

Stone Creek Charter School

Financial Report

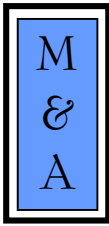
June 30, 2010



**Stone Creek Charter School
June 30, 2010**

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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, and the respective budgetary comparisons of the Stone Creek Charter School (the "School"), as of and for the year ended June 30, 2010, 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, 2010, 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.

The Management's Discussion and Analysis in Section B is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board ("GASB"). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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The budgetary schedule in Section E is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McMahan and Associates, L.L.C.
November 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Stone Creek Charter School
Management's Discussion and Analysis
As of and for the fiscal year ended June 30, 2010**

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, 2010.

Financial Highlights

- The assets of the School exceeded its liabilities as of June 30, 2010 by \$555,906 (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 \$69,931 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 most significant, or "major", governmental fund is the General Fund. The School also reports the Capital Reserve Fund as a non-major governmental 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 statements 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, 2010 and 2009:

Stone Creek Charter School Summary of Net Assets

	<u>2010</u>	<u>2009</u>
Assets:		
Current and other assets	\$ 159,658	\$ 120,666
Capital assets	1,540,653	1,605,812
Total Assets	<u>1,700,311</u>	<u>1,726,478</u>
Liabilities:		
Other liabilities	1,072,727	350,307
Long-term liabilities	71,678	1,021,976
Total Liabilities	<u>1,144,405</u>	<u>1,372,283</u>
Net Assets:		
Invested in capital assets	512,930	583,836
Restricted for emergency	51,473	55,837
Restricted for Programs	-	32,500
Unrestricted	(8,497)	(317,978)
Total Net Assets	<u>\$ 555,906</u>	<u>\$ 354,195</u>

Of total assets, 93% are capital assets (e.g. land, buildings, and equipment). The decrease is due to current year depreciation expense of \$65,978. 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 increased 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, 2010 and 2009:

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

	<u>2010</u>	<u>2009</u>
Revenues:		
Per pupil funding	\$ 1,314,019	\$ 1,221,363
Capital reserve allocation	59,626	52,852
Tuition and fees	85,125	40,500
Investment income	135	13
Contribution from private sources	378,692	201,844
State sources	32,807	30,435
Federal sources	28,113	203,910
Other	13,032	4,496
Total Revenues	<u>1,911,549</u>	<u>1,755,413</u>
Expenditures/Expenses:		
Direct instruction	1,089,380	1,143,853
Operation and maintenance	35,748	37,914
General and school administration	489,289	408,593
Debt service:		
Interest	95,421	108,220
Total Expenditures/Expenses	<u>1,709,838</u>	<u>1,698,580</u>
Change in Net Assets	201,711	56,833
Net Assets - January 1	<u>354,195</u>	<u>297,362</u>
Net Assets - December 31	<u>\$ 555,906</u>	<u>\$ 354,195</u>

Governmental Activities: Net assets from governmental activities (before transfers) increased \$201,711. This increase was primarily a result of aged payable balances forgiven by the original vendors for expenses which were incurred in fiscal year ending June 30, 2006 which significantly increased revenues for the School as compared to prior year.

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 combined ending fund balances of \$44,325 an increase of \$195,788 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 \$174,000, largely due to contributions from private sources exceeding expectations due to amounts originally due to vendors and forgiven in the current year.

Additionally the transfer to the Capital Reserve Fund was unbudgeted.

Capital Assets: The School's capital assets, net of accumulated depreciation, totaled \$1,540,653 as of June 30, 2010. The School capitalizes assets, including land, buildings and improvements, equipment, and construction in progress, 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 \$71,678. However, loan modification subsequent to June 30, 2010 results in approximately \$952,045 of June 30, 2010 short-term liabilities to have a maturity of 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, 2010 increased slightly to 188 as compared to enrollment at June 30, 2009, of 181 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 2010 totaled \$44,325. The fiscal year 2011 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, 2010

	Balance Sheet		Adjustments	Statement of Net Assets
	General Fund	Capital Reserve Fund		
Assets:				
Cash and cash equivalents	14,299	-	-	14,299
Accounts receivable	6,150	-	-	6,150
Due from other governments	107,421	-	-	107,421
Deposits	10,588	-	-	10,588
Prepaid expenses	21,200	-	-	21,200
Capital assets, net of accumulated depreciation	-	-	1,540,653	1,540,653
Total Assets	159,658	-	1,540,653	1,700,311
Liabilities:				
Accounts payable	5,044	-	-	5,044
Accrued interest	-	-	1,349	1,349
Accrued payroll and related liabilities	46,696	-	-	46,696
Deferred revenue	63,593	-	-	63,593
Loan payable:				
Due within one year	-	-	956,045	956,045
Due in more than one year	-	-	71,678	71,678
Total Liabilities	115,333	-	1,029,072	1,144,405
Fund Balances/Net Assets:				
Fund balance:				
Reserved for emergencies	51,473	-	(51,473)	
Unreserved	(7,148)	-	7,148	
Total fund balance	44,325	-	(44,325)	
Total Liabilities and Fund Balance	159,658	-		
Net assets:				
Invested in capital assets, net of related debt			512,930	512,930
Restricted for emergencies			51,473	51,473
Unrestricted			(8,497)	(8,497)
Total Net Assets			555,906	555,906

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, 2009**

	Statement of Revenues, Expenditures and Changes in Fund Balance			Adjustments	Statement of Activities
	General Fund	Capital Reserve Fund	Total		
Revenues:					
Per pupil funding	1,314,019	-	1,314,019	-	1,314,019
Capital reserve allocation	-	59,626	59,626	-	59,626
Tuition and fees	85,125	-	85,125	-	85,125
Investment income	135	-	135	-	135
Contributions from private sources	378,692	-	378,692	-	378,692
State sources	32,807	-	32,807	-	32,807
Federal sources	28,113	-	28,113	-	28,113
Other	13,032	-	13,032	-	13,032
Total Revenues	<u>1,851,923</u>	<u>59,626</u>	<u>1,911,549</u>	<u>-</u>	<u>1,911,549</u>
Expenditures/Expenses:					
Direct Instruction	1,049,793	-	1,049,793	39,587	1,089,380
Operation and maintenance	9,357	-	9,357	26,391	35,748
General and school administration	489,289	-	489,289	-	489,289
Capital outlay	820	-	820	(820)	-
Principal	12,805	59,626	72,431	(72,431)	-
Interest	94,071	-	94,071	1,350	95,421
Total Expenditures/Expenses	<u>1,656,135</u>	<u>59,626</u>	<u>1,715,761</u>	<u>(5,923)</u>	<u>1,709,838</u>
Excess (Deficiency) of Revenues Over Expenditures	195,788	-	195,788	5,923	201,711
Other Financing Sources:					
Loan proceeds	78,178	-	78,178	(78,178)	-
Total Other Financing Sources	<u>78,178</u>	<u>-</u>	<u>78,178</u>	<u>(78,178)</u>	<u>-</u>
Change in Net Assets	273,966	-	273,966	201,711	201,711
Fund Balance/Net Assets:					
Beginning of the Year	(229,641)	-	(229,641)		354,195
End of the Year	<u>44,325</u>	<u>-</u>	<u>44,325</u>		<u>555,906</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, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	<u>2010</u>			Variance Positive (Negative)	<u>2009</u>
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:					
Per pupil funding	1,368,250	1,368,250	1,373,645	5,395	1,274,215
Tuition and fees	85,000	85,000	85,125	125	40,500
Investment income	-	-	135	135	13
Contributions from private sources	264,810	264,810	378,692	113,882	201,844
State sources	19,489	19,489	32,807	13,318	30,435
Federal sources	-	-	28,113	28,113	203,910
Other	-	-	13,032	13,032	4,496
Total Revenues	<u>1,737,549</u>	<u>1,737,549</u>	<u>1,911,549</u>	<u>174,000</u>	<u>1,755,413</u>
Expenditures:					
Direct Instruction	1,212,996	1,163,996	1,049,793	114,203	1,107,567
Operation and maintenance	5,100	5,100	9,357	(4,257)	13,724
General and school administration	263,717	233,462	489,289	(255,827)	408,593
Capital outlay	-	-	820	(820)	86,841
Interest	91,868	91,868	94,072	(2,204)	108,220
Total Expenditures	<u>1,573,681</u>	<u>1,494,426</u>	<u>1,643,331</u>	<u>(148,905)</u>	<u>1,724,945</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>163,868</u>	<u>243,123</u>	<u>268,218</u>	<u>25,095</u>	<u>30,468</u>
Other Financing Sources (Uses):					
Long-term Loan proceeds	-	-	78,178	78,178	-
Transfers (out) to Capital Reserve Fund	-	-	(59,626)	(59,626)	(52,852)
Repayment of principal debt	(33,132)	(33,132)	(12,804)	20,328	(83,437)
Total Other Financing (Uses):	<u>(33,132)</u>	<u>(33,132)</u>	<u>5,748</u>	<u>38,880</u>	<u>(136,289)</u>
Net Change in Fund Balance	<u>130,736</u>	<u>209,991</u>	<u>273,966</u>	<u>63,975</u>	<u>(105,821)</u>
Fund Balance (Deficit) - Beginning of the Year			<u>(229,641)</u>		<u>(123,820)</u>
Fund Balance (Deficit) - End of the Year			<u>44,325</u>		<u>(229,641)</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, 2010

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, 2010
(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 funds:

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.

The *Capital Reserve Fund* accounts for acquisitions of capital items.

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, 2010
(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, 2010, 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, 2010
(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. Fund Equity

The School reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. At June 30, 2010, the School reported \$51,473 reserved for emergencies as required by TABOR (which is subsequently explained in the footnotes).

6. 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.

7. Restricted and Unrestricted Resources

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.

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2010
(Continued)

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 \$1,540,653 represents the net book value of capital assets at June 30, 2010.

Another element of the reconciliation represents long-term liabilities that are not due and payable with current financial resources. The adjustment of \$1,027,723 represents the notes payable balance at June 30, 2010. Accrued interest related to the long-term liabilities is reported in the amount of \$1,349.

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:

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 \$65,978 was less than capital outlay of \$820 for the year, resulting in a net adjustment of \$65,158.

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 \$72,431. Also related the School's debt is the accrual for interest in the amount of \$1,349.

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 2010.

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.

**Stone Creek Charter School
Notes to the Financial Statements
June 30, 2010
(Continued)**

III. Stewardship, Compliance, and Accountability (continued)

A. Budgets and Budgetary Accounting (continued)

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.

During the fiscal year ended June 30, 2010, the following supplemental appropriations were made by the School.

Fund	Original Appropriation	Final Appropriation
General Fund	1,606,813	1,527,558

The School's General Fund and Capital Reserve Fund each exceeded the budgeted amounts. This may be a violation of state statutes.

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, 2010 year-end fund balance in the General Fund for emergencies as required under TABOR in the amount of \$51,473.

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.

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2010
(Continued)

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, 2010, were as follows:

	Standard and Poors Rating	Carrying Amounts	Maturities	
			Less than One Year	Less than Five Years
Deposits:				
Checking	Not rated	\$ 14,299	14,299	-
		<u>\$ 14,299</u>	<u>14,299</u>	<u>-</u>

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	\$ 6,150	6,150
Intergovernmental	107,421	107,421
Gross Receivables	<u>113,571</u>	<u>113,571</u>
Total per School-wide Financial Statements	<u>\$ 113,571</u>	<u>113,571</u>

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2010
(Continued)

IV. Detailed Notes on all Funds (continued)

C. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Buildings	\$ 1,597,193	-	-	1,597,192
Furniture, fixtures and equipment	137,692	820	-	138,512
Total capital assets, being depreciated	<u>1,734,885</u>	<u>820</u>	<u>-</u>	<u>1,735,704</u>
Less accumulated depreciation for:				
Buildings and Building improvements	(102,384)	(40,953)	-	(143,337)
Furniture, fixtures and equipment	(26,689)	(25,025)	-	(51,714)
Total accumulated depreciation	<u>(129,073)</u>	<u>(65,978)</u>	<u>-</u>	<u>(195,051)</u>
Total Capital Assets, Net	<u>\$ 1,605,812</u>	<u>(65,158)</u>	<u>-</u>	<u>1,540,653</u>

The School's depreciation expense for the year ended June 30, 2010 was as follows:

Function:

Direct instruction	\$ 39,587
Operations and maintenance	26,391
Total Depreciation	<u>\$ 65,978</u>

D. Operating Lease

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, 2010.

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2010
(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.

Principal payments of \$69,931 were made on the Note during the year.

On August 25, 2010 Wells Fargo agreed to an additional 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.

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 \$2,500 were made on the Note during the year

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2010
(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, 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Note payable, Wells Fargo	\$ 1,021,976	-	(69,931)	952,045	952,045
Note payable, Edwards Excavating, Inc.	-	78,178	(2,500)	75,678	4,000
	<u>\$ 1,021,976</u>	<u>78,178</u>	<u>(72,431)</u>	<u>1,027,723</u>	<u>956,045</u>

IV. 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 2.20 percent of the total payroll for the calendar year 2010 (1.70 percent of total payroll for the calendar year 2009, and 1.40 percent of total payroll for the calendar year 2008). Additionally, the School is required to pay a supplemental amortization equalization disbursement (SAED) equal to 1.50 percent of the total payroll for the calendar year 2010 (1.00 percent of total payroll for the calendar year 2009, and 0.50 percent of total payroll for the calendar year ended 2008). 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, 2010, 2009, and 2008 were \$116,813, \$103,046, and \$95,605, respectively, equal to their required contributions for each year.

Stone Creek Charter School
Notes to the Financial Statements
June 30, 2010
(Continued)

IV. 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 as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contribution to the HCTF from the defined benefit plan employer contribution (see 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, 2010, 2009 and 2008 were \$8,901, \$8,678 and \$9,456, 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, 2010
(Continued)

IV. 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 year end of \$7,148.
- Total cash at June 30, 2010 equaled \$14,299.
- The School has outstanding debt, accounts payable, and related liabilities totaled \$1,029,072 that are due within one year.
- Future revenue from the state of Colorado's is anticipated to decrease due to lower primary education funding.
- The School land lease has a maturity date of June 30, 2011. The lease indicates the lease will not be renewed or extended for any reason beyond that date.

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 has negotiated a Note Payable with a significant vendor in the amount of \$78,178 which the school had been delinquent in payment. The Note Payable provides for quarterly payments of \$1,000 and matures on January 4, 2014. See NOTE IV.E.2
- The School has negotiated modified terms with Wells Fargo for the outstanding Note Payable in the amount of \$952,045. The current Agreement states that the School will make monthly principal and interest payments totaling \$10,000. In addition to the monthly payments the School will pay the Bank 40% of quarterly operating profits, if any. See NOTE IV.E.1.

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 30, 2010, the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Stone Creek Charter School
Schedule of Revenues and Expenditures
Budget and Actual
Capital Reserve Fund
For the Year Ended June 30, 2010
(With Comparative Actual Amounts for the Year Ended June 30, 2009)

	2010		Variance Positive (Negative)	2009
	Original and Final Budget	Actual		Actual
Revenues:				
Capital reserve direct allocation	-	59,626	59,626	52,852
Total Revenues	<u>-</u>	<u>59,626</u>	<u>59,626</u>	<u>52,852</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>59,626</u>	<u>59,626</u>	<u>52,852</u>
Other Financing Sources (Uses):				
Repayment of principal debt	-	(59,626)	(59,626)	(52,852)
Total Other Financing (Uses):	<u>-</u>	<u>(59,626)</u>	<u>(59,626)</u>	<u>(52,852)</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance - Beginning of the Year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - End of the Year	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

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