

**PIKES PEAK SCHOOL OF EXPEDITIONARY LEARNING**

**FINANCIAL STATEMENTS**

**June 30, 2012**

**PIKES PEAK SCHOOL OF EXPEDITIONARY LEARNING**  
June 30, 2012

**Board of Directors**

President	Aaron Heinrich
Vice-President	Mary Russo
Secretary	Janette Cheney
Treasurer	Alan Flolo
Board Member	Ann Nyberg
Board Member	Brent LaBree
Board Member	Karla Dome

**Administration**

Principal	Don Knapp
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Board of Directors  
Pikes Peak School of Expeditionary Learning  
Falcon, 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 Pikes Peak School of Expeditionary Learning, component unit of Falcon School District 49, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the Pikes Peak School of Expeditionary Learning, as listed in the table of contents. These financial statements are the responsibility of the Pikes Peak School of Expeditionary Learning'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 Pikes Peak School of Expeditionary Learning as of June 30, 2012, 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.

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

*Swanhorst & Company LLC*

August 16, 2012

# PIKES PEAK SCHOOL OF EXPEDITIONARY LEARNING

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2012

The Management Discussion and Analysis of Pikes Peak School of Expeditionary Learning's (PPSEL/School) financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2012. The intent of this narrative overview and analysis is to review the School's financial performance as a whole. Readers should also review the Financial Statements and Notes to Financial Statements to better understand the School's financial performance.

The Management Discussion and Analysis is an element of the reporting model adopted by the Governmental Accounting Standards Board in their Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, issued June, 1999.

The mission of the Pikes Peak School of Expeditionary Learning is to develop a community that embraces and actively cultivates a challenging and engaging learning environment. Employing collaborative teaching methods and diverse individual learning opportunities, the School endeavors to develop motivated, independently thinking individuals who demonstrate skillful articulation of learning, solid academic achievement, social confidence and service to the community.

### **Financial Highlights**

The year ending June 30, 2012 is the School's thirteenth year of operations. The general fund balance increased \$195,782 to \$714,804 from \$519,022 the prior year. This increase is significant in that it will allow the school to remain financially viable and stable when facing potential budget cuts at the State level.

The School's operations are funded by tax revenue received under the State School Finance Act. Tax revenue for the year from Per Pupil Operating Revenue was \$2,293,695. The School operated within budget allocations approved by the Board of Directors. A budget revision, based on the official student count of 374, was approved in January, 2012.

PPSEL operates under the supervision of a seven member Board of Directors. The Board of Directors assigns responsibility of the School operation to the Administrator and School staff. An independent accountant prepares and the Board of Directors reviews financial reports on a quarterly schedule. These reports include, but are not limited to: the Balance Sheet and the Budget vs. Actual Income Statement. The Falcon School District #49 (District) Finance Director also receives these quarterly financial reports.

The combined financial statements of Pikes Peak School of Expeditionary Learning include statements for the PPSEL Building Corporation, the entity that holds the bonds for the School facility. PPSEL has a renewable one year lease with PPSEL Building Corporation for use of the facility. Monthly bond payments are withheld from the Per Pupil Operating Revenue transfers received from Falcon District #49. PPSEL Building Corporation participates in the Colorado State Intercept program for processing of payments to Wells Fargo Bank, Trustee for the PPSEL Building Corporation. As of June 30, 2012, the long-term balance on the original \$6,500,000 bond issuance for PPSEL Building Corporation is \$6,260,000.

## **Overview of Financial Statements**

This Management Discussion and Analysis is intended to serve as an introduction to PPSEL's basic financial statements. The basic statements are comprised of four components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, 3) Notes to the Financial Statements, and 4) Supplementary Information.

### **Government-wide Financial Statements**

The Government-wide Financial Statements are designed to provide readers with a broad overview of the School's finances in a manner similar to a private-sector business.

The Statement of Net Assets presents information of all School assets and liabilities, with the difference 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 the School is improving or deteriorating.

The Statement of Activities (Revenues and Expenses) presents information showing how the School'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 occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the Statement of Activities for some items that will result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end).

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of PPSEL can be divided into two categories: Governmental Funds and Proprietary Funds.

**Governmental Funds:** Governmental funds are used to account for essentially 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 spendable resources, as well as balances of resources available at the end of the fiscal year. Such information may be useful in evaluating the School's near-term financing requirements. PPSEL maintains one government fund which includes all operating activity.

**Proprietary Fund:** PPSEL Building Corporation, considered a component unit of the Charter School has one fund, the Proprietary Fund. Its activity is related to holding title to the School facility and processing the Colorado Educational and Cultural Facilities Authority Bond Agreement associated with the facility financing.

## **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.

## **Supplementary Information**

The Supplementary Information includes a Budgetary Comparison Schedule of the Governmental (General) Fund with additional notes.

## Government-wide Financial Statement Analysis

As noted earlier, Net Assets may serve over time as a useful indicator of the School's financial position. For PPSEL and the PPSEL Building Corporation, Assets exceeded Liabilities by \$648,801 as of the close of the 2011/2012 fiscal year compared to \$476,997 the prior year, an increase of \$171,804.

### Statement of Net Assets Governmental and Business Type Activities

	<u>30-Jun-12</u>	<u>30-Jun-11</u>	<u>Net Change</u>
Current and other assets	\$ 1,455,455	\$ 1,274,913	\$ 180,542
Debt Issuance Costs	\$ 246,922	\$ 256,606	\$ (9,684)
Capital assets	<u>\$ 5,352,854</u>	<u>\$ 5,471,716</u>	<u>\$ (118,862)</u>
Total Assets	<u>\$ 7,055,231</u>	<u>\$ 7,003,235</u>	<u>\$ 51,996</u>
Current liabilities	\$ 146,430	\$ 181,238	\$ (34,808)
Other liabilities	<u>\$ 6,260,000</u>	<u>\$ 6,345,000</u>	<u>\$ (85,000)</u>
Total Liabilities	<u>\$ 6,406,430</u>	<u>\$ 6,526,238</u>	<u>\$ (119,808)</u>
Net assets			
Invested in capital assets, (Net of related debt)	\$ (660,224)	\$ (616,678)	\$ (43,546)
Restricted for Debt Service	\$ 564,216	\$ 555,484	\$ 8,732
Restricted for Repairs & Replacement	\$ 30,005	\$ 19,169	\$ 10,836
Restricted for Emergencies	\$ 76,000	\$ 75,000	\$ 1,000
Unrestricted	<u>\$ 638,804</u>	<u>\$ 444,022</u>	<u>\$ 194,782</u>
Total Net Assets	<u>\$ 648,801</u>	<u>\$ 476,997</u>	<u>\$ 171,804</u>

Cash and investments make up 20.6% of PPSEL and the PPSEL Building Corporation's Total Assets of which 43% is restricted for the Building Corporation debt service and repair and replacement of facilities. Capital Assets, which reflect the School's investment in real and personal property and equipment, currently make up 75.9% of Total Assets. Liabilities decreased by \$119,808 due to an \$85,000 reduction of bond principal and a reduction in the School's current Liabilities.



**Statement of Activities**  
**Government and Business Type Activities**

	<u>30-Jun-12</u>	<u>30-Jun-11</u>	<u>Net Change</u>
Program Revenue:			
Charges for Services	\$ 151,837	\$ 138,208	\$ 13,629
Operating Grants	<u>\$ 9,276</u>	<u>\$ 14,412</u>	<u>\$ (5,136)</u>
Total Program Revenue	<u>\$ 161,113</u>	<u>\$ 152,620</u>	<u>\$ 8,493</u>
General Revenue:			
Per Pupil Operating Revenue	\$ 2,293,695	\$ 2,333,523	\$ (39,828)
Capital Construction Grant	\$ 29,513	\$ 32,528	\$ (3,015)
Other Unrestricted Contributions	\$ 2,570	\$ 3,265	\$ (695)
Investment Income	<u>\$ 10,942</u>	<u>\$ 16,055</u>	<u>\$ (5,113)</u>
Total General Revenue	<u>\$ 2,336,720</u>	<u>\$ 2,385,371</u>	<u>\$ (48,651)</u>
Total Revenue	<u>\$ 2,497,833</u>	<u>\$ 2,537,991</u>	<u>\$ (40,158)</u>
Expenses:			
Instruction	\$ 1,365,302	\$ 1,414,065	\$ (48,763)
Supporting Services	\$ 406,729	\$ 411,988	\$ (5,259)
Building Corporation	<u>\$ 553,998</u>	<u>\$ 580,273</u>	<u>\$ (26,275)</u>
Total Expenses	<u>\$ 2,326,029</u>	<u>\$ 2,406,326</u>	<u>\$ (80,297)</u>
Increase (Decrease) in Net Assets	\$ 171,804	\$ 131,665	\$ 40,139
Beginning Net Assets	<u>\$ 476,997</u>	<u>\$ 345,332</u>	<u>\$ 131,665</u>
Ending Net Assets	<u>\$ 648,801</u>	<u>\$ 476,997</u>	<u>\$ 171,804</u>

Charges for Services which increased \$13,629 include Pre-Kindergarten tuition, voluntary Expeditionary Activity Fees, Fund Raising and a new After School Program. The School's official student count increased from 361 in 2010/2011 to 374 in 2011/2012 while Per Pupil Funding was reduced by \$331 per student resulting in Per Pupil Operating Revenue decreasing by \$39,828. The Capital Construction Grant was reduced by 9%. In the uncertain environment of continual state funding cuts, every attempt was made to control expenditures. Total Expenses decreased by \$80,297.

## FUND FINANCIAL STATEMENTS ANALYSIS

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

**Governmental Funds:** The focus of Pikes Peak School of Expeditionary Learning'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, 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.

This is the School's thirteenth year of operations. General Fund revenue for FY 2011/2012 was \$2,488,629 compared to \$2,528,257 the prior year. Per Pupil Revenue, which makes up 92% of the School's total revenue, decreased 1.7% due to a 3.6% increase in the funded pupil count offset by the reduced per pupil funding as detailed above. At the end of the fiscal year, the School had an ending General Fund balance of \$714,804, an increase of \$195,782 over the prior year balance of \$519,022.

**Proprietary Fund:** Net assets of the Building Corporation as of June 30, 2012 are (\$71,568) compared to (\$42,025) the prior year, a decrease of \$29,543. The negative balance is due to the depreciation expense exceeding the principal payments. The balance will become positive once the debt is paid down.

## BUDGETARY HIGHLIGHTS

PPSEL approves a Budget in the spring based on enrollment projections for the following school year. In January, after enrollment was finalized, a Revised Budget was approved by the PPSEL Board of Directors. The Revised Budget reflects increased Per Pupil Operating Revenue and increased Purchased Services costs for Falcon District #49 provided services which are based on the finalized student count.

The majority of the General Fund spending is for Salaries and Benefits (54%). Purchased Services, excluding lease payments to the Building Corporation, make up 19% of total expenditures. The primary source of spending under Purchased Services is for those services provided by District #49 for Special Education (\$184,452) and Administration (\$38,078.) Expenses related to leasing the new building are 22% of the total General Fund expenditures. Expenditures in the General Fund were within the approved budgets for fiscal year 2011/2012.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets:** As of June 30, 2012, the PPSEL Building Corporation owns land and land improvements with a carrying value of \$548,380, a new building capitalized at \$5,122,811 and Equipment and Furniture totaled \$109,856. The carrying value of capital assets net of accumulated depreciation is \$5,347,289.

**Long-term debt:** In January, 2008, the Building Corporation obtained financing of \$6,500,000 from bonds issued by the Colorado Educational and Cultural Facilities Authority at an interest cost of 6.625%. The proceeds were used, in part to create a Debt Service Reserve of \$505,656 and pay Debt Issuance Costs of \$290,500. The remaining proceeds were used to acquire Capital Assets described above. The School will make lease payments for use of the facility, which the Building Corporation will use to make the required principal and interest payments on the bonds. These transactions flow through the Colorado State Intercept Program where the State withholds a portion of the Per Pupil Funding and transfers the funds to a designated trustee that in turn makes the principal and interest payments when due.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

As a result of the recession, State funding was cut from \$6,714 per student to \$6,464 per student equaling a \$250 cut per student during FY 2010/2011. This resulted in a funding cut of \$90,250 for 261 students. During the School's 2011/2012 Fiscal Year State funding was cut an additional \$327 per student to \$6,137 and resulted in a funding cut of \$122,298 for 374 students. The School's FY 2012/2013 Budget is based on a student count of 385 and a Per Pupil Revenue of \$6,129.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Pikes Peak School of Expeditionary Learning's finances for those with an interest in such finances. Questions concerning any of the information provided in this report or requests for additional financial information should be submitted in writing and addressed to Mr. Don Knapp, Principal, Pikes Peak School of Expeditionary Learning, 11925 Antlers Ridge Drive, Falcon, CO 80831.

## **BASIC FINANCIAL STATEMENTS**

PIKES PEAK SCHOOL OF EXPEDITIONARY LEARNING

STATEMENT OF NET ASSETS

June 30, 2012

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTALS</u>
<b>ASSETS</b>			
Cash and Investments	\$ 822,673	\$ -	\$ 822,673
Restricted Cash and Investments	-	625,444	625,444
Accounts Receivable	4,001	3,337	7,338
Debt Issuance Costs, Net of Accumulated Amortization	-	246,922	246,922
Capital Assets, Not Being Depreciated	-	548,380	548,380
Capital Assets, Net of Accumulated Depreciation	<u>5,565</u>	<u>4,798,909</u>	<u>4,804,474</u>
<b>TOTAL ASSETS</b>	<u>832,239</u>	<u>6,222,992</u>	<u>7,055,231</u>
<b>LIABILITIES</b>			
Accounts Payable	1,671	-	1,671
Accrued Liabilities	20,998	-	20,998
Accrued Salaries and Benefits	89,201	-	89,201
Accrued Interest Payable	-	34,560	34,560
Noncurrent Liabilities			
Due Within One Year	-	90,000	90,000
Due in More Than One Year	<u>-</u>	<u>6,170,000</u>	<u>6,170,000</u>
<b>TOTAL LIABILITIES</b>	<u>111,870</u>	<u>6,294,560</u>	<u>6,406,430</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	5,565	(665,789)	(660,224)
Restricted for Debt Service	-	564,216	564,216
Restricted for Repairs and Replacements	-	30,005	30,005
Restricted for Emergencies	76,000	-	76,000
Unrestricted	<u>638,804</u>	<u>-</u>	<u>638,804</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 720,369</u>	<u>\$ (71,568)</u>	<u>\$ 648,801</u>

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

PIKES PEAK SCHOOL OF EXPEDITIONARY LEARNING

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
<b>PRIMARY GOVERNMENT</b>			
<b>Governmental Activities</b>			
Instruction	\$ 1,365,302	\$ 151,837	\$ -
Supporting Services	406,729	-	3,925
Total Governmental Activities	1,772,031	151,837	3,925
<b>Business-Type Activities</b>			
Building Corporation	553,998	-	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 2,326,029</b>	<b>\$ 151,837</b>	<b>\$ 3,925</b>

GENERAL REVENUES

Per Pupil Revenue

Capital Construction

Grants and Contributions not Restricted to Specific Programs

Investment Income

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET ASSETS

NET ASSETS, Beginning

NET ASSETS, Ending

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

NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS

<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>	<u>BUSINESS-TYPE</u> <u>ACTIVITIES</u>	<u>TOTALS</u>
\$ (1,213,465)	\$ -	\$ (1,213,465)
<u>(402,804)</u>	<u>-</u>	<u>(402,804)</u>
(1,616,269)	-	(1,616,269)
-	(553,998)	(553,998)
<u>(1,616,269)</u>	<u>(553,998)</u>	<u>(2,170,267)</u>
2,293,695	-	2,293,695
29,513	-	29,513
7,921	-	7,921
1,738	9,204	10,942
<u>(515,251)</u>	<u>515,251</u>	<u>-</u>
<u>1,817,616</u>	<u>524,455</u>	<u>2,342,071</u>
201,347	(29,543)	171,804
<u>519,022</u>	<u>(42,025)</u>	<u>476,997</u>
\$ <u><u>720,369</u></u>	\$ <u><u>(71,568)</u></u>	\$ <u><u>648,801</u></u>

PIKES PEAK SCHOOL OF EXPEDITIONARY LEARNING

BALANCE SHEET  
GOVERNMENTAL FUND

June 30, 2012

	<u>GENERAL FUND</u>
ASSETS	
Cash	\$ 822,673
Accounts Receivable	<u>4,001</u>
TOTAL ASSETS	<u>\$ 826,674</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 1,671
Accrued Liabilities	20,998
Accrued Salaries and Benefits	<u>89,201</u>
TOTAL LIABILITIES	<u>111,870</u>
FUND BALANCE	
Restricted for Emergencies	76,000
Unrestricted, Unassigned	<u>638,804</u>
TOTAL FUND BALANCE	<u>714,804</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 826,674</u>

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

Total Fund Balance of the Governmental Fund	\$ 714,804
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	<u>5,565</u>
Total Net Assets of Governmental Activities	<u>\$ 720,369</u>

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



PIKES PEAK SCHOOL OF EXPEDITIONARY LEARNING

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
 Year Ended June 30, 2012

	GENERAL FUND
REVENUES	
Local Sources	\$ 2,449,840
State Sources	29,513
Federal Sources	9,276
TOTAL REVENUES	2,488,629
EXPENDITURES	
Instruction	1,365,302
Supporting Services	927,545
TOTAL EXPENDITURES	2,292,847
NET CHANGE IN FUND BALANCE	195,782
FUND BALANCE, Beginning	519,022
FUND BALANCE, Ending	\$ 714,804

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

Net Change in Fund Balance of the Governmental Fund	\$ 195,782
Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized in the statement of net assets and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlay \$6,300 exceeded depreciation expense (\$735) in the current year.	5,565
Change in Net Assets of Governmental Activities	\$ 201,347

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

PIKES PEAK SCHOOL OF EXPEDITIONARY LEARNING

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
June 30, 2012

	<u>BUILDING CORPORATION</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Restricted Cash and Cash Equivalents	\$ 225,444
Restricted Bank Deposits	400,000
Accounts Receivable	<u>3,337</u>
<b>TOTAL CURRENT ASSETS</b>	<u>628,781</u>
<b>NONCURRENT ASSETS</b>	
Debt Issuance Costs, Net of Accumulated Amortization	246,922
Capital Assets, Not Being Depreciated	548,380
Capital Assets, Net of Accumulated Depreciation	<u>4,798,909</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>5,594,211</u>
<b>TOTAL ASSETS</b>	<u>6,222,992</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accrued Interest Payable	34,560
Loan Payable, Current Portion	<u>90,000</u>
<b>TOTAL CURRENT LIABILITIES</b>	124,560
<b>NONCURRENT LIABILITIES</b>	
Loan Payable	<u>6,170,000</u>
<b>TOTAL LIABILITIES</b>	<u>6,294,560</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	(665,789)
Restricted for Debt Service	564,216
Restricted for Repairs and Replacements	<u>30,005</u>
<b>TOTAL NET ASSETS</b>	<u>\$ (71,568)</u>

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

PIKES PEAK SCHOOL OF EXPEDITIONARY LEARNING

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
 Year Ended June 30, 2012

	<u>BUILDING CORPORATION</u>
OPERATING REVENUES	
Charges for Services	\$ <u>515,251</u>
OPERATING EXPENSES	
Depreciation	124,427
Amortization	9,684
Debt Service	
Interest and Fees	<u>419,887</u>
TOTAL OPERATING EXPENSES	<u>553,998</u>
NET OPERATING LOSS	(38,747)
NONOPERATING REVENUES	
Investment Income	<u>9,204</u>
CHANGE IN NET ASSETS	(29,543)
NET ASSETS, Beginning	<u>(42,025)</u>
NET ASSETS, Ending	\$ <u><u>(71,568)</u></u>

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

PIKES PEAK SCHOOL OF EXPEDITIONARY LEARNING

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Year Ended June 30, 2012

Increase (Decrease) in Cash and Cash Equivalents

	<u>BUILDING CORPORATION</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Payments Received from Other Funds	\$ 515,251
Loan Interest and Fees Paid	(420,357)
Loan Principal Paid	<u>(85,000)</u>
Net Cash Provided by Operating Activities	<u>9,894</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
(Purchases) Sales of Bank Deposits, Net	100,000
Investment Income Received	<u>10,561</u>
Net Cash Provided by Investing Activities	<u>110,561</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	120,455
<b>CASH AND CASH EQUIVALENTS, Beginning</b>	<u>104,989</u>
<b>CASH AND CASH EQUIVALENTS, Ending</b>	<u><u>\$ 225,444</u></u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Net Operating Loss	\$ (38,747)
Adjustments to Reconcile Net Operating Loss to Net Cash Provided by Operating Activities	
Depreciation Expense	124,427
Amortization of Issuance Costs	9,684
Changes in Assets and Liabilities	
Accrued Interest Payable	(470)
Loan Payable	<u>(85,000)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 9,894</u></u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

The Pikes Peak School of Expeditionary Learning (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Falcon School District 49 (the “District”). The School began operations in the Fall of 1999.

The financial statements of the School have been prepared in conformity with 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. The more significant of the School’s accounting policies are described below.

**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 *PPSEL Building Corporation* (the “Building Corporation”) within its reporting entity. The Building Corporation was formed in November 2007, exclusively for charitable or educational purposes, and for the purpose of holding title to property and otherwise act to facilitate the operations of the School, and to promote public and charter school education. A majority of the board members are in common with the School. The Building Corporation is blended into the School’s financial statements as an enterprise fund. Separate audited financial statements are not available for the Building Corporation.

The School is a component unit of the District. The District granted the School’s charter 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 taxes and 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

**Government-wide and Fund Financial Statements (Continued)**

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.

**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, not to exceed 60 days. 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 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 the following major proprietary fund:

*Building Corporation* - This fund is used to account for the financial activities of the Building Corporation, primarily related to capital assets and debt service.

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**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 governmental and business-type activities column 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 \$5,000 or more, 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 statement of net assets in the government-wide financial statements and the proprietary fund in the fund financial statements. Depreciation is provided over the following estimated useful lives of the capital assets using the straight-line method.

Buildings	50 years
Equipment and Furniture	5 years

Net interest incurred during construction is included in the capitalized value of capital assets in the proprietary fund.

*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 to ten months. The salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

*Compensated Absences* - The School's policy allows employees to accumulate unused vacation and sick leave. Accumulated unused leave is paid to employees annually at one-half of the daily substitute rate. Therefore, no liability is reported in the financial statements for these compensated absences.

*Long-Term Debt* - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt is reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund. Debt issuance costs are deferred and amortized over the life of the debt using the straight-line method.

In the governmental fund financial statements, the face amount of debt issued is reported 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

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

**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 carries commercial insurance for these risks of loss.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Accountability**

At June 30, 2012, the Building Corporation had negative net assets of \$71,568. Management expects this negative balance to be eliminated as the Building Corporation's debt is paid.

**NOTE 3: CASH AND INVESTMENTS**

Cash and investments at June 30, 2012, consisted of the following.

Deposits	\$ 1,222,673
Investments	<u>225,444</u>
Total	<u><b>\$ 1,448,117</b></u>

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

Cash and Investments	\$ 822,673
Restricted Cash and Investments	<u>625,444</u>
Total	<u><b>\$ 1,448,117</b></u>

**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. At June 30, 2012, the School had bank deposits of \$78,497 collateralized with securities held by the financial institution's agent but not in the School's name.

**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.



NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE 3: CASH AND INVESTMENTS (Continued)**

**Investments (Continued)**

- 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 a maturity of five years from the date of purchase, unless the governing board authorizes the investment for a period in excess of five years.

*Credit Risk* - State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with Rule 2a-7, and either have assets of one billion dollars or the highest rating issued by a nationally recognized statistical rating organization (NRSRO). At June 30, 2012, the Building Corporation had \$225,444 invested in a money market fund rated AAAM by Standard & Poor's.

**Restricted Cash and Investments**

Cash and investments of \$625,444 have been restricted by the Building Corporation for debt service and building repairs and replacements.

**NOTE 4: CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2012, are summarized below.

	Balances <u>6/30/11</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>6/30/12</u>
<b>Governmental Activities</b>				
Capital Assets, Being Depreciated				
Equipment	\$ -	\$ 6,300	\$ -	\$ 6,300
Accumulated Depreciation	<u>-</u>	<u>(735)</u>	<u>-</u>	<u>(735)</u>
Governmental Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ 5,565</u>	<u>\$ -</u>	<u>\$ 5,565</u>

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

PIKES PEAK SCHOOL OF EXPEDITIONARY LEARNING

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE 4: CAPITAL ASSETS (Continued)**

	<u>Balances</u> 6/30/11	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 6/30/12
<b>Business-Type Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 397,875	\$ -	\$ -	\$ 397,875
Land Improvements	108,505	-	-	108,505
Water Rights	<u>42,000</u>	<u>-</u>	<u>-</u>	<u>42,000</u>
Total Capital Assets, Not Being Depreciated	<u>548,380</u>	<u>-</u>	<u>-</u>	<u>548,380</u>
Capital Assets, Being Depreciated				
Buildings	5,122,811	-	-	5,122,811
Equipment and Furniture	<u>109,856</u>	<u>-</u>	<u>-</u>	<u>109,856</u>
Total Capital Assets, Being Depreciated	<u>5,232,667</u>	<u>-</u>	<u>-</u>	<u>5,232,667</u>
Less Accumulated Depreciation				
Buildings	(281,080)	(102,456)	-	(383,536)
Equipment and Furniture	<u>(28,251)</u>	<u>(21,971)</u>	<u>-</u>	<u>(50,222)</u>
Total Accumulated Depreciation	<u>(309,331)</u>	<u>(124,427)</u>	<u>-</u>	<u>(433,758)</u>
Total Capital Assets, Being Depreciated, Net	<u>4,923,336</u>	<u>(124,427)</u>	<u>-</u>	<u>4,798,909</u>
Business-Type Activities Capital Assets, Net	<u><b>\$ 5,471,716</b></u>	<u><b>\$ (124,427)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 5,347,289</b></u>

**NOTE 5: LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the year ended June 30, 2012:

	<u>Balances</u> 6/30/11	<u>Additions</u>	<u>Payments</u>	<u>Balances</u> 6/30/12	<u>Due Within</u> <u>One Year</u>
<b>Business-Type Activities</b>					
Building Loan	<u><b>\$ 6,345,000</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 85,000</b></u>	<u><b>\$ 6,260,000</b></u>	<u><b>\$ 90,000</b></u>

In January 2008, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$6,500,000 Charter School Revenue Bonds, Series 2008. Bond proceeds were loaned to the Building Corporation under a loan agreement to construct educational facilities. The School is obligated under a lease agreement to make monthly lease payments to the Building Corporation for use of the facilities. The Building Corporation is required to make equal loan payments to the trustee, for payment of the bonds. Interest accrues at 6.625% per annum. Interest payments are due semi-annually on June 1 and December 1. Principal payments are due annually on June 1, through 2038.

PIKES PEAK SCHOOL OF EXPEDITIONARY LEARNING

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE 5: LONG-TERM DEBT (Continued)**

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 90,000	\$ 414,725	\$ 504,725
2014	95,000	408,762	503,762
2015	100,000	402,469	502,469
2016	105,000	395,844	500,844
2017	115,000	388,888	503,888
2018 - 2022	700,000	1,820,219	2,520,219
2023 - 2027	965,000	1,554,888	2,519,888
2028 - 2032	1,320,000	1,191,507	2,511,507
2033 - 2037	1,825,000	691,317	2,516,317
2038	945,000	62,606	1,007,606
Total	<u>\$ 6,260,000</u>	<u>\$ 7,331,225</u>	<u>\$ 13,591,225</u>

**NOTE 6: 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 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 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 payroll. The School's contribution rate for calendar years 2010, 2011 and 2012 was 13.85%, 14.75% and 15.65% of covered payroll, respectively. A portion of the School's contribution (1.02% of covered payroll) is allocated to the Health Care Trust Fund (See Note 7). The School's contributions to the SDTF for the years ended June 30, 2012, 2011 and 2010 were \$138,168, \$135,179 and \$113,975, respectively, equal to the required contributions for each year.

**NOTE 7: 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 the 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 previously.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

**NOTE 7: POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)**

*Funding Policy* - The School is required to contribute at a rate of 1.02% of covered payroll for all PERA members as set by State 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, 2012, 2011 and 2010 was \$9,284, \$9,636 and \$8,673, respectively, equal to the required amounts for each year.

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgments**

The School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental entities. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor government. At June 30, 2012, significant amounts of grant expenditures have not been audited but the School believes that no expenditures will be disallowed.

**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 many interpretations, but the School believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the School is required to establish an emergency reserve representing 3% of qualifying expenditures. At June 30, 2012, the reserve, of \$76,000, was reported as restricted fund balance in the General Fund.

**REQUIRED SUPPLEMENTARY INFORMATION**

PIKES PEAK SCHOOL OF EXPEDITIONARY LEARNING

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2012

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
<b>REVENUES</b>				
Local Sources				
Per Pupil Revenue	\$ 2,161,253	\$ 2,285,114	\$ 2,293,695	\$ 8,581
Student Fees and Activities	104,500	153,000	151,837	(1,163)
Contributions	3,000	1,000	2,570	1,570
Investment Income	1,500	1,500	1,738	238
State Sources				
Capital Construction	25,000	25,000	29,513	4,513
Federal Sources				
Grants	3,000	3,900	9,276	5,376
<b>TOTAL REVENUES</b>	<u>2,298,253</u>	<u>2,469,514</u>	<u>2,488,629</u>	<u>19,115</u>
<b>EXPENDITURES</b>				
Instruction				
Salaries	844,900	907,800	883,608	24,192
Employee Benefits	208,200	212,600	200,190	12,410
Purchased Professional Services	245,900	207,600	184,668	22,932
Purchased Property Services	12,800	12,800	14,337	(1,537)
Other Purchased Services	34,750	25,750	16,596	9,154
Supplies and Materials	17,000	25,800	38,636	(12,836)
Other	-	50,000	27,267	22,733
<b>Total Instruction</b>	<u>1,363,550</u>	<u>1,442,350</u>	<u>1,365,302</u>	<u>77,048</u>
Supporting Services				
Salaries	132,354	142,354	134,262	8,092
Employee Benefits	17,450	18,150	17,157	993
Purchased Professional Services	109,100	170,400	128,120	42,280
Purchased Property Services	594,500	596,500	547,023	49,477
Other Purchased Services	47,900	52,900	54,312	(1,412)
Supplies and Materials	25,150	27,550	37,515	(9,965)
Other	2,200	2,200	9,156	(6,956)
<b>Total Supporting Services</b>	<u>928,654</u>	<u>1,010,054</u>	<u>927,545</u>	<u>82,509</u>
<b>TOTAL EXPENDITURES</b>	<u>2,292,204</u>	<u>2,452,404</u>	<u>2,292,847</u>	<u>159,557</u>
<b>NET CHANGE IN FUND BALANCE</b>	6,049	17,110	195,782	178,672
<b>FUND BALANCE, Beginning</b>	<u>365,406</u>	<u>519,022</u>	<u>519,022</u>	<u>-</u>
<b>FUND BALANCE, Ending</b>	<u>\$ 371,455</u>	<u>\$ 536,132</u>	<u>\$ 714,804</u>	<u>\$ 178,672</u>

See the accompanying Independent Auditors' Report.

PIKES PEAK SCHOOL OF EXPEDITIONARY LEARNING  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2012

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

**Budgets and Budgetary Accounting**

A budget is adopted for the School on a basis consistent with generally accepted accounting principles.

Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1, for their approval. The budget includes proposed expenditures and the means of financing them.

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