

**CORE KNOWLEDGE CHARTER SCHOOL  
Parker, Colorado**

**FINANCIAL STATEMENTS**

**June 30, 2011**

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Operating Council  
Core Knowledge Charter School  
Parker, Colorado

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Core Knowledge Charter School, component unit of Douglas County School District, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the Core Knowledge Charter School, as listed in the table of contents. These financial statements are the responsibility of the Core Knowledge Charter School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, the business-type activities, and each major fund of the Core Knowledge Charter School as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.

*Swanhorst & Company LLC*

September 26, 2011

# **Parker Core Knowledge Charter School**

Management Discussion and Analysis  
Fiscal Year Ending June 30, 2011

As management of Parker Core Knowledge Charter School (Parker Core Knowledge), we offer readers of the financial statements this narrative overview and analysis of the financial activities of Parker Core Knowledge for the fiscal year ended June 30, 2011.

## **Financial Highlights**

The year ending June 30, 2011 is the seventeenth year of operations for Parker Core Knowledge.

The school is funded primarily by the tax revenue received under the State School Finance Act. Tax revenue for the year from Per Pupil Revenue was 2,838,004. The per student allocation to the state was decreased from the prior year due to cuts in state financing to Public Education. Despite cuts in funding, Parker Core Knowledge operated within the approved budget. This was accomplished through salary and benefit freezes, holding down some operating costs and increasing student count by one child per classroom.

The school also received \$147,503 from a Douglas County School District mill levy, per an agreement with the Douglas County School District to share proceeds of its mill levy income with its charter schools. They are also paid based on enrollment on a per student basis with no increase for 2010-2011.

During the year, the school embarked on a school expansion project to further the educational goals of Parker Core Knowledge. These goals included opening a new preschool and building a new Middle School area. To facilitate these plans, the school began a construction project in December 2010. This project was financed with \$2,435,000 in bonds issued through CECFA. An additional \$600,000 was authorized by the school's Operating Council to be spent out of the school's fund balance to construct and equip the expansion. The project was still under construction at year-end 2011 but was completed by the beginning of the 2011-12 school year.

The construction increased the size school building from 30,580 square feet to 53,190 square feet. The project included remodeling in some areas of the existing building and expanding the facility with a new wing. At completion the project includes a preschool office, 4 preschool classrooms, a new preschool playground, 3 classrooms for each grade K-8, additional tutoring and special education rooms, a remodeled administrative area, an elementary lunchroom, and a middle school lunchroom/gathering area. In 2011-2012, the school will receive additional revenue from the increased number of students, tuition-based preschool program and tuition based full-day kindergarten program.

The General Fund balance decreased \$176,143 during the year, from \$1,551,057 to \$1,374,915. This was due to \$198,211 in expenses for construction related expenses paid by the school out of the \$600,000 that was authorized. The balance of the \$600,000 will be paid during the 2011-2012 school year to complete the project.

## **Overview of Financial Statements**

This discussion and analysis is intended to serve as an introduction to Parker Core Knowledge Charter School's basic financial statements. The basic statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

### *1) Government-wide Financial Statements*

The government-wide financial statements report information on all activities of the school and the CKCS Building Corporation. They are designed to provide readers with a broad overview of Parker Core Knowledge's finances, in a manner similar to a private-sector business. The government-wide financial statements include the statement of net assets and the statement of activities.

The statement of net assets presents information on all Parker Core Knowledge's assets and liabilities, with the difference between the two being reported as net assets. Over time, the increases or decreases in net assets may serve as a useful indicator of whether the financial position of Parker Core Knowledge is improving or deteriorating.

The statement of activities presents information showing how Parker Core Knowledge's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurred, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in the statement for some items that will affect cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end.)

### *2) 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. Parker Core Knowledge keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. The General Fund of Parker Core Knowledge is a governmental fund; the CKCS Building Corporation, which is a business-type activity or proprietary fund.

Governmental Funds. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements,

governmental fund financial statements focus on near-term inflows and outflows of resources, as well as on balances of resources available at the end of the fiscal year. Such information may be useful in evaluating Parker Core Knowledge's near-term financing requirements.

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

Parker Core Knowledge maintains two individual governmental funds, the General Fund and the Activity Fund. The Activity Fund is used to record school sponsored pupil organizations and activities. These activities are self-supporting and do not receive any direct support from the general funds. However, the activity in this Fund is minimal compared to the Operating Fund so, the Operating Fund and Activity funds have been combined for the accompanying financial statements.

Parker Core Knowledge adopts an annual appropriated budget for all funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

Proprietary Fund. The CKCS Building Corporation is considered a component unit of the Parker Core Knowledge and has one fund, the proprietary fund. Its activity is related to the assets purchased with tax-exempt financing. It is represented in the financial statements with statements of net assets, revenues, expenses and changes in net assets and statement of cash flows.

### *3) Notes to the financial statements*

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

## **Government-wide Financial Analysis**

As noted previously, net assets may serve over time as a useful indicator of Parker Core Knowledge's financial position. For the year ended June 30, 2011, Parker Core Knowledge's combined assets exceeded liabilities by \$1,825,816 up from \$1,747,108 at the previous year-end, an increase of \$78,708.

Core Knowledge Charter School's Combined Net Assets  
For the Year Ended June 30, 2011 and June 30, 2010

	Governmental and Business-Type Activities 2010-2011	Governmental and Business-Type Activities 2009-2010
<u>Assets</u>		
Cash and Investments	\$1,600,869	\$1,823,001
Accounts Receivable	3,181	1,509
Restricted Cash	1,569,172	483,293
Prepaid Expenses	17,669	-
Deposits	88,920	-
Debt Issuance Costs, Net of Depreciation	278,208	165,065
Capital Assets , Not being Depreciated	2,526,011	-
Capital Assets, Net of Depreciation	<u>2,975,352</u>	<u>3,307,343</u>
Total Assets	9,059,382	\$5,780,211
 <u>Liabilities</u>		
Accounts Payable	613,234	29,799
Retainage Payable	185,581	-
Accrued Salaries and Benefits	145,730	140,893
Accrued Interest Payable	59,422	35,119
Non-current Liabilities	<u>6,229,599</u>	<u>3,827,292</u>
Total Liabilities	7,233,566	4,033,103
 <u>Net Assets</u>		
Invested in Capital Assets, net of related debt	(271,911)	(354,884)
Restricted for Debt Service	546,098	373,174
Restricted for Building Repair	75,000	75,000
Restricted for Full-Day Kindergarten	86,598	61,478
Restricted for Emergencies	129,000	99,000
Unrestricted	<u>1,261,031</u>	<u>1,493,340</u>
Total Net Assets	1,825,816	\$1,747,108

Core Knowledge Charter School Change in Combined Net Assets  
For the Year Ended June 30, 2011 and June 30, 2010

	Governmental and Business-Type Activities 2010-2011	Governmental and Business-Type Activities 2009-2010
Charges for Services	109,963	98,382
Total Program Revenue	109,963	98,382
General Revenue:		
Per Pupil Operating Revenue	2,838,004	2,865,545
Mill Levy Override	147,503	142,718
District Capital Funding	-	110,748
State Capital Construction Program	39,066	40,754
Contributions not restricted to Specific Programs	21,854	-
Investment Income	2,976	4,169
Other	<u>34,391</u>	<u>40,886</u>
Total General Revenue	3,083,794	3,204,820
Expenses:		
Instruction	1,766,062	1,802,306
Supporting Services	1,033,187	890,552
Building Corporation	<u>315,800</u>	<u>318,186</u>
Total Expenses	3,115,049	3,011,044
Increase in Net Assets	78,708	292,158
Beginning Net Assets	1,747,108	1,454,950
Ending Net Assets	1,825,816	1,747,108

**Financial Analysis of the Funds**

Governmental Funds

The focus of Parker Core Knowledge's Governmental Fund Financial Statement is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the school's operating requirements. In particular, the unassigned fund balance may serve as a useful measure of the School's net resources available for spending at the end of the fiscal year.

The General Fund is the major operating fund of the School and reflects the day-to-day operation of the school. At the end of the current fiscal year, the school's operating fund reported an ending fund balance of \$1,374,914, a decrease of \$176,143. During the previous year, the fund balance increased \$366,922. This decrease in Fund balance was due to construction related expenses allocated by the School's Operating Council to be paid out of the beginning Fund balance.

### Proprietary Fund

The activities of the Building Corporation consist entirely of holding title to the School's facilities and debt service. In October 2010, CECFA issued \$2,435,000 Charter School Revenue Bonds, Series 2010. Bond proceeds were loaned to the Corporation to finance the construction and equipping of an addition to the School's existing facilities. The School is obligated under a lease agreement to make monthly payments to the Building Corporation for use of the facilities. These payments from the school flow through the Corporation to service the long-term bond debt. These rent payments are then held in restricted cash accounts to service the bond debt. The only other revenue for the Corporation is the investment earnings of \$296.

Because of the limited activity of the Building Corporation, most of its cash is restricted. At the end of 2011, the building was still under construction. \$888,652 was being held for project expenses. Additionally, \$605,520 was being held for debt service and \$75,000 for repair and replacement purposes. The CKCS Building Corporation's net assets as of June 30, 2011 were 446,640.

### General Fund Budgetary Highlights

The School approves a budget in June based on enrollment projections for the following school year. The budget is then revised in November after the official student enrollment count is taken. For the school year 2010-11, the school budgeted for a net loss of \$441,577. This net loss was calculated after an allocation of \$600,000 towards the building project. The actual net loss was \$176,143, a variance of \$265,434. Not all of the \$600,000 had been spent by June 30, and the variance is primarily a result. The balance will be spent during the 2011-2012 school year.

In 2010-2011, the school's actual revenues from the state were cut 5.4% from a Per pupil revenue of \$6,913 to \$6,544. The school offset this decrease by increasing the number of students per class by one student each. In addition, steps were taken in 2010-2011 to reduce overall expenses and salary and benefit freezes were implemented.

## **Economic Factors and Next Year's Budget**

The poor economy has had a detrimental impact on the revenue for the State of Colorado, which will negatively affect school funding again next year. Per Pupil Revenue, the school's primary source of revenue has been cut again for the 2011-2012 school year by another 4.8%. To counter these cuts, the school has made some big changes for the 2011-12 school year. The increased building size has allowed the school to add one more class of each grade. This is being done incrementally; for 2011-12 the school has added 4 additional classes in the lower elementary, added 36 full-time kindergarten students and started a preschool. These increases are expected to offset the falling state revenues and allow the school to operate with positive net revenue.

## **BASIC FINANCIAL STATEMENTS**

CORE KNOWLEDGE CHARTER SCHOOL

STATEMENT OF NET ASSETS

June 30, 2011

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash and Investments	\$ 1,499,154	\$ 101,715	\$ 1,600,869
Restricted Cash and Investments	-	1,569,172	1,569,172
Accounts Receivable	3,181	-	3,181
Prepaid Expenses	17,669	-	17,669
Deposits	88,920	-	88,920
Debt Issuance Costs, Net of Accumulated Amortization	-	278,208	278,208
Capital Assets, Not Being Depreciated	-	2,526,011	2,526,011
Capital Assets, Net of Accumulated Depreciation	<u>4,262</u>	<u>2,971,090</u>	<u>2,975,352</u>
<b>TOTAL ASSETS</b>	<u>1,613,186</u>	<u>7,446,196</u>	<u>9,059,382</u>
<b>LIABILITIES</b>			
Accounts Payable	88,280	524,954	613,234
Retainage Payable	-	185,581	185,581
Accrued Salaries and Benefits	145,730	-	145,730
Accrued Interest Payable	-	59,422	59,422
Noncurrent Liabilities			
Due Within One Year	-	100,000	100,000
Due in More Than One Year	<u>-</u>	<u>6,129,599</u>	<u>6,129,599</u>
<b>TOTAL LIABILITIES</b>	<u>234,010</u>	<u>6,999,556</u>	<u>7,233,566</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	4,262	(276,173)	(271,911)
Restricted for Debt Service	-	546,098	546,098
Restricted for Building Repairs	-	75,000	75,000
Restricted for Full-Day Kindergarten	86,598	-	86,598
Restricted for Emergencies	129,000	-	129,000
Unrestricted	<u>1,159,316</u>	<u>101,715</u>	<u>1,261,031</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 1,379,176</u>	<u>\$ 446,640</u>	<u>\$ 1,825,816</u>

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

CORE KNOWLEDGE CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES CHARGES FOR SERVICES	NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS		
			GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental Activities</b>					
Instruction	\$ 1,766,062	\$ 91,175	\$ (1,674,887)	\$ -	\$ (1,674,887)
Supporting Services	1,033,187	18,788	(1,014,399)	-	(1,014,399)
Total Governmental Activities	2,799,249	109,963	(2,689,286)	-	(2,689,286)
<b>Business-Type Activities</b>					
Building Corporation	315,800	-	-	(315,800)	(315,800)
TOTAL PRIMARY GOVERNMENT	\$ 3,115,049	\$ 109,963	(2,689,286)	(315,800)	(3,005,086)
GENERAL REVENUES					
Per Pupil Revenue			2,838,004	-	2,838,004
District Mill Levy			147,503	-	147,503
Capital Construction			39,066	-	39,066
Contributions not Restricted to					
Specific Programs			21,854	-	21,854
Investment Income			2,680	296	2,976
Other			34,391	-	34,391
TRANSFERS			(877,332)	877,332	-
TOTAL GENERAL REVENUES AND TRANSFERS			2,206,166	877,628	3,083,794
CHANGE IN NET ASSETS			(483,120)	561,828	78,708
NET ASSETS, Beginning			1,862,296	(115,188)	1,747,108
NET ASSETS, Ending			\$ 1,379,176	\$ 446,640	\$ 1,825,816

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

CORE KNOWLEDGE CHARTER SCHOOL

BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2011

	<u>GENERAL</u>
<b>ASSETS</b>	
Cash and Investments	\$ 1,499,154
Accounts Receivable	3,181
Prepaid Expenditures	17,669
Deposits	88,920
<b>TOTAL ASSETS</b>	<b>\$ 1,608,924</b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 88,280
Accrued Salaries and Benefits	145,730
<b>TOTAL LIABILITIES</b>	<b>234,010</b>
<b>FUND BALANCE</b>	
Nonspendable Prepaid Expenditures	17,669
Nonspendable Deposits	88,920
Restricted for Full-Day Kindergarten	86,598
Restricted for Emergencies	129,000
Unrestricted, Unassigned	1,052,727
<b>TOTAL FUND BALANCE</b>	<b>1,374,914</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,608,924</b>
 Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 1,374,914
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	4,262
<b>Total Net Assets of Governmental Activities</b>	<b>\$ 1,379,176</b>

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

CORE KNOWLEDGE CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
 Year Ended June 30, 2011

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 3,154,395
State Sources	<u>39,066</u>
TOTAL REVENUES	<u>3,193,461</u>
EXPENDITURES	
Instruction	1,766,062
Supporting Services	<u>1,603,542</u>
TOTAL EXPENDITURES	<u>3,369,604</u>
NET CHANGE IN FUND BALANCE	(176,143)
FUND BALANCE, Beginning	<u>1,551,057</u>
FUND BALANCE, Ending	\$ <u><u>1,374,914</u></u>

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Net Change in Fund Balance of the Governmental Fund	\$ (176,143)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$40,018) and disposals (\$272,287) exceeded capital outlay \$5,328 in the current year.	<u>(306,977)</u>
Change in Net Assets of Governmental Activities	\$ <u><u>(483,120)</u></u>

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

CORE KNOWLEDGE CHARTER SCHOOL

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2011

	<u>BUILDING CORPORATION</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and Investments	\$ 101,715
Restricted Cash and Investments	<u>1,569,172</u>
<b>TOTAL CURRENT ASSETS</b>	<u>1,670,887</u>
<b>NONCURRENT ASSETS</b>	
Debt Issuance Costs, Net of Accumulated Amortization	278,208
Capital Assets, Not Being Depreciated	2,526,011
Capital Assets, Net of Accumulated Depreciation	<u>2,971,090</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>5,775,309</u>
<b>TOTAL ASSETS</b>	<u>7,446,196</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts Payable	524,954
Retainage Payable	185,581
Accrued Interest Payable	59,422
Loans Payable, Current Portion	<u>100,000</u>
<b>TOTAL CURRENT LIABILITIES</b>	869,957
<b>NONCURRENT LIABILITIES</b>	
Loans Payable	<u>6,129,599</u>
<b>TOTAL LIABILITIES</b>	<u>6,999,556</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	(276,173)
Restricted for Debt Service	546,098
Restricted for Building Repairs	75,000
Unrestricted	<u>101,715</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 446,640</u>

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

CORE KNOWLEDGE CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
 Year Ended June 30, 2011

	<u>BUILDING CORPORATION</u>
OPERATING REVENUES	
Rental Income	\$ <u>411,958</u>
TOTAL OPERATING REVENUES	<u>411,958</u>
OPERATING EXPENSES	
Depreciation	77,902
Amortization	8,912
Debt Service	
Interest and Fiscal Charges	<u>228,986</u>
TOTAL OPERATING EXPENSES	<u>315,800</u>
NET OPERATING INCOME	96,158
NONOPERATING REVENUES	
Investment Income	<u>296</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	96,454
Capital Contributions	<u>465,374</u>
CHANGE IN NET ASSETS	561,828
NET ASSETS, Beginning	<u>(115,188)</u>
NET ASSETS, Ending	<u>\$ <u>446,640</u></u>

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

CORE KNOWLEDGE CHARTER SCHOOL

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Year Ended June 30, 2011

Increase (Decrease) in Cash and Cash Equivalents

	<u>BUILDING CORPORATION</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Lease Payments Received	\$ 411,958
Loan Principal Payments	(95,000)
Loan Interest Payments	(184,194)
Payments to Vendors	<u>(1,092)</u>
Net Cash Provided by Operating Activities	<u>131,672</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Construction and Acquisition of Capital Assets	(1,306,917)
Bond Proceeds	2,477,910
Bond Issuance Costs Paid	(122,055)
Interest Paid and Capitalized	<u>(96,073)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>952,865</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Income Received	<u>296</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	1,084,833
<b>CASH AND CASH EQUIVALENTS, Beginning</b>	<u>586,054</u>
<b>CASH AND CASH EQUIVALENTS, Ending</b>	<u>\$ 1,670,887</u>
<b>RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Net Operating Income	\$ 96,158
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities	
Depreciation	77,902
Amortization of Issuance Costs	8,912
Amortization of Premium	(6,714)
Amortization of Loss on Refunding	26,111
Changes in Assets and Liabilities	
Accrued Interest Payable	24,303
Loans Payable	<u>(95,000)</u>
Net Cash Provided by Operating Activities	<u>\$ 131,672</u>
<b>NONCASH TRANSACTIONS</b>	
Capital Assets Contributed by Other Entity	<u>\$ 465,374</u>

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

CORE KNOWLEDGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Core Knowledge Charter School (the “School”) was formed pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District (the “District”).

The accounting policies of the School conform to generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

**Reporting Entity**

The financial reporting entity consists of the School, organizations for which the School is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the School. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. Legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens, on the School.

The School includes the Core Knowledge Charter School Building Corporation (the “Corporation”) within its reporting entity. The Corporation was formed to support and assist the School to perform its function and to carry out its purpose, specifically to assist in the financing and construction of the School’s facilities. The Corporation is blended into the School’s financial statements as an enterprise fund. Separate audited financial statements for the Corporation are not available.

The School is a component unit of the District. The School’s charter is granted by the District and the majority of the School’s funding is provided by the District.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted revenues not properly included among program revenues are reported instead as *general revenues*. Internally dedicated resources are reported as general revenues rather than as program revenues.

Separate financial statements are provided for the governmental fund and the proprietary fund. Major individual funds are reported as separate columns in the fund financial statements.

CORE KNOWLEDGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund in the fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current year. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The School reports the following major governmental fund:

*General Fund* - This fund is the general operating fund of the School. It is currently used to account for all financial activities of the School.

The School reports one major proprietary fund, as follows:

*Building Corporation* - This fund is used to account for the capital and debt service activities of the Corporation.

**Assets, Liabilities and Net Assets/Fund Balance**

*Cash and Investments* - Cash equivalents include investments with original maturities of three months or less. Investments are reported at fair value.

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

*Prepaid Expenses* - Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid expenses.

CORE KNOWLEDGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Assets, Liabilities and Net Assets/Fund Balance (Continued)**

*Capital Assets* - Capital assets, which include land, buildings, and equipment, are reported in the government-wide financial statements and the proprietary fund in the fund financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported in the applicable statement of net assets. Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Land Improvements	10 years
Buildings and Improvements	10 - 45 years
Equipment	7 years

*Accrued Salaries and Benefits* - Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during a school year of approximately nine months. The salaries and benefits earned, but unpaid, are reflected as a liability of the General Fund.

*Compensated Absences* - Employees of the School are allowed to accumulate unused sick leave. Upon termination of employment from the School, an employee will be compensated for all accrued sick leave at the rate of \$50 per day. A liability for compensated absences is not reported in the financial statements because the amount is insignificant.

*Long-Term Debt* - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Debt issuance costs are deferred and amortized over the life of the debt using the straight-line method. In the fund financial statements, governmental funds recognize the face amount of debt issued as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

*Net Assets/Fund Balance* - In the government-wide and fund financial statements, net assets and fund balance are restricted when constraints placed on the use of resources are externally imposed. The School has not established a formal policy for its use of restricted and unrestricted fund balance. However, if both restricted and unrestricted fund balances are available, the School uses restricted fund balance first.

**Risk Management**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School purchases insurance through the District for these risks of loss.

CORE KNOWLEDGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE 2: CASH AND INVESTMENTS**

At June 30, 2011, the School and the Corporation had the following cash and investments:

Petty Cash	\$ 27
Cash Deposits	151,738
Investments	<u>3,018,276</u>
<b>Total</b>	<b><u>\$ 3,170,041</u></b>

Cash and investments are reported in the financial statements as follows:

Cash and Investments	\$ 1,600,869
Restricted Cash and Investments	<u>1,569,172</u>
<b>Total</b>	<b><u>\$ 3,170,041</u></b>

**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

**Investments**

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity, and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk.

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

*Interest Rate Risk* - State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years.

*Credit Risk* - At June 30, 2011, the Corporation had invested \$1,569,172 in a money market fund rated AAAM by Standard and Poor's and Aaa by Moody's Investors Service.

CORE KNOWLEDGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE 2: CASH AND INVESTMENTS (Continued)**

**Investments (Continued)**

*Local Government Investment Pool* - At June 30, 2011, the School had \$1,449,104 invested in the Colorado Surplus Asset Fund Trust (CSAFE), an investment vehicle established for local government entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating CSAFE. CSAFE operates in conformity with the Securities and Exchange Commission's Rule 2a-7 as promulgated under the Investment Company Act of 1940, as amended. CSAFE is rated AAAM by Standard and Poor's. Investments of CSAFE are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

**Restricted Cash and Investments**

Cash and investments of \$1,569,172 have been restricted by the Corporation for debt service, capital projects and building repairs.

**NOTE 3: CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2011, is summarized below.

	<u>Balances</u> <u>6/30/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>6/30/11</u>
<b>Governmental Activities</b>				
Capital Assets, Being Depreciated				
Land Improvements	\$ 288,145	\$ -	\$ 288,145	\$ -
Building Improvements	112,368	-	112,368	-
Equipment	<u>54,323</u>	<u>5,328</u>	<u>54,323</u>	<u>5,328</u>
Total Capital Assets, Being Depreciated	<u>454,836</u>	<u>5,328</u>	<u>454,836</u>	<u>5,328</u>
Accumulated Depreciation				
Land Improvements	(73,686)	(30,068)	(103,754)	-
Building Improvements	(22,983)	(7,960)	(30,943)	-
Equipment	<u>(46,928)</u>	<u>(1,990)</u>	<u>(47,852)</u>	<u>(1,066)</u>
Total Accumulated Depreciation	<u>(143,597)</u>	<u>(40,018)</u>	<u>(182,549)</u>	<u>(1,066)</u>
Governmental Activities Capital Assets, Net	<u>\$ 311,239</u>	<u>\$ (34,690)</u>	<u>\$ 272,287</u>	<u>\$ 4,262</u>

Depreciation expense of the governmental activities was charged to the supporting services program of the School.

CORE KNOWLEDGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE 3: CAPITAL ASSETS (Continued)**

	Balance 6/30/10	Additions	Deletions	Balance 6/30/11
<b>Business-Type Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 235,020	\$ -	\$ -	\$ 235,020
Construction in Progress	-	2,290,991	-	2,290,991
Total Capital Assets, Not Being Depreciated	<u>235,020</u>	<u>2,290,991</u>	<u>-</u>	<u>2,526,011</u>
Capital Assets, Being Depreciated				
Land Improvements	-	184,391	-	184,391
Buildings and Improvements	3,473,264	81,425	-	3,554,689
Equipment	-	22,092	-	22,092
Total Capital Assets, Being Depreciated	<u>3,473,264</u>	<u>287,908</u>	<u>-</u>	<u>3,761,172</u>
Accumulated Depreciation				
Buildings and Improvements	(712,180)	(77,902)	-	(790,082)
Total Accumulated Depreciation	<u>(712,180)</u>	<u>(77,902)</u>	<u>-</u>	<u>(790,082)</u>
Total Capital Assets, Being Depreciated, Net	<u>2,761,084</u>	<u>210,006</u>	<u>-</u>	<u>2,971,090</u>
Business-Type Activities Capital Assets, Net	<u><u>\$ 2,996,104</u></u>	<u><u>\$ 2,500,997</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,497,101</u></u>

**NOTE 4: LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the year ended June 30, 2011.

	Balance 6/30/10	Additions	Payments	Balance 6/30/11	Due Within One Year
<b>Business-Type Activities</b>					
2004 Building Loan	\$ 4,310,000	\$ -	\$ 95,000	\$ 4,215,000	\$ 100,000
Premium	143,963	-	5,998	137,965	-
Loss On Refunding	(626,671)	-	(26,111)	(600,560)	-
2010 Building Loan	-	2,435,000	-	2,435,000	-
Premium	-	42,910	716	42,194	-
Total	<u><u>\$ 3,827,292</u></u>	<u><u>\$ 2,477,910</u></u>	<u><u>\$ 75,603</u></u>	<u><u>\$ 6,229,599</u></u>	<u><u>\$ 100,000</u></u>

In April 2004, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$4,805,000 Charter School Revenue Refunding Bonds. Proceeds of the bonds were used to refund the CECFA Charter School Revenue Bonds, Series 1999, originally issued to construct the School's facilities. Additional proceeds of \$775,000 were loaned to the Corporation to finance improvements to the facilities. The bonds accrue interest at rates ranging from 2.5% to 5.125%. Interest payments are due semi-annually on November 1 and May 1. Principal payments are due annually on November 1, through 2034.

CORE KNOWLEDGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE 4: LONG-TERM DEBT (Continued)**

In October 2010, CECFA issued \$2,435,000 Charter School Revenue Bonds, Series 2010. Bond proceeds were loaned to the Corporation to finance the construction and equipping of an addition to the School's existing facilities. The bonds accrue interest at rates ranging from 5% to 6% per annum. Interest payments are due semi-annually on November 1 and May 1. Principal payments are due annually on November 1, beginning in 2035, through 2040.

The School is obligated under a lease agreement to make monthly payments to the Corporation for use of the facilities. The Corporation is required to make equal loan payments to the Trustee, for payment of the bonds. Future payments for the bonds are as follows.

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 100,000	\$ 341,288	\$ 441,288
2013	105,000	337,700	442,700
2014	105,000	334,025	439,025
2015	110,000	330,263	440,263
2016	115,000	325,463	440,463
2017 - 2021	665,000	1,533,065	2,198,065
2022 - 2026	850,000	1,344,322	2,194,322
2027 - 2031	1,080,000	1,100,293	2,180,293
2032 - 2036	1,415,000	784,671	2,199,671
2037 - 2041	<u>2,105,000</u>	<u>340,625</u>	<u>2,445,625</u>
Total	<u>\$ 6,650,000</u>	<u>\$ 6,771,715</u>	<u>\$ 13,421,715</u>

**NOTE 5: 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, post-retirement 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 annual financial report that includes financial statements and required supplementary information for the SDTF. That report may be obtained 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 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 was 8% of covered salaries. The School's contribution rate for calendar years 2009, 2010 and 2011 was 12.95%, 13.85% and 14.75% of covered salaries, respectively. A portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 6). The School's contributions to the SDTF for the years ended June 30, 2011, 2010 and 2009 were \$213,868, \$200,529 and \$183,072, respectively, equal to the required contributions for each year.

CORE KNOWLEDGE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE 6: POSTEMPLOYMENT HEALTHCARE BENEFITS**

*Plan Description* - The School contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan 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 CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained by contacting PERA as described above.

*Funding Policy* - The School is required to contribute at a rate of 1.02% of covered salaries 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 CRS, as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2011, 2010 and 2009 was \$15,212, \$15,208 and \$14,927, respectively, equal to the required amounts for each year.

**NOTE 7: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgements**

The School participates in a number of federal, state, and local programs that are fully or partially funded by grants received. Expenditures financed by grants are subject to audit by the appropriate grantor. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor. At June 30, 2011, certain grant expenditures have not been audited but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

**Tabor Amendment**

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to interpretation, but the School believes it is in compliance with the requirements of the Amendment. In accordance with the Amendment, the School has established an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2011, this reserve, in the amount of \$129,000, was reported as restricted fund balance in the General Fund.

**REQUIRED SUPPLEMENTARY INFORMATION**

CORE KNOWLEDGE CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2011

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE Positive (Negative)
<b>REVENUES</b>				
Local Sources				
Per Pupil Revenue	\$ 2,824,520	\$ 2,813,920	\$ 2,838,004	\$ 24,084
District Mill Levy	148,610	147,500	147,503	3
Tuition and Fees	105,318	98,810	109,963	11,153
Contributions and Fundraising	3,100	8,120	21,854	13,734
Investment Income	4,000	3,220	2,680	(540)
Other	39,230	45,330	34,391	(10,939)
State Sources				
Capital Construction	35,000	39,300	39,066	(234)
<b>TOTAL REVENUES</b>	<u>3,159,778</u>	<u>3,156,200</u>	<u>3,193,461</u>	<u>37,261</u>
<b>EXPENDITURES</b>				
Salaries	1,598,956	1,594,890	1,583,998	10,892
Employee Benefits	394,636	398,710	387,194	11,516
Purchased Services	849,632	1,021,950	987,320	34,630
Supplies and Materials	195,080	202,250	177,225	25,025
Property	48,425	347,117	220,434	126,683
Other	38,540	32,860	13,433	19,427
<b>TOTAL EXPENDITURES</b>	<u>3,125,269</u>	<u>3,597,777</u>	<u>3,369,604</u>	<u>228,173</u>
<b>NET CHANGE IN FUND BALANCE</b>	34,509	(441,577)	(176,143)	265,434
FUND BALANCE, Beginning	<u>1,369,523</u>	<u>1,551,057</u>	<u>1,551,057</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ 1,404,032</u>	<u>\$ 1,109,480</u>	<u>\$ 1,374,914</u>	<u>\$ 265,434</u>

See the accompanying Independent Auditors' Report.

**NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

Budgets are required by State statutes for all funds, and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The School adheres to the following procedures in establishing the budgetary data reflected in the financial statements.

- By June 30, management submits to the Operating Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at year end.
- Prior to June 30, the budget is adopted by the Operating Council.
- Expenditures may not legally exceed appropriations at the fund level.
- Revisions that alter the total expenditures of any fund must be approved by the Operating Council.