SPACE, TECHNOLOGY AND ARTS ACADEMY OF COLORADO SPRINGS

FINANCIAL STATEMENTS

June 30, 2011

SPACE, TECHNOLOGY AND ARTS ACADEMY OF COLORADO SPRINGS

ROSTER OF SCHOOL OFFICIALS

June 30, 2011

BOARD OF DIRECTORS

Willie Breazell, Sr., President

J. Charles Chisholm, Treasurer

Samuel Otero, Secretary

Reverend Albert Loma

Shirley Brown

Toby Norton

Eddie Macklin

ADMINISTRATION

Joseph Torrez, Chief Administrative Officer

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S&C Swanhorst & Company LLC
Certified Public Accountants

Board of Directors
Space, Technology and Arts Academy of Colorado Springs
Colorado Springs, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Space, Technology and Arts Academy of Colorado Springs, component unit of Colorado Springs School District 11, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the Space, Technology and Arts Academy of Colorado Springs, as listed in the table of contents. These financial statements are the responsibility of the Space, Technology and Arts Academy of Colorado Springs' 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 and each major fund of the Space, Technology and Arts Academy of Colorado Springs as of June 30, 2011, and the respective changes in financial position 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

August 11, 2011

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

Space, Technology and Arts Academy (Academy) is a K-8 Public Charter School located in Colorado Springs, Colorado. This Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Academy administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The governmental fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The Academy's major instruction and instructional support activities are reported in the General Fund.

In the governmental fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported on the balance sheet. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded on the balance sheet.

Government-wide Financial Statements:

The Government-wide financial statements are maintained using the "full accrual" basis. They report all of the Academy's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, capital assets and long-term obligations of the Academy are reported in the Statement of Net Assets of the Government-wide financial statements.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Summary of Net Assets:
The following summarizes the net assets at fiscal year ended June 30, 2010 and 2011:

Net Assets Summary

	2010	2011
Assets		
Current assets	$ 281,951	$ 412,622
Capital assets	309,516	324,039
Less: accumulated depreciation	(94,524)	(140,846)
Capital assets, net book value	214,992	183,193
Total assets	$ 496,943	$ 595,815
Liabilities		
Current liabilities	$ 172,820	$ 368,447
Long-term liabilities	1,129,147	872,983
Total liabilities	$ 1,301,967	$ 1,241,430
Net assets		
Invested in capital assets, net of related debt	$ 160,650	$ 150,438
Restricted	137,358	168,854
Unrestricted	(1,103,032)	(964,907)
Total net assets	$ (805,024)	$ (645,615)

FINANCIAL ANALYSIS OF THE ACADEMY'S ACTIVITIES

During fiscal year ended June 30, 2011, the Academy's net assets increased by $159,409 as compared to a net asset decrease of $111,630 in the prior fiscal year ending June 30, 2010. The most significant reason for the additional decline in net assets at June 30, 2010 was the formalization of the $300,000 development costs previously disclosed in prior year financials as a contingent liability. As a condition of obtaining its 501(c)(3) status determination from the Internal Revenue Service (IRS), the IRS required that the development services agreement between the Academy and its management company be formalized and recognized. Absent recognition of these startup costs, the Academy would have realized a $188,370 increase in net asset from its 2009-10 fiscal year operations. The net asset position from the end of 2008-09 fiscal year resulted from startup costs that were in excess of available revenues from its operations beginning in the 2007-08 fiscal year with 91.5 funded students in a modular facility. Construction on a permanent facility began in the spring of 2008 and although the permanent site was ready for occupancy by the planned first day of school, the funded student count in the fall of 2008 came in at 216.8, less than the projected breakeven point of around 315 funded students. That under-enrollment, combined with unplanned decreases in state funding resulted in a shortfall of revenues needed to fully fund necessary program expenditures. In the fall of 2008, the Academy worked out an agreement with its management company, Mosaica Education whereby certain fees could be deferred to allow the Academy to have sufficient cash flow to meet its vendor obligations. The Academy made significant progress with its enrollment in 2009-10 and again in 2010-11 allowing it to begin repaying some of those deferred obligations ahead of schedule.

A. Results of Operations:

For the fiscal year ended June 30, 2010 and 2011, the Academy wide results of operations were:

	Governmental Activities			
	2010		2011	
	Amount	Percent of Total	Amount	Percent of Total
General revenue:				
State and District aid - all sources	$ 2,441,589	96.24%	$ 2,836,713	94.77%
Other	18,113	0.71%	13,551	0.45%
Total general revenue	2,459,702	96.95%	2,850,264	95.22%
Program revenue:				
Charges for services	5,441	0.21%	6,203	0.21%
Operating grants - federal and state	71,937	2.84%	136,850	4.57%
Total program revenue	77,378	3.05%	143,053	4.78%
Total revenue	2,537,080	100.00%	2,993,317	100.00%
Expenses:				
Instruction and instructional services	1,168,962	44.13%	1,407,877	49.68%
Support services	1,412,579	53.33%	1,367,328	48.25%
Interest on long-term debt	67,169	2.54%	58,703	2.07%
Total expenses	2,648,710	100.00%	2,833,908	100.00%
Increase (decrease) in net assets	$ (111,630)		$ 159,409	

B. Per Pupil Revenue (PPR)

The Academy's PPR funding is determined by the following variables:

- Per Pupil Funding: Annually, the State and the District set the per pupil funding based on a base funding amount as adjusted by a number of factors including a cost-of-living factor and an At-Risk demographics factor. Per records from the Colorado Department of Education, the Academy's PPR was $6,929 per student for the 2009-10 school year and $6,662 per student for the 2010-11 school year.

- Student Enrollment: The Academy's student enrollment for the fall count of the 2009-10 and 2010-11 school years were 352 and 429 students, respectively. To calculate total state aid to be provided by the District funded PPR, enrollment is multiplied by the Academy's per pupil funding. It should be noted that Kindergarten students are only funded at 58% of the per pupil allocation. The funded full time equivalent (FTE) student count after adjusting out .42 FTE for each kindergarten student was 318 students for 2009-10 and 399 for 2010-11.

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

The Academy's operations are recorded in governmental type funds. The Academy utilizes a single fund, the General Fund, to track the regular day to day operations of the Academy. Highlights of the General Fund are provided in the following analysis.

General Fund Budgetary Highlights

General Fund Operations

The Academy's revenues and other financing sources from General Fund operations exceeded expenditures and other financing uses by $92,004 for the fiscal year ended June 30, 2011. Some budgetary highlights are as follows:

Final Budget vs. Actual

Fiscal Year	Final Budget	Final Actual
Revenues and Other Financing Sources		
2009-2010	$ 2,406,350	$ 2,724,290
2010-2011	$ 2,994,943	$ 2,993,317
Expenditures and Other Financing Uses		
2009-2010	$ 2,385,557	$ 2,641,513
2010-2011	$ 2,984,079	$ 2,901,313

Original vs. Final Budget

As a matter of practice, the Academy amends its budget periodically as needed during the school year. For the fiscal year 2010-11, the budget was amended in April 2011. The April 2011 budget amendment was the final budget for the fiscal year. The Academy Board does not budget for expenditures covered by grants or for the grant revenue until an award allocation is received. The General Fund does not budget for debt financed capital outlays, if applicable, in the original budget.

Change from Original to Final General Fund Budget

Revenues and Other Financing Sources:

Total Revenues Original Budget	$ 2,943,673
Total Revenues Final Budget	2,994,943
Increase in Budgeted Revenues	$ 51,270

The Academy’s final general fund revenues were less than the final budget by $1,626 a variance of 0.05%. This variance was primarily a result of minor differences between budgeted and final state and federal grant allocations.

The following are the significant changes in revenues from the original budget:

- Original budget had estimated a funded FTE of 414 students and fall 2010 actual funded FTE was 399.
- Adjustment of estimated grant allocations to actual grants awarded including an allocation of Title I funds that were not originally anticipated.

Expenditures and Other Financing Sources:

The Academy’s budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	$ 2,914,793
Total Expenditures Final Budget	2,984,079
Increase in Budgeted Expenditures	$ 69,286

The Academy’s actual expenditures were less than final budget by $82,766 a variance of 2.77%. This variance was primarily a result of certain facility operation costs being lower than anticipated.

The following are the significant changes in expenditures from the original budget:

- Adjustment in staffing costs to reflect the addition of a second facility.
- Adjustment to reflect actual rates for group benefit plan costs.
- Adjustment to reflect additional facility operation costs related to addition of a second facility.
- Adjustment to reflect higher than planned marketing costs to bring enrollment levels for 2010-11 up to and beyond estimated break even levels.
- Adjustment to adjust purchased services costs that are a function of enrollment and facility usage.

CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The Academy's net investment in capital assets decreased by $31,799 during the fiscal year. For additional capital asset information, refer to Note 4 in the basic financial statements. The changes in capital assets can be summarized as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Depreciable capital assts	309,516	14,523	-	324,039
Less: accumulated depreciation	(94,524)	(46,322)	-	(140,846)
Net investment in capital assets	$ 214,992	$ (31,799)	$ -	$ 183,193

Capital assets added during 2010-11 were furniture, technology equipment and security equipment necessary to set up additional classrooms and secure the Academy's facilities.

B. Depreciation Expense

GASB 34 requires governmental entities to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets in the government-wide financial statements. Depreciation is not recognized in the governmental fund financial statements and has been noted as a reconciling item in the Academy's financial statements.

For fiscal year ended June 30, 2010 and 2011, the net increase in accumulated depreciation was $43,876 and $46,322, respectively.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value.

C. Debt, Principal Payments

The Academy's long-term debt decreased by $87,953 during the fiscal year. For additional debt information, refer to Note 5 in the basic financial statements. A summary of long-term debt service activities is as follows.

	Balance 6/30/2010	New Financings	Principal Payments	Balance 6/30/2011
Capital leases	$ 54,342	$ -	$ 21,587	$ 32,755
Loans payable	1,096,392	-	66,366	1,030,026
Total	$ 1,150,734	$ -	$ 87,953	$ 1,062,781

The $66,366 payment on the loans payable was an early retirement of obligations established in prior fiscal years with the Academy's management company that rolled current outstanding operating liabilities into a multi-year structured payment plan in order to ease the demands on short term cash flows.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Preliminary Budget for the 2011-12 Fiscal Year was adopted by the Board of Directors in April 2011. Few definite factors were known as the budget was being drafted, and others were unknown and needed to be projected with management's best estimates based on feedback from the community. Some key factors and estimates used in the 2011-12 preliminary budget preparation process include:

- The Academy's PPR funding had been estimated to be $6,336 per pupil;
- Enrollment projections of 495 students in grades kg-8 with a funded FTE of 464;
- Teaching staff, at a maximum, would provide one teacher for every 25 students;
- Benefit costs would be based on group coverage rates through same providers the Academy used in FY 2010-11;

CONTACTING THE ACADEMY'S MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Administration Office, Space, Technology and Arts Academy, 2520 Airport Road, Colorado Springs, Colorado.

BASIC FINANCIAL STATEMENTS

SPACE, TECHNOLOGY AND ARTS ACADEMY OF COLORADO SPRINGS

STATEMENT OF NET ASSETS
June 30, 2011

		GOVERNMENTAL ACTIVITIES
ASSETS		
Cash	$	326,380
Accounts Receivable		28,952
Grants Receivable		4,845
Prepaid Expenses		42,445
Lease Deposit		10,000
Capital Assets, Net of Accumulated Depreciation		183,193
TOTAL ASSETS		595,815
LIABILITIES		
Accounts Payable		23,450
Accrued Liabilities		44,931
Accrued Salaries and Benefits		59,866
Accrued Interest Payable		50,402
Noncurrent Liabilities		
Due Within One Year		189,798
Due in More Than One Year		872,983
TOTAL LIABILITIES		1,241,430
NET ASSETS		
Invested in Capital Assets, Net of Related Debt		150,438
Restricted for Emergencies		79,102
Restricted for Contingencies		89,752
Unrestricted		(964,907)
TOTAL NET ASSETS	$	(645,615)

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

SPACE, TECHNOLOGY AND ARTS ACADEMY OF COLORADO SPRINGS

STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS: GOVERNMENTAL ACTIVITIES
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	$ 1,407,877	$ 6,203	$ 136,850	$ (1,264,824)
Supporting Services	1,367,328	-	-	(1,367,328)
Interest on Long-Term Debt	58,703	-	-	(58,703)
Total Governmental Activities	$ 2,833,908	$ 6,203	$ 136,850	(2,690,855)
GENERAL REVENUES				
Per Pupil Revenue				2,656,739
Mill Levy Override				144,060
Capital Construction				35,914
Other				13,551
TOTAL GENERAL REVENUES				2,850,264
CHANGE IN NET ASSETS				159,409
NET ASSETS, Beginning				(805,024)
NET ASSETS, Ending				$ (645,615)

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

SPACE, TECHNOLOGY AND ARTS ACADEMY OF COLORADO SPRINGS

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2011

		GENERAL
ASSETS		
Cash	$	326,380
Accounts Receivable		28,952
Grants Receivable		4,845
Prepaid Expenditures		42,445
Lease Deposit		10,000
TOTAL ASSETS	$	412,622
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts Payable		23,450
Accrued Liabilities		44,931
Accrued Salaries and Benefits		59,866
TOTAL LIABILITIES		128,247
FUND BALANCE		
Nonspendable Prepaid Expenditures		42,445
Nonspendable Lease Deposit		10,000
Restricted for Emergencies		79,102
Restricted for Contingencies		89,752
Unrestricted, Unassigned		63,076
TOTAL FUND BALANCE		284,375
TOTAL LIABILITIES AND FUND BALANCE	$	412,622

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

Total Fund Balance of the Governmental Fund	$	284,375
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.		183,193
Long-term liabilities, including loans payable ($1,030,026), capital leases ($32,755), and accrued interest payable ($50,402), are not due and payable in the current year and, therefore, are not reported in governmental funds.		(1,113,183)
Total Net Assets of Governmental Activities	$	(645,615)

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

SPACE, TECHNOLOGY AND ARTS ACADEMY OF COLORADO SPRINGS

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

		GENERAL
REVENUES		
Local Sources	$	2,820,553
State Sources		79,193
Federal Sources		93,571
TOTAL REVENUES		2,993,317
EXPENDITURES		
Instruction		1,338,179
Supporting Services		1,362,696
Capital Outlay		42,531
Debt Service		
Principal		87,953
Interest and Fiscal Charges		69,954
TOTAL EXPENDITURES		2,901,313
NET CHANGE IN FUND BALANCE		92,004
FUND BALANCE, Beginning		192,371
FUND BALANCE, Ending	$	284,375

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

Net Change in Fund Balance of the Governmental Fund	$	92,004
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 allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation expense ($46,322) exceeded capital outlays $14,523 in the current year.		(31,799)
Repayments of long-term debt are expenditures in governmental funds, but reduce long-term liabilities in the statement of net assets and do not affect the statement of activities.		87,953
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in accrued interest payable.		11,251
Change in Net Assets of Governmental Activities	$	159,409

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Space, Technology and Arts Academy of Colorado Springs (the "Academy") was established on July 1, 2006, pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Colorado Springs School District 11 (the "District"). The Academy began operations in the Fall of 2007.

The accounting policies of the Academy 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 Academy and organizations for which the Academy is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the Academy. In addition, any legally separate organizations for which the Academy is financially accountable are considered part of the reporting entity. Financial accountability exists if the Academy 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 Academy. Based on the application of this criteria, the Academy does not include additional organizations within its reporting entity.

The Academy is a component unit of the District. The District granted the Academy's charter and the majority of the Academy'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 Academy. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported in a single column.

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 intergovernmental revenues not properly included among program revenues are reported instead as *general revenues*. Internally dedicated resources are reported as general revenues rather than as program revenues.

Major individual funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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

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

The Academy reports the following major fund:

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

Assets, Liabilities and Net Assets/Fund Balance

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

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

Capital Assets - Capital assets, which include equipment and furniture, are reported in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than $1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Equipment and Furniture	5 - 20 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 in the financial statements as a liability of the General Fund.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Compensated Absences - Contracted personnel are allowed to accumulate unused vacation time. Accrued vacation time is not paid upon termination of employment. Therefore, no liability is reported in the financial statements.

Long-Term Debt - In the government-wide financial statements, long-term debt is reported as a liability. Issuance costs are deferred and amortized over the life of the debt using the straight-line method.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Net Assets/Fund Balance - In the government-wide and fund financial statements, net assets and fund balance are restricted when constraints placed on the use of resources are externally imposed. The Academy 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 Academy uses restricted fund balance first.

Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to contracted employees; and natural disasters. The Academy carries commercial insurance for these risks of loss.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Accountability

At June 30, 2011, the Academy's governmental activities in the government-wide financial statements had negative net assets of $645,615, primarily because start-up costs and the initial operating costs exceeded the revenues received. As the Academy's student count increases, management expects this negative balance to be eliminated.

NOTE 3: CASH AND INVESTMENTS

A summary of cash and investments at June 30, 2011, follows:

Deposits	$ 244,798
Investments	81,582
Total	**$ 326,380**

NOTE 3: CASH AND INVESTMENTS (Continued)

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires 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 Academy 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 generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years. State statutes do not address custodial risk.

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

Local Government Investment Pool - At June 30, 2011, the Academy had $81,582 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established by State statutes for local government entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7 as promulgated under the Investment Company Act of 1940, as amended. Colotrust is rated AAAm by Standard and Poor's. Investments of Colotrust 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.

NOTE 4: CAPITAL ASSETS

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

	Balances 6/30/10	Additions	Deletions	Balances 6/30/11
Governmental Activities				
Capital Assets, Being Depreciated				
Equipment and Furniture	$ 309,516	$ 14,523	$ -	$ 324,039
Accumulated Depreciation	(94,524)	(46,322)	-	(140,846)
Total Capital Assets, Net	**$ 214,992**	**$ (31,799)**	**$ -**	**$ 183,193**

Depreciation expense was charged to programs of the Academy as follows:

Instruction	$ 41,690
Supporting Services	4,632
Total	**$ 46,322**

NOTE 5: LONG-TERM DEBT

Following is a summary of 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
Loans Payable	$ 1,096,392	$ -	$ 66,366	$ 1,030,026	$ 166,366
Capital Leases	54,342	-	21,587	32,755	23,432
Total	**$ 1,150,734**	**$ -**	**$ 87,953**	**$ 1,062,781**	**$ 189,798**

Loans Payable

On July 1, 2009, the Academy entered into a loan agreement in the amount of $300,000 with the management company, Mosaica Education, Inc. ("MEI") (See Note 6), to reimburse MEI for organizational and development costs. The loan agreement requires monthly principal payments of $8,333 beginning July 1, 2011, with the final payment due on June 15, 2014. No interest accrues on the loan.

On June 30, 2008, the Academy entered into a loan agreement in the amount of $490,000 with MEI. Proceeds were used for operations and building improvements. An additional amount of $439,124 was loaned to the Academy on June 30, 2009. Beginning on July 31, 2010, the Academy is obligated under the loan agreement to make seven annual principal payments of $132,732, plus interest accruing at 7% per annum, with the final payment due on June 30, 2016. The Academy has prepaid a portion of the loan at June 30, 2011.

NOTE 5: LONG-TERM DEBT (Continued)

Loans Payable (Continued)

Future debt service requirements for the loans are as follows:

Year Ended June 30,	Principal	Interest	Total
2012	$ 166,366	$ 54,984	$ 221,350
2013	232,732	45,820	278,552
2014	232,732	36,656	269,388
2015	132,732	27,492	160,224
2016	265,464	27,492	292,956
Total	**$ 1,030,026**	**$ 192,444**	**$ 1,222,470**

Capital Leases

On September 7, 2007, the Academy entered into a lease agreement to purchase various classroom furniture and equipment. The Academy is obligated to make monthly lease payments of $1,244, including interest accruing at 8.49% per annum, through January, 2013. Assets of $60,649 have been capitalized under this lease.

On August 1, 2008, the Academy entered into a lease agreement to upgrade the CCTV equipment. The Academy is obligated to make monthly lease payments of $862, including interest accruing at 7.866% per annum, through July, 2012. Assets of $35,412 have been capitalized under this lease.

Future debt service requirements for the lease obligations are as follows:

Year Ended June 30,	Principal	Interest	Total
2012	$ 23,432	$ 1,842	$ 25,274
2013	9,323	248	9,571
Total	**$ 32,755**	**$ 2,090**	**$ 34,845**

NOTE 6: MANAGEMENT AGREEMENT

The Academy entered into a management agreement with Mosaica Education, Inc. (“MEI”) to provide educational and administrative services to the Academy, with an automatic renewal equal to the term of any valid and effective charter agreement approved by the Academy. MEI will provide the teachers and staff necessary to operate the Academy. The teachers and staff are employees of MEI. These expenditures have been reported in functional categories in the financial statements for better reporting purposes. The Academy is required to pay to MEI an annual fee for services performed. The administrative fees earned and paid to MEI for the year ended June 30, 2011, were $297,650.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Claims and Judgments

The Academy 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 Academy may be required to reimburse the grantor government. At June 30, 2011, significant amounts of grant expenditures have not been audited but the Academy believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Academy.

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. Revenues received in excess of the limitations may be required to be refunded. The Academy believes it has complied with the Amendment. The Amendment requires the Academy to establish a reserve for emergencies representing 3% of qualifying expenditures. At June 30, 2011, the reserve, of $79,102, was reported as restricted fund balance in the General Fund.

Contingency Reserve

In accordance with its charter agreement with the District, the Academy is required to maintain a contingency reserve to fund unexpected occurrences. The required reserve must equal 3% of the Academy's total aggregate revenues each year. At June 30, 2011, the contingency reserve of $89,752 was reported as restricted fund balance in the General Fund.

Operating Leases

On September 28, 2007, the Academy entered into a lease agreement for classrooms and office space. The Academy is obligated under the agreement to make monthly lease payments ranging from $25,667 to $39,426. The lease matures on December 31, 2017. The lease has an early termination payment provision which requires the Academy to pay the landlord $275,803 if the lease is terminated prior to the maturity date. The Academy paid $402,879 under this agreement for the year ended June 30, 2011. Following is a schedule of future minimum lease payments for the lease obligation at June 30, 2011.

Year Ended June 30,	
2012	$ 412,848
2013	423,097
2014	433,652
2015	444,525
2016	455,723
2017 - 2018	703,813
Total	**$ 2,873,658**

NOTE 7: COMMITMENTS AND CONTINGENCIES (Continued)

Operating Leases (Continued)

Effective July 1, 2010, the Academy entered into a memorandum of understanding with the District to utilize a portion of a District facility for educational classrooms. The Academy agreed to pay its share of the facility's maintenance, repairs and utilities. The agreement matures on June 30, 2013. During the year ended June 30, 2011, the Academy paid $95,939 under this agreement.

REQUIRED SUPPLEMENTARY INFORMATION

SPACE, TECHNOLOGY AND ARTS ACADEMY OF COLORADO SPRINGS

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2011

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	$ 2,713,440	$ 2,656,739	$ 2,656,739	$ -
Mill Levy Override	121,049	144,060	144,060	-
Tuition	3,000	4,500	6,203	1,703
Other	6,206	11,330	13,551	2,221
Total Local Sources	2,843,695	2,816,629	2,820,553	3,924
State Sources				
Capital Construction	40,378	35,914	35,914	-
Grants	22,000	39,189	43,279	4,090
Total State Sources	62,378	75,103	79,193	4,090
Federal Sources				
Grants	37,600	103,211	93,571	(9,640)
TOTAL REVENUES	2,943,673	2,994,943	2,993,317	(1,626)
EXPENDITURES				
Current				
Salaries	1,065,968	1,138,305	1,151,683	(13,378)
Employee Benefits	218,629	220,485	196,677	23,808
Purchased Services	1,162,535	1,146,606	1,137,352	9,254
Supplies and Materials	207,493	230,759	199,920	30,839
Property	31,000	43,667	42,531	1,136
Other	8,000	12,700	15,243	(2,543)
Debt Service				
Principal	155,420	87,266	87,953	(687)
Interest and Fiscal Charges	35,337	70,609	69,954	655
Reserves	30,411	33,682	-	33,682
TOTAL EXPENDITURES	2,914,793	2,984,079	2,901,313	82,766
NET CHANGE IN FUND BALANCE	$ 28,880	$ 10,864	92,004	$ 81,140
FUND BALANCE, Beginning			192,371	
FUND BALANCE, Ending			$ 284,375	

See the accompanying Independent Auditors' Report.

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

- Budgets are required by State statute for all funds and are adopted on a basis consistent with generally accepted accounting principles (GAAP).

- 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 budget appropriations lapse at year end.