DCS MONTESSORI CHARTER SCHOOL

FINANCIAL STATEMENTS

June 30, 2012

DCS MONTESSORI CHARTER SCHOOL

Board of Directors

MONTESSORI EDUCATIONAL FOUNDATION OF DOUGLAS COUNTY

Board of Directors

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S&C Swanhorst & Company LLC
Certified Public Accountants

Board of Directors
DCS Montessori Charter School
Castle Pines, 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, 2012, 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, 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

September 29, 2012

8400 E. Crescent Parkway • Suite 600 • Greenwood Village, CO 80111 • (720) 528-4306 Fax: (720) 528-4307

Management's Discussion and Analysis

As management of the **DCS Montessori Charter School (the 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, 2012.

Financial Highlights

The combined liabilities of the DCS Montessori Charter School and the Montessori Educational Foundation of Douglas County exceeded its assets at the close of the most recent fiscal year by $2,671. This negative net asset position does not concern the school as it is the result of issuing debt by the Foundation and will reverse itself later in the life cycle of debt when larger bond principal payments are made.

The DCS Montessori Charter School general fund ending balance decreased $39,383 to $1,375,482 due to planned expenditures. The School began the year with a fund balance of $1,414,865.

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 State Per Pupil Revenue (PPR) or property taxes passed through from the 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 and 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 ($1,681,421). We can attribute the negative net asset position to two primary factors: 1) unfunded depreciation and amortization. 2) Greater interest expense is recorded in early years of the debt life cycle. As the debt matures, larger principal payments are made which will have a positive impact on the net asset position of the Foundation.

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 $1,678,750 at the close of the most recent fiscal year.

DCS Montessori Charter School's Net Assets

	Governmental Activities June 30, 2012	Governmental Activities June 30, 2011	Business-Type Activities June 30, 2012	Business-Type Activities June 30, 2011
Current Assets	1,576,896	2,149,822	1,398,108	1,400,775
Other Assets	8,653	5,186	676,052	764,993
Capital Assets	303,268	230,104	4,853,102	5,025,594
Total Assets	1,888,817	2,385,112	6,927,262	7,191,362
Current Liabilities	210,067	740,143	233,683	423,603
Other Liabilities	0	0	8,375,000	8,375,000
Total Liabilities	210,067	740,143	8,608,683	8,798,603
Net Assets				
Invested in capital assets, net of related debt	303,268	230,104	(2,845,846)	(2,769,413)
Restricted	113,000	119,000	967,701	971,045
Unrestricted	1,262,482	1,295,865	196,724	191,127
Total Net Assets	1,678,750	1,644,969	(1,681,421)	(1,607,241)

DCS Montessori Charter School's restricted cash and investments (13.41% of Total Assets) is in business-type activities. 58.49% 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. 83.49% of the Governmental Activities assets represent cash and investments. Governmental Activities liabilities include accounts payable (14.58%), accrued salaries and benefits (53.54%), and deferred revenue (31.88%).

DCS Montessori Charter School's Change in Net Assets
For the Years Ended June 30, 2012 and 2011 respectively

	Governmental Activities June 30, 2012	Governmental Activities June 30, 2011	Business-Type Activities June 30, 2012	Business-Type Activities June 30, 2011
Program Revenue:				
Charges for Services	$ 1,339,893	$ 1,380,595	0	0
Operating Grants and Contributions			329,569	328,032
Total Program Revenue	1,339,893	1,380,595	329,569	328,032
General Revenue:				
Per Pupil Operating Revenue	2,189,543	2,265,614	0	0
Mill Levy Revenue	145,866	116,802	0	0
Capital Construction District Capital Funding	27,991	31,187	0	0
Interest Earnings	27,713	26,612	42,254	42,449
Grants and Contributions not Restricted To Specific Programs	25,714	5,509	0	0
Miscellaneous	2,173	9,254	0	0
Total General Revenue	2,419,000	2,454,978	42,254	42,449
Total Revenue	3,758,893	3,835,573	371,823	370,481
Expenses:				
Current:				
Instruction	2,258,757	2,287,931	0	0
Supporting Services	797, 616	928,761	0	0
Building Corporation			1,114,742	1,116,534
Total Expenses	3,056,373	3,216,692	1,114,742	1,116,534
Transfers	(668,739)	(678,937)	668,739	678,937
Increase (Decrease) in Net Assets	33,781	(60,056)	(74,180)	(67,116)
Beginning Net Assets	1,644,969	1,705,025	(1,607,241)	(1,540,125)
Ending Net Assets	1,678,750	1,644,969	(1,681,421)	(1,607,241)

Net assets, which are a very good indicator of financial performance, increased during FY 11/12 for the Governmental Activities/Montessori Charter School by $33,781. The increase was primarily due to operating within its budget during the year. Net assets for the Business Type Activities/Foundation decreased for the same period ending June 30, 2012 by $74,180. We can attribute the continuing decline to unfunded depreciation and amortization. In addition, more interest expense is recorded in early years of the debt life cycle. As the debt matures, larger principal payments are made which will have a positive impact on the net asset position of the Foundation.

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 91.2% being unrestricted/unassigned.

As of the end of the current fiscal year, the School's general fund reported an ending fund balance of $1,375,482, a decrease of 2.78%.

Foundation – Business Type Activities. Net assets decreased due to the large amount of depreciation and amortization. There was a decrease of $74,180 in net assets or a reduction of 4.61%.

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 the increase in Activity Account expenses, nor were these expenses included on the Appropriating Resolution. Consequently, expenditures exceeded the budgeted appropriation. Because this may be a violation of state statue, we will include the Activity Account expenses on the FY 12/13 Appropriating Resolution.

Capital Asset and Debt Administration:

Capital Assets. With the building of the DCS Montessori Charter School, considerable improvements made to our main and east playgrounds (including the installation of a turf field) in '10/'11, and the completion of the Frontage Project during the '11/'12 school year, investment in net capital assets was $5,156,370. Depreciation of $190,394 was reported for the Foundation and School.

Long-term Debt. The School participates in a long-term lease agreement with the Montessori Educational Foundation of Douglas County. Monthly base rental payments are made to the Foundation of approximately $700,000. The Foundation services the debt with interest accruing at rates ranging from 6% to 7%. The Debt matures in July 2032. Annual debt service ranges from $703,500 to $707,000 with payments that began in calendar year 2002. The Foundation's debt was refinanced in July, 2012, to support the expansion of the school. Please refer to note 5 in the Notes to the Financial Statements.

Economic Factors and Next Year's Budget

Enrollment and Per Pupil Revenue remain the key components driving the budget preparation process each year. Fiscal year 2012/2013 was the first in the last several years the State did not pass on a K-12 funding cut. The School remains optimistic that future K-12 funding will improve as the Colorado economy improves. Recent reports show significant income and sales tax collections, some of which are earmarked for the Education Reserve Fund. It is anticipated these receipts will have a positive impact on FY 2013/2014.

The FY 2012/2013 Approved Budget projects that DCS Montessori Charter School will increase the general fund ending fund balance by $5,622.21 or .40%.

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, 2012

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Investments	$ 1,576,896	$ 168,605	$ 1,745,501
Restricted Cash and Investments	-	1,182,572	1,182,572
Accounts Receivable	572	1,135	1,707
Accrued Interest Receivable	-	18,644	18,644
Inventory	-	27,026	27,026
Prepaid Expenses	8,081	126	8,207
Debt Issuance Costs, Net of Accumulated Amortization	-	676,052	676,052
Capital Assets, Not Being Depreciated	-	508,415	508,415
Capital Assets, Net of Accumulated Depreciation	303,268	4,344,687	4,647,955
TOTAL ASSETS	1,888,817	6,927,262	8,816,079
LIABILITIES			
Accounts Payable	30,633	168	30,801
Accrued Salaries and Benefits	112,468	-	112,468
Deferred Revenues	66,966	-	66,966
Accrued Interest Payable	-	233,515	233,515
Noncurrent Liabilities			
Due in More Than One Year	-	8,375,000	8,375,000
TOTAL LIABILITIES	210,067	8,608,683	8,818,750
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	303,268	(2,845,846)	(2,542,578)
Restricted for Debt Service	-	819,746	819,746
Restricted for Building Repairs	-	147,955	147,955
Restricted for Emergencies	113,000	-	113,000
Unrestricted	1,262,482	196,724	1,459,206
TOTAL NET ASSETS	$ 1,678,750	$ (1,681,421)	$ (2,671)

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

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

		Program Revenues	
FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities			
Instruction	$ 2,258,757	$ 1,314,056	$ -
Supporting Services	797,616	25,837	-
Total Governmental Activities	3,056,373	1,339,893	-
Business-Type Activities			
Foundation	1,114,742	-	329,569
TOTAL PRIMARY GOVERNMENT	$ 4,171,115	$ 1,339,893	$ 329,569

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
$ (944,701)	$ -	$ (944,701)
(771,779)	-	(771,779)
(1,716,480)	-	(1,716,480)
-	(785,173)	(785,173)
(1,716,480)	(785,173)	(2,501,653)
2,189,543	-	2,189,543
145,866	-	145,866
27,991	-	27,991
25,714	-	25,714
27,713	42,254	69,967
2,173	-	2,173
(668,739)	668,739	-
1,750,261	710,993	2,461,254
33,781	(74,180)	(40,399)
1,644,969	(1,607,241)	37,728
$ 1,678,750	$ (1,681,421)	$ (2,671)

DCS MONTESSORI CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2012

		GENERAL
ASSETS		
Cash and Investments	$	1,576,896
Accounts Receivable		572
Prepaid Expenditures		8,081
TOTAL ASSETS	$	1,585,549
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts Payable	$	30,633
Accrued Salaries and Benefits		112,468
Deferred Revenues		66,966
TOTAL LIABILITIES		210,067
FUND BALANCE		
Nonspendable Prepaid Expenditures		8,081
Restricted for Emergencies		113,000
Unrestricted, Unassigned		1,254,401
TOTAL FUND BALANCE		1,375,482
TOTAL LIABILITIES AND FUND BALANCE	$	1,585,549

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

Total Fund Balance of the Governmental Fund	$	1,375,482
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in govermental funds.		303,268
Total Net Assets of Governmental Activities	$	1,678,750

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, 2012

		GENERAL
REVENUES		
Local Sources		
Per Pupil Revenue	$	2,189,543
District Mill Levy		145,866
Student Fees and Activities		1,314,056
Contributions and Fundraising		25,714
Rental Income		25,837
Investment Income		27,713
Miscellaneous		2,173
State Sources		
Capital Construction		27,991
TOTAL REVENUES		3,758,893
EXPENDITURES		
Instruction		2,258,757
Supporting Services		1,539,519
TOTAL EXPENDITURES		3,798,276
NET CHANGE IN FUND BALANCE		(39,383)
FUND BALANCE, Beginning		1,414,865
FUND BALANCE, Ending	$	1,375,482

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

Net Change in Fund Balance of the Governmental Fund	$	(39,383)
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 $91,066 exceeded depreciation expense ($17,902) in the current year.		73,164
Change in Net Assets of Governmental Activities	$	33,781

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

DCS MONTESSORI CHARTER SCHOOL

STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2012

		FOUNDATION
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$	168,605
Restricted Cash and Cash Equivalents		475,134
Restricted Investments		707,438
Accounts Receivable		1,135
Accrued Interest Receivable		18,644
Inventory		27,026
Prepaid Expenses		126
TOTAL CURRENT ASSETS		1,398,108
NONCURRENT ASSETS		
Debt Issuance Costs, Net of Accumulated Amortization		676,052
Capital Assets, Not Being Depreciated		508,415
Capital Assets, Net of Accumulated Depreciation		4,344,687
TOTAL NONCURRENT ASSETS		5,529,154
TOTAL ASSETS		6,927,262
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable		168
Accrued Interest Payable		233,515
TOTAL CURRENT LIABILITIES		233,683
NONCURRENT LIABILITIES		
Loan Payable		8,375,000
TOTAL LIABILITIES		8,608,683
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		(2,845,846)
Restricted for Debt Service		819,746
Restricted for Building Repairs		147,955
Unrestricted		196,724
TOTAL NET ASSETS	$	(1,681,421)

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, 2012

	FOUNDATION
OPERATING REVENUES	
Lease Revenue	$ 668,739
Special Events and Programs	329,569
TOTAL OPERATING REVENUES	998,308
OPERATING EXPENSES	
Supporting Services	340,509
Depreciation and Amortization	261,433
Interest and Fiscal Charges	512,800
TOTAL OPERATING EXPENSES	1,114,742
OPERATING INCOME (LOSS)	(116,434)
NONOPERATING REVENUE	
Investment Income	42,254
CHANGE IN NET ASSETS	(74,180)
NET ASSETS, Beginning	(1,607,241)
NET ASSETS, Ending	$ (1,681,421)

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, 2012
Increase (Decrease) in Cash and Cash Equivalents

		FOUNDATION
CASH FLOWS FROM OPERATING ACTIVITIES		
Lease Payments Received	$	668,739
Cash Received from Special Events and Programs		328,434
Payments to Vendors		(338,749)
Loan Principal Payments		(185,000)
Loan Interest Payments		(517,888)
Net Cash Used in Operating Activities		(44,464)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income Received		42,254
NET CHANGE IN CASH AND CASH EQUIVALENTS		(2,210)
CASH AND CASH EQUIVALENTS, Beginning		645,949
CASH AND CASH EQUIVALENTS, Ending	$	643,739
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Income (Loss)	$	(116,434)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Used in Operating Activities		
Depreciation and Amortization		261,433
Changes in Assets and Liabilities		
Accounts Receivable		(1,135)
Inventory		1,122
Prepaid Expenses		470
Accounts Payable		168
Accrued Interest Payable		(5,088)
Loan Payable		(185,000)
Net Cash Used in Operating Activities	$	(44,464)

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)

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

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, 2012, the Foundation had negative net assets of $1,681,421. 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, 2012, consisted of the following:

Deposits	$ 460,865
Investments	2,467,208
Total	**$ 2,928,073**

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

Cash and Investments	$ 1,745,501
Restricted Cash and Investments	1,182,572
Total	**$ 2,928,073**

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, 2012, the School and the Foundation had the following investments:

Investment	Maturity	S&P Rating	Fair Value
Local Government Investment Pool	NA	AAAm	$ 1,561,611
FFCB Note	1/18/18	AA+	198,159
Bayerische Landesbank GIC	7/15/15	AAA	707,438
Total			**$ 2,467,208**

Local Government Investment Pool - At June 30, 2012, 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 Federal Farm Credit Bank bond and the GIC guarantor were 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, 2012, the School's investment in the Federal Farm Credit Bank and the Foundation's investment in the Bayerische Landesbank GIC were 8% and 29%, respectively, of total investments.

Restricted Cash and Investments

Cash and investments of $1,182,572 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, 2012, are summarized below:

	Balances 6/30/11	Additions	Deletions	Balances 6/30/12
Governmental Activities				
Capital Assets, Being Depreciated				
Land Improvements	$ 230,825	$ 91,066	$ -	$ 321,891
Equipment	17,600	-	-	17,600
Total Capital Assets, Being Depreciated	248,425	91,066	-	339,491
Accumulated Depreciation				
Land Improvements	(15,388)	(15,388)	-	(30,776)
Equipment	(2,933)	(2,514)	-	(5,447)
Total Accumulated Depreciation	(18,321)	(17,902)	-	(36,223)
Governmental Activities Capital Assets, Net	**$ 230,104**	**$ 73,164**	**$ -**	**$ 303,268**

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

	Balances 6/30/11	Additions	Deletions	Balances 6/30/12
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	(2,131,966)	(169,743)	-	(2,301,709)
Furniture and Equipment	(224,969)	(2,749)	-	(227,718)
Total Accumulated Depreciation	(2,356,935)	(172,492)	-	(2,529,427)
Total Capital Assets, Being Depreciated, Net	4,517,179	(172,492)	-	4,344,687
Business-Type Activities Capital Assets, Net	**$ 5,025,594**	**$ (172,492)**	**$ -**	**$ 4,853,102**

NOTE 5: LONG-TERM DEBT

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

	Balances 6/30/11	Additions	Payments	Balances 6/30/12	Due Within One Year
Business-Type Activities					
Loan Payable	**$ 8,560,000**	**$ -**	**$ 185,000**	**$ 8,375,000**	**$ -**

NOTE 5: LONG-TERM DEBT (Continued)

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, originally issued to purchase and construct the School's facilities. 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 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.

In July, 2012, CECFA issued $9,420,00 Charter School Refunding and Improvement Revenue Bonds. Proceeds will be used to refund the Charter School Revenue Refunding Bonds, Series 2002, and finance building improvements necessary to accommodate the middle school component of the School. The bonds accrue interest at rates ranging from 2% to 5%, and mature on July 15, 2037. Future debt service requirements for these bonds are as follows:

Year Ended June 30,	Principal	Interest	Total
2013	$ -	$ 194,990	$ 194,990
2014	210,000	392,262	602,262
2015	210,000	388,062	598,062
2016	345,000	383,812	728,812
2017	265,000	377,275	642,275
2018 - 2022	1,435,000	1,768,001	3,203,001
2023 - 2027	1,720,000	1,493,319	3,213,319
2028 - 2032	2,155,000	1,076,900	3,231,900
2033 - 2037	2,765,000	474,000	3,239,000
2038	315,000	7,875	322,875
Total	**$ 9,420,000**	**$ 6,556,496**	**$ 15,976,496**

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 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 \$252,518, \$265,911 and \$231,250, 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, 2012, 2011 and 2010 was \$16,896, \$20,531 and \$17,678, 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, 2012, 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, 2012, the School's reserve, of \$113,000, 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, 2012

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	$ 2,249,500	$ 2,181,844	$ 2,189,543	$ 7,699
District Mill Levy	152,226	146,060	145,866	(194)
Student Fees and Activities	1,192,222	1,191,313	1,314,056	122,743
Contributions and Fundraising	10,000	25,624	25,714	90
Rental Income	23,640	32,648	25,837	(6,811)
Investment Income	12,000	15,000	27,713	12,713
Miscellaneous	6,000	6,000	2,173	(3,827)
State Sources				
Capital Construction	25,346	24,811	27,991	3,180
TOTAL REVENUES	3,670,934	3,623,300	3,758,893	135,593
EXPENDITURES				
Salaries	1,869,472	1,867,472	1,868,040	(568)
Employee Benefits	458,806	456,661	429,944	26,717
Purchased Services	345,900	362,365	387,317	(24,952)
Supplies	175,100	179,300	164,797	14,503
Property	99,000	103,853	143,235	(39,382)
Building Lease	731,500	724,000	668,739	55,261
Miscellaneous	10,000	9,500	136,204	(126,704)
Reserves	50,000	50,000	-	50,000
TOTAL EXPENDITURES	3,739,778	3,753,151	3,798,276	(45,125)
NET CHANGE IN FUND BALANCE	(68,844)	(129,851)	(39,383)	90,468
FUND BALANCE, Beginning	1,608,427	1,414,865	1,414,865	-
FUND BALANCE, Ending	$ 1,539,583	$ 1,285,014	$ 1,375,482	$ 90,468

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2012

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.

- 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, 2012, General Fund expenditures exceeded the amounts budgeted by $45,125 because student activities were not budgeted. This may be a violation of State statutes.