monthly payments of principal and interest in the amount of \$10,000 beginning September 25, 2010. Additional payments quarterly of 40% of the amount calculated as follows total receipts collected in the preceding quarter less routine school operating expenses of the preceding quarter due within 10 calendar days of each quarter end beginning October 10, 2010.

Principal payments of \$70,295 were made on the Note during the year.

The loan balances outstanding at maturity on July 31, 2011 remain unpaid.

2. Note Payable – Edwards Excavating, Inc.

On January 4, 2010 the School entered into a Note Payable with Edwards Excavating, Inc. The Note is in the amount of \$78,178 is in settlement of amounts owed from expenses incurred beginning in August 2006. The Note calls for minimum quarterly calendar payments of \$1,000 with no stated interest rate and any remaining balance due at maturity date on January 4, 2014.

Principal payments of \$35,000 were made on the Note during the year

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2011
(Continued)

IV. Detailed Notes on all Funds (continued)

F. Changes in Long-term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable, Wells Fargo	\$ 952,045	-	(70,295)	881,751	881,751
Note payable, Edwards Excavating, Inc.	75,678	-	(35,000)	40,678	4,000
	<u>\$ 1,027,723</u>	<u>-</u>	<u>(105,295)</u>	<u>922,429</u>	<u>885,751</u>

V. Other Information

A. 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, 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 (“CRS”), 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: Plan members and the School are required to contribute to the SDTF at a rate set by statute. The contribution requirements of plan members and the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members is 8.0% and the contribution rate for the School is 10.15% of covered salary. A portion of the School’s contribution (1.02% of covered salary) is allocated to the Health Care Trust Fund (see subsequent note). The School is also required to pay an amortization equalization disbursement (AED) equal to 2.60 percent of the total payroll for the calendar year 2011 (2.20 percent of total payroll for the calendar year 2010, and 1.70 percent of total payroll for the calendar year 2009). Additionally, the School is required to pay a supplemental amortization equalization disbursement (SAED) equal to 2.00 percent of the total payroll for the calendar year 2011 (1.50 percent of total payroll for the calendar year 2010, and 1.00 percent of total payroll for the calendar year ended 2009). If the School rehires a PERA retiree as an employee or under any other work arrangement, it is required to report and pay employer contributions (including the AED and SAED) on the amounts paid for the retiree; however, no member contributions are required.

The School’s contributions to SDTF for the years ended June 30, 2011, 2010, and 2009 were \$120,900, \$116,813, and \$103,046, respectively, equal to their required contributions for each year.

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2011
(Continued)

V. Other Information (continued)

B. Postemployment Healthcare Benefits

Plan Description: The XYZ School District 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).

Funding Policy: The School is required to contribute at a rate of 1.02 percent of covered salary for all PERA members at rates 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 previous note) is established under Title 24, Article 51, Section 208 of the C.R.S., as amended. The School's contributions to the HCTF for the years ended June 30, 2011, 2010 and 2009 were \$8,687, \$8,901 and \$8,678, respectively, equal to their required contributions for each year.

C. Defined Contribution Pension Plan

Plan Description: Employees of the School who are members of the SDTF may voluntarily contribute to the Voluntary Investment Program ("401(k) Plan"), an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Plan participation is voluntary, and contributions are separate from others made to PERA. Title 24, Article 51, Part 14 of the CRS, as amended, assigns the authority to establish the 401(k) Plan to the State Legislature. PERA issues a publicly available annual financial report for the 401(k) Plan. 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 401(k) Plan is funded by voluntary member contributions of up to a maximum limit set by the IRS. The contribution requirements for the School are established under Title 24, Article 51, Section 1402 of the Colorado Revised Statutes, as amended.

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2011
(Continued)

V. Other Information (continued)

D. Going Concern

The School has several factors that raise substantial doubt about going concern. These factors include:

- The School has an unrestricted deficit fund balance at yearend of \$39,185.
- Total cash at June 30, 2011 equaled \$110,412.
- The School has outstanding debt, accounts payable and related liabilities totaling \$1,022,030 that are due within one year.
- Future revenue from the state of Colorado's is anticipated to decrease due to lower primary education funding and lower enrollment.

The School's management has considered the above factors significant to its future operations and has developed the following plans to rectify the situation:

- The School is negotiating with Wells Fargo for the outstanding Note Payable principal in the amount of \$885,751.

E. Risk Management

The School is exposed to various risks of loss related to workers compensation; general liability; unemployment; torts; theft of, damage to, and destruction of assets; and errors and omissions. The School has acquired commercial coverage for these risks and claims, if any, are not expected to exceed the commercial insurance coverage.

F. Subsequent Events

Management has evaluated subsequent events through November 9, 2011, the date these financial statements were available to be issued.