DCS MONTESSORI CHARTER SCHOOL

FINANCIAL STATEMENTS

June 30, 2011

DCS MONTESSORI CHARTER SCHOOL

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S&C Swanhorst & Company LLC
Certified Public Accountants

Board of Directors
DCS Montessori Charter School
Castle Rock, 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 DCS Montessori Charter School, component unit of Douglas County School District Re. 1, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the DCS Montessori Charter School, as listed in the table of contents. These financial statements are the responsibility of the DCS Montessori 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 DCS Montessori 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 20, 2011

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Management's Discussion and Analysis

As management of the **DCS Montessori Charter School**, we offer readers of the DCS Montessori Charter School financial statements this narrative overview and analysis of the financial activities of the DCS Montessori Charter School for the fiscal year ended June 30, 2011.

Financial Highlights

The combined assets of the DCS Montessori Charter School and the Montessori Educational Foundation of Douglas County exceeded its liabilities at the close of the most recent fiscal year by $37,728 (net assets).

The DCS Montessori Charter School general fund ending balance decreased $193,563 to $1,414,865 due to planned decreases. We started the year with a fund balance of $1,608,428.

Overview of Financial Statements

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the DCS Montessori Charter School's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the School's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected grant revenues and earned but unpaid salaries and benefits).

The government-wide statement of activities distinguishes functions/programs of the DCS Montessori Charter School supported primarily by Per Pupil Revenue (PPR) or property taxes passed through from the District (Douglas County School District RE 1). The governmental activities of the DCS Montessori Charter School include instruction and supporting services expense.

The government-wide financial statements can be found on pages 1-2 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The DCS Montessori Charter School, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School'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 the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The DCS Montessori Charter School maintains one individual governmental fund, the General Fund.

DCS Montessori Charter School adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided to demonstrate compliance with the budget.

Proprietary Fund. The Proprietary fund shows negative net assets of ($1,607,241). This is primarily due to the accelerated depreciation of assets relative to the reduction of debt. It is anticipated that the equity position will improve as debt continues to be retired.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 8-15.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the DCS Montessori Charter School, assets exceeded liabilities by $1,644,969 at the close of the most recent fiscal year.

DCS Montessori Charter School's Net Assets

	Governmental Activities June 30, 2011	Governmental Activities June 30, 2010	Business-Type Activities June 30, 2011	Business-Type Activities June 30, 2010
Current Assets	2,149,822	2,055,783	1,400,775	1,386,720
Other Assets	5,186	3,787	764,993	853,934
Capital Assets	230,104	96,597	5,025,594	5,198,086
Total Assets	2,385,112	2,156,167	7,191,362	7,438,740
Current Liabilities	740,143	451,142	423,603	418,865
Other Liabilities	0	0	8,375,000	8,560,000
Total Liabilities	740,143	451,142	8,798,603	8,978,865
Net Assets				
Invested in capital assets, net of related debt	230,104	96,597	(2,769,413)	(2,682,980)
Restricted	119,000	224,254	971,045	961,909
Unrestricted	1,295,865	1,384,174	191,127	180,946
Total Net Assets	1,644,969	1,705,025	(1,607,241)	(1,540,125)

DCS Montessori Charter School's restricted cash (12.44% of Total Assets) is in Business assets and investments. 54.88% reflects its investment in capital assets. The majority of the remaining assets represent bond issue costs, inventory and accrued interest. Management has set aside all required reserves and manages a comfortable fund balance for the Charter School's Governmental activities. 90.14% of the Governmental assets represent cash and investments. Governmental liabilities include accounts payable (72%), accrued salaries and benefits (15%), and deferred revenue (12.6%).

DCS Montessori Charter School's Change in Net Assets
For the Years Ended June 30, 2011 and 2010 respectively

	Governmental Activities June 30, 2011	Governmental Activities June 30, 2010	Business-Type Activities June 30, 2011	Business-Type Activities June 30, 2010
Program Revenue:				
Charges for Services	$ 1,380,595	$ 1,309,522	0	0
Operating Grants and Contributions			328,032	339,960
Total Program Revenue	1,380,595	1,309,522	328,032	339,960
General Revenue:				
Per Pupil Operating Revenue	2,265,614	2,207,882	0	0
Mill Levy Revenue	116,802	108,590	0	0
Capital Construction	31,187	31,329	0	0
District Capital Funding		84,624		
Interest Earnings	26,612	46,253	42,449	44,282
Grants and Contributions not Restricted To Specific Programs	5,509	39,479	0	0
Miscellaneous	9,254	23,574	0	0
Total General Revenue	2,454,978	2,541,731	42,449	44,282
Total Revenue	3,835,573	3,851,253	370,481	384,242
Expenses:				
Current:				
Instruction	2,287,931	2,054,118	0	0
Supporting Services	928,761	771,737	0	0
Building Corporation			1,116,534	1,147,659
Total Expenses	3,216,692	2,825,855	1,116,534	1,147,659
Transfers	(678,937)	(660,284)	678,937	660,284
Increase (Decrease) in Net Assets	(60,056)	365,114	(67,116)	(103,133)
Beginning Net Assets	1,705,025	1,339,911	(1,540,125)	(1,436,992)
Ending Net Assets	1,644,969	1,705,025	(1,607,241)	(1,540,125)

Net assets, which are a very good indicator of financial performance, decreased during FY 10/11 for the Governmental Activities/Montessori Charter School by $60,056. The decrease was primarily due to reduced interest earnings, and additional expenditures for various Purchased Services. Net assets for the Business Type Activities/Foundation decreased for the same period ending June 30, 2011 by $67,116. We can attribute the decrease to depreciation and amortization recognized at a faster pace than the retirement of debt. This inequity will improve as the debt matures.

Financial Analysis of the School's Funds

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

Governmental Funds The focus of the DCS Montessori Charter School's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the DCS Montessori Charter 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, or during, the fiscal year. Governmental Fund Balance is very healthy with 91.6% being unreserved/unrestricted.

As of the end of the current fiscal year, the School's general fund reported an ending fund balance of $1,414,865, a decrease of 12.03%.

Foundation – Business Type Activities Net assets decreased due to the large amount of depreciation and amortization. There was a decrease of $67,116 in net assets or a reduction of 4.35%.

General Fund Budgetary Highlights

The School approves a budget in June based on enrollment projections for the following school year. In October after enrollment stabilizes, adjustments are made to the budget. This year we did not anticipate additional various Purchased Services expenses. Consequently, expenditures exceeded the budgeted appropriation. Because this may be a violation of state statue, we will take care to assure this issue is addressed in the FY 11/12 appropriations resolution.

Capital Asset and Debt Administration:

Capital Assets With the building of the DCS Montessori Charter School, and with considerable improvements made to our main and east playgrounds (including the installation of a turf field) during the '10/'11 school year, investment in net capital assets was $5,255,698. Depreciation of ($172,492) was reported for the Foundation/Building Corporation.

Long-term Debt The School participates in a long-term lease agreement with the Montessori Educational Foundation of Douglas County. Monthly principal and interest payments are due under the lease agreements, with interest accruing at rates ranging from 6% to 7%. The lease ends in July 2032. Annual debt service ranges from $703,500 to $707,000 with payments that began in calendar year 2002.

Economic Factors and Next Year's Budget

In November of 2000 voters in Colorado approved a provision to the Colorado constitution providing that K-12 funding would increase at pupil growth, plus inflation, plus 1% for 10 years and thereafter. As of the '10/'11 school year, this provision no longer includes the automatic 1% increase. Therefore, the most important factors in projecting future School revenues are estimated growth and inflation. However, state PPR funding was cut for the '11/'12 school year, and it is expected that this trend will continue for the next few years.

The FY 2011/2012 budget projects the DCS Montessori Charter School will reduce the general fund ending fund balance by $18,846 or 1.3%.

Requests for Information

This financial report is designed to provide a general overview of the DCS Montessori Charter School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to DCS Montessori Charter School, Janet von Russow, 311 Castle Pines Parkway, Castle Pines, CO 80108.

BASIC FINANCIAL STATEMENTS

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF NET ASSETS
June 30, 2011

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Investments	$ 2,149,822	$ 162,383	$ 2,312,205
Restricted Cash and Investments	-	1,191,004	1,191,004
Accounts Receivable	5,186	-	5,186
Accrued Interest Receivable	-	18,644	18,644
Inventory	-	28,148	28,148
Prepaid Expenses	-	596	596
Debt Issuance Costs, Net of Accumulated Amortization	-	764,993	764,993
Capital Assets, Not Being Depreciated	-	508,415	508,415
Capital Assets, Net of Accumulated Depreciation	230,104	4,517,179	4,747,283
TOTAL ASSETS	2,385,112	7,191,362	9,576,474
LIABILITIES			
Accounts Payable	535,776	-	535,776
Accrued Salaries and Benefits	111,492	-	111,492
Deferred Revenues	92,875	-	92,875
Accrued Interest Payable	-	238,603	238,603
Noncurrent Liabilities			
Due Within One Year	-	185,000	185,000
Due in More Than One Year	-	8,375,000	8,375,000
TOTAL LIABILITIES	740,143	8,798,603	9,538,746
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	230,104	(2,769,413)	(2,539,309)
Restricted for Debt Service	-	817,475	817,475
Restricted for Building Repairs	-	153,570	153,570
Restricted for Emergencies	119,000	-	119,000
Unrestricted	1,295,865	191,127	1,486,992
TOTAL NET ASSETS	$ 1,644,969	$ (1,607,241)	$ 37,728

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

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES CHARGES FOR SERVICES	PROGRAM REVENUES OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities			
Instruction	$ 2,287,931	$ 1,348,441	$ -
Supporting Services	928,761	32,154	-
Total Governmental Activities	3,216,692	1,380,595	-
Business-Type Activities			
Foundation	1,116,534	-	328,032
TOTAL PRIMARY GOVERNMENT	$ 4,333,226	$ 1,380,595	$ 328,032

GENERAL REVENUES
Per Pupil Revenue
District Mill Levy
Capital Construction
Grants and Contributions not
Restricted to Specific Programs
Investment Income
Miscellaneous
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 (EXPENSES) REVENUES AND CHANGE IN NET ASSETS		
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
$ (939,490)	$ -	$ (939,490)
(896,607)	-	(896,607)
(1,836,097)	-	(1,836,097)
-	(788,502)	(788,502)
(1,836,097)	(788,502)	(2,624,599)
2,265,614	-	2,265,614
116,802	-	116,802
31,187	-	31,187
5,509	-	5,509
26,612	42,449	69,061
9,254	-	9,254
(678,937)	678,937	-
1,776,041	721,386	2,497,427
(60,056)	(67,116)	(127,172)
1,705,025	(1,540,125)	164,900
$ 1,644,969	$ (1,607,241)	$ 37,728

DCS MONTESSORI CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2011

		GENERAL
ASSETS		
Cash and Investments	$	2,149,822
Accounts Receivable		5,186
TOTAL ASSETS	$	2,155,008
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts Payable	$	535,776
Accrued Salaries and Benefits		111,492
Deferred Revenues		92,875
TOTAL LIABILITIES		740,143
FUND BALANCE		
Restricted for Emergencies		119,000
Unrestricted, Unassigned		1,295,865
TOTAL FUND BALANCE		1,414,865
TOTAL LIABILITIES AND FUND BALANCE	$	2,155,008

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

Total Fund Balance of the Governmental Fund	$	1,414,865
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in govermental funds.		230,104
Total Net Assets of Governmental Activities	$	1,644,969

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

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUND

Year Ended June 30, 2011

		GENERAL
REVENUES		
Local Sources		
Per Pupil Revenue	$	2,265,614
District Mill Levy		116,802
Student Fees and Activities		1,348,441
Contributions and Fundraising		5,509
Rental Income		32,154
Investment Income		26,612
Miscellaneous		9,254
State Sources		
Capital Construction		31,187
TOTAL REVENUES		3,835,573
EXPENDITURES		
Instruction		2,287,931
Supporting Services		1,741,205
TOTAL EXPENDITURES		4,029,136
NET CHANGE IN FUND BALANCE		(193,563)
FUND BALANCE, Beginning		1,608,428
FUND BALANCE, Ending	$	1,414,865

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

Net Change in Fund Balance of the Governmental Fund	$	(193,563)
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 $151,409 exceeded depreciation expense ($17,902) in the current year.		133,507
Change in Net Assets of Governmental Activities	$	(60,056)

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

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2011

		FOUNDATION
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$	162,383
Restricted Cash and Cash Equivalents		483,566
Restricted Investments		707,438
Accrued Interest Receivable		18,644
Inventory		28,148
Prepaid Expenses		596
TOTAL CURRENT ASSETS		1,400,775
NONCURRENT ASSETS		
Debt Issuance Costs, Net of Accumulated Amortization		764,993
Capital Assets, Not Being Depreciated		508,415
Capital Assets, Net of Accumulated Depreciation		4,517,179
TOTAL NONCURRENT ASSETS		5,790,587
TOTAL ASSETS		7,191,362
LIABILITIES		
CURRENT LIABILITIES		
Accrued Interest Payable		238,603
Loan Payable, Current Portion		185,000
TOTAL CURRENT LIABILITIES		423,603
NONCURRENT LIABILITIES		
Loan Payable		8,375,000
TOTAL LIABILITIES		8,798,603
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		(2,769,413)
Restricted for Debt Service		817,475
Restricted for Building Repairs		153,570
Unrestricted		191,127
TOTAL NET ASSETS	$	(1,607,241)

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

DCS MONTESSORI CHARTER SCHOOL

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

	FOUNDATION
OPERATING REVENUES	
Lease Revenue	$ 678,937
Special Events and Programs	328,032
TOTAL OPERATING REVENUES	1,006,969
OPERATING EXPENSES	
Supporting Services	331,376
Depreciation and Amortization	261,433
Interest and Fiscal Charges	523,725
TOTAL OPERATING EXPENSES	1,116,534
OPERATING LOSS	(109,565)
NONOPERATING INCOME	
Investment Income	42,449
CHANGE IN NET ASSETS	(67,116)
NET ASSETS, Beginning	(1,540,125)
NET ASSETS, Ending	$ (1,607,241)

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

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2011
Increase (Decrease) in Cash and Cash Equivalents

		FOUNDATION
CASH FLOWS FROM OPERATING ACTIVITIES		
Lease Payments Received	$	678,937
Cash Received from Special Events and Programs		333,327
Payments to Vendors		(325,004)
Loan Principal Payments		(175,000)
Loan Interest Payments		(528,537)
Net Cash Used in Operating Activities		(16,277)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income Received		42,449
NET CHANGE IN CASH AND CASH EQUIVALENTS		26,172
CASH AND CASH EQUIVALENTS, Beginning		619,777
CASH AND CASH EQUIVALENTS, Ending	$	645,949
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Loss	$	(109,565)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities		
Depreciation and Amortization		261,433
Changes in Assets and Liabilities		
Accounts Receivable		5,295
Inventory		6,726
Prepaid Expenses		96
Accounts Payable		(450)
Accrued Interest Payable		(4,812)
Loan Payable		(175,000)
Net Cash Used in Operating Activities	$	(16,277)

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The DCS Montessori Charter School (the "School") was organized in 1997 pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District Re. 1 (the "District") in the State of Colorado.

The accounting policies of the School conform to generally accepted accounting principles 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 Montessori Educational Foundation of Douglas County (the "Foundation") within its reporting entity. The Foundation is a non-profit organization established to provide educational activities that are not typically budgeted in the School's fiscal plan. The Foundation nurtures relationships between business, educational, governmental, and charitable organizations for the purpose of enhancing education for the School. The Foundation was also formed to obtain financing for School facilities which may not be available to the School directly. The Foundation is blended into the School's financial statements as an enterprise fund.

The School is a component unit of the District. The School's charter was 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 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.*

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.

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. Available means 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 proprietary 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:

Foundation - This fund is used to account for the activities of the Foundation, including fundraising and the financing of educational facilities.

Assets, Liabilities and Fund Balance/Net Assets

Cash and Investments - Cash equivalents include investments with an original maturity 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.

Inventory - Materials and supplies inventory is stated at average cost. Inventory is recorded as an asset when individual items are purchased and as an expenditure when consumed.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Assets - Capital assets, which include property 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 $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 on the statement of net assets in the government-wide financial statements and the proprietary fund in the fund financial statements. Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Buildings and Improvements	40 years
Land Improvements	15 years
Furniture and Equipment	5 - 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 to ten months. The salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

Deferred Revenues - Deferred revenues include preschool and kindergarten fees paid in advance.

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 statement of net assets. 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 Balances - 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. For these risks of loss, the School participates in the District's risk management program.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Accountability

At June 30, 2011, the Foundation had negative net assets of $1,607,241. Management expects this negative balance to be eliminated as the Foundation's debt is paid.

NOTE 3: CASH AND INVESTMENTS

Cash and investments at June 30, 2011, consisted of the following:

Deposits	$ 823,938
Investments	2,679,271
Total	**$ 3,503,209**

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

Cash and Investments	$ 2,312,205
Restricted Cash and Investments	1,191,004
Total	**$ 3,503,209**

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 (GICs)
- Local government investment pools

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

At June 30, 2011, the School had the following investments:

Investment	Maturity	S&P Rating	Fair Value
Local Government Investment Pool	NA	AAAm	$ 1,782,217
FFCB Note	1/18/18	AAA	189,616
Bayerische Landesbank GIC	7/15/15	A	707,438
Total			**$ 2,679,271**

Local Government Investment Pool - At June 30, 2011, the School and the Foundation had 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.

Credit Risk - State statutes limit investments in U.S. Agency securities to the highest rating issued by two or more nationally recognized statistical rating organizations (NRSROs). State statutes also limit investments in guaranteed investment contracts (GICs) to those with a guarantor rating in one of the two highest ratings by the NRSROs at the time of contract or agreement. The GIC was rated AAA by Standard and Poor's and Aaa by Moody's Investors Service at the time of purchase.

Interest Rate Risk - State statutes limit investments in U.S. Agency securities to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years. GICs are limited to a maturity of three years unless pledged to the payment of debt.

Concentration of Credit Risk - State statutes generally do not limit the amount the School may invest in one issuer. At June 30, 2011, the School's investments in the Federal Farm Credit Bank and the Foundation's investment in the Bayerische Landesbank GIC were 7% and 26%, respectively, of total investments.

Restricted Cash and Investments

Cash and investments of $1,191,004 have been restricted by the Foundation for future debt service and building repairs.

NOTE 4: CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2011, are summarized below:

	Balances 6/30/10	Additions	Deletions	Balances 6/30/11
Governmental Activities				
Capital Assets, Not Being Depreciated				
Construction in Process	$ 79,416	$ -	$ 79,416	$ -
Capital Assets, Being Depreciated				
Land Improvements	-	230,825	-	230,825
Equipment	17,600	-	-	17,600
Total Capital Assets, Being Depreciated	17,600	230,825	-	248,425
Accumulated Depreciation				
Land Improvements	-	(15,388)	-	(15,388)
Equipment	(419)	(2,514)	-	(2,933)
Total Accumulated Depreciation	(419)	(17,902)	-	(18,321)
Total Capital Assets, Being Depreciated, Net	17,181	212,923	-	230,104
Governmental Activities Capital Assets, Net	**$ 96,597**	**$ 212,923**	**$ 79,416**	**$ 230,104**

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

	Balances 6/30/10	Additions	Deletions	Balances 6/30/11
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	$ 508,415	$ -	$ -	$ 508,415
Capital Assets, Being Depreciated				
Buildings and Improvements	6,632,750	-	-	6,632,750
Furniture and Equipment	241,364	-	-	241,364
Total Capital Assets, Being Depreciated	6,874,114	-	-	6,874,114
Accumulated Depreciation				
Buildings and Improvements	(1,962,223)	(169,743)	-	(2,131,966)
Furniture and Equipment	(222,220)	(2,749)	-	(224,969)
Total Accumulated Depreciation	(2,184,443)	(172,492)	-	(2,356,935)
Total Capital Assets, Being Depreciated, Net	4,689,671	(172,492)	-	4,517,179
Business-Type Activities Capital Assets, Net	**$ 5,198,086**	**$ (172,492)**	**$ -**	**$ 5,025,594**

NOTE 5: LONG-TERM DEBT

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

	Balances 6/30/10	Additions	Payments	Balances 6/30/11	Due Within One Year
Business-Type Activities					
Loan Payable	$ 8,735,000	$ -	$ 175,000	$ 8,560,000	$ 185,000

During 2002, the Colorado Educational and Cultural Facilities Authority ("CECFA") issued $9,795,000 Charter School Revenue Refunding Bonds. Proceeds of the bonds were used to refund the CECFA Charter School Revenue Bonds, Series 1999. Additional proceeds were loaned to the Foundation to construct new facilities for the School. The School is obligated under a lease agreement to make monthly lease payments to the Foundation for use of the existing and new facilities. The Foundation is required to make equal loan payments to the Trustee, for payment of the bonds. The bonds accrue interest at rates ranging from 6% to 7%. Interest payments are due semi-annually on January 15 and July 15. Principal payments are due annually on July 15, through 2032. Future debt service obligations are as follows:

Year Ended June 30,	Principal	Interest	Total
2012	$ 185,000	$ 517,888	$ 702,888
2013	195,000	506,637	701,637
2014	210,000	494,638	704,638
2015	225,000	481,888	706,888
2016	235,000	468,237	703,237
2017 - 2021	1,410,000	2,107,488	3,517,488
2022 - 2026	1,895,000	1,620,799	3,515,799
2027 - 2031	2,565,000	953,970	3,518,970
2032 - 2033	1,640,000	122,807	1,762,807
Total	$ 8,560,000	$ 7,274,352	$ 15,834,352

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 PERA of Colorado, 1301 Pennsylvania Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

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 2009, 2010 and 2011 was 12.95%, 13.85% and 14.75% 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, 2011, 2010 and 2009 were $265,911, $231,250 and $206,094, 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 as described previously.

Funding Policy - The School was required to contribute at a rate of 1.02% of covered payroll 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 contributions of the HCTF are 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 $20,531, $17,678 and $26,136, respectively.

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, 2011, significant amounts of 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

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities, and other specific requirements of state and local government. The School believes it is in compliance with the requirements of the Amendment. The Amendment requires state and local governments to establish an emergency reserve, representing 3% of qualifying expenditures. At June 31, 2011, the School's reserve, of $119,000 was reported as restricted fund balance in the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

DCS MONTESSORI CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2011

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	$ 2,310,152	$ 2,266,449	$ 2,265,614	$ (835)
District Mill Levy	120,432	118,805	116,802	(2,003)
Student Fees and Activities	1,175,040	1,216,108	1,348,441	132,333
Contributions and Fundraising	-	-	5,509	5,509
Rental Income	15,000	35,000	32,154	(2,846)
Investment Income	50,000	34,300	26,612	(7,688)
Miscellaneous	21,941	26,942	9,254	(17,688)
State Sources				
Capital Construction	33,298	29,439	31,187	1,748
TOTAL REVENUES	3,725,863	3,727,043	3,835,573	108,530
EXPENDITURES				
Salaries	1,934,897	1,999,613	1,998,790	823
Employee Benefits	493,653	475,659	472,643	3,016
Purchased Services	349,100	386,637	492,373	(105,736)
Supplies	164,850	178,032	175,914	2,118
Property	117,845	181,668	112,514	69,154
Building Lease	776,100	723,100	678,937	44,163
Miscellaneous	14,500	12,500	97,965	(85,465)
Reserves	50,000	50,000	-	50,000
TOTAL EXPENDITURES	3,900,945	4,007,209	4,029,136	(21,927)
NET CHANGE IN FUND BALANCE	(175,082)	(280,166)	(193,563)	86,603
FUND BALANCE, Beginning	1,607,298	1,608,428	1,608,428	-
FUND BALANCE, Ending	$ 1,432,216	$ 1,328,262	$ 1,414,865	$ 86,603

See the accompanying Independent Auditors' Report.

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgets are required by State statutes for all funds and are adopted on a basis consistent with generally accepted accounting principles.

The School adheres to the following procedures in establishing the budgetary data reflected in the financial statements.

- By June 30, management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- Prior to June 30, the budget is adopted by the Board of Directors.
- 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 budgets lapse at fiscal year end.

Legal Compliance

For the year ended June 30, 2011, General Fund expenditures exceeded the amounts budgeted by $21,927. This may be a violation of State statute.