

PIKES PEAK PREP
BASIC FINANCIAL STATEMENTS
June 30, 2010

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**JOHN CUTLER
& ASSOCIATES**

Board of Directors
Pikes Peak Prep
Colorado Springs, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Pikes Peak Prep, as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements of the School, as listed in the table of contents. These financial statements are the responsibility of the 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 and each major fund of the Pikes Peak Prep, as of June 30, 2010, 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 School has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The required supplementary information listed in the table of contents is not a required part of the basic financial statements but is 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 supplementary information. However, we did not audit the information and express no opinion on it.

John Cutler & Associates, LLC

November 16, 2010

BASIC FINANCIAL STATEMENTS

PIKES PEAK PREP

STATEMENT OF NET ASSETS

As of June 30, 2010

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
ASSETS		
Cash	\$ 16,465	\$ -
Cash Held at Foundation	60,000	-
Accounts Receivable	187,056	-
Capital Assets, Depreciated, Net of Accumulated Depreciation	<u>196,434</u>	<u>253,781</u>
TOTAL ASSETS	<u>459,955</u>	<u>253,781</u>
LIABILITIES		
Accounts Payable	576,768	494,183
Accrued Expenses	4,156	3,954
Accrued Salaries and Benefits	63,756	53,522
Noncurrent Liabilities		
Due Within One Year	167,878	250,000
Due In More Than One Year	<u>142,122</u>	<u>-</u>
TOTAL LIABILITIES	<u>954,680</u>	<u>801,659</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	196,434	253,781
Restricted for Emergencies	61,000	44,000
Unrestricted	<u>(752,159)</u>	<u>(845,659)</u>
TOTAL NET ASSETS	<u>\$ (494,725)</u>	<u>\$ (547,878)</u>

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

PIKES PEAK PREP

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			Net Expense (Revenue) and Change in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2010	2009
PRIMARY GOVERNMENT						
Governmental Activities						
Instructional	\$ 819,692	\$ -	\$ 136,625	\$ -	\$ (683,067)	\$ (829,981)
Supporting Services	1,370,571	15,355	82,220	26,478	(1,246,518)	(1,145,689)
Interest on Long Term Debt	10,766	-	-	-	(10,766)	-
Total Governmental Activities	<u>\$ 2,190,263</u>	<u>\$ 15,355</u>	<u>\$ 218,845</u>	<u>\$ 26,478</u>	(1,940,351)	(1,975,670)
GENERAL REVENUES						
					1,924,446	1,357,930
					69,058	70,793
					<u>1,993,504</u>	<u>1,428,723</u>
					53,153	(546,947)
					<u>(547,878)</u>	<u>(931)</u>
					<u>\$ (494,725)</u>	<u>\$ (547,878)</u>

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

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BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

	GENERAL FUND	
	2010	2009
ASSETS		
Cash	\$ 16,465	\$ -
Cash Held at Foundation	60,000	-
Accounts Receivable	187,056	-
	<hr/>	<hr/>
TOTAL ASSETS	\$ 263,521	\$ -
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 576,768	\$ 494,183
Accrued Expenses	4,156	3,954
Accrued Salaries and Benefits	63,756	53,522
	<hr/>	<hr/>
TOTAL LIABILITIES	644,680	551,659
	<hr/>	<hr/>
FUND BALANCES		
Reserved for Emergencies	61,000	44,000
Unreserved, reported in General Fund	(442,159)	(595,659)
	<hr/>	<hr/>
TOTAL FUND BALANCES	(381,159)	(551,659)
	<hr/>	<hr/>
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. This amount is net of accumulated depreciation of \$380,720.	196,434	253,781
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(310,000)	(250,000)
	<hr/>	<hr/>
Net assets of governmental activities	\$ (494,725)	\$ (547,878)
	<hr/> <hr/>	<hr/> <hr/>

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

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STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2010

	GENERAL FUND	
	2010	2009
REVENUES		
Local Sources	\$ 2,016,359	\$ 1,436,645
State Sources	31,630	17,439
Federal Sources	206,193	228,861
TOTAL REVENUES	2,254,182	1,682,945
EXPENDITURES		
Current		
Instruction	740,434	802,494
Supporting Services	1,392,482	1,365,011
Debt Service		
Principal	100,000	-
Interest	10,766	-
TOTAL EXPENDITURES	2,243,682	2,167,505
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	10,500	(484,560)
OTHER FINANCING SOURCES (USES)		
Proceeds from Issuance of Debt	160,000	250,000
Transfers In	-	21,268
Transfers Out	-	(21,268)
TOTAL OTHER FINANCING SOURCES (USES)	160,000	250,000
NET CHANGE IN FUND BALANCES	170,500	(234,560)
FUND BALANCES, Beginning	(551,659)	(317,099)
FUND BALANCES, Ending	\$ (381,159)	\$ (551,659)

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

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RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 170,500
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown 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 that depreciation expense (\$79,258) exceeded capital outlay \$21,911 during the year.	(57,347)
Repayment of long-term debt and related costs are reported as an expenditure in the governmental funds and decrease fund balance. For the entity as a whole, however, these costs and payments reduce the liabilities or are capitalized in the statement of net assets and do not result in an expense in the statement of activities. This is the amount of principal payments on the line of credit for the year.	100,000
Proceeds from debt issuance are reported as a financing source in the governmental funds and increase fund balance. In the government-wide financial statements, however, debt issuance increases long-term liabilities in the statement of net assets and does not affect the statement of activities.	<u>(160,000)</u>
Change in net assets of governmental activities	<u><u>\$ 53,153</u></u>

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

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pikes Peak Prep (the “School”) was formed in 2005 pursuant to the Colorado Charter Schools Act to form and operate a charter school. The School previously operated under the name 21st Century Charter School at Colorado Springs, but changed its name to Pikes Peak Prep during fiscal year 2009.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental units. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of the School and organizations for which the School is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. In addition, any 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.

Based upon the application of these criteria, there are no organizations that should be included in the School’s reporting entity.

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 of the activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by 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.

PIKES PEAK PREP

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported in 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.

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 period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Intergovernmental revenues, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Internally dedicated resources are reported as general revenues rather than as program revenues.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 used to account for all financial resources except those required to be accounted for in another fund.

Assets, Liabilities and Fund Balance/Net Assets

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the School as assets with 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. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: equipment, 3 to 7 years.

Long-term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Net Assets/Fund Equity – In the government-wide financial statements, net assets are restricted when constraints placed on the net assets are externally imposed. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management

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

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the School's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget is adopted by the Board of Directors prior to June 30. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year end.

Accountability

The General Fund had a deficit fund balance of \$381,159. This deficit was caused by lower than expected enrollment and higher than expected operating costs in previous years. The deficit is expected to be eliminated in the coming years as student count increases and costs stabilize.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY(Continued)

Legal Compliance

The General Fund's actual expenditures exceeded budgeted amounts by \$138,593. This may be a violation of State statute.

NOTE 3: CASH AND INVESTMENTS

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2010, State regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. 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 the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The School has no policy regarding custodial credit risk for deposits.

At June 30, 2010, the School had deposits with financial institutions with a carrying amount of \$16,465. The bank balances with the financial institutions were \$68,137. All of these balances were covered by federal depository insurance.

Cash Held at Foundation

Cash in the amount of \$60,000 is held at the GEO Foundation as an emergency reserve related to the TABOR amendment.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments

Interest Rate Risk

The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Colorado statutes specify in which instruments units of local government may invest, which include:

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

The School had no investments at June 30, 2010.

NOTE 4: CAPITAL ASSETS

Capital Assets activity for the year ended June 30, 2010, is summarized below.

	Balance <u>June 30, 2009</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2010</u>
Governmental Activities				
Capital Assets, Being				
Depreciated				
Equipment	\$ 634,501	\$ 21,911	\$ -	\$ 656,412
Accumulated Depreciation				
Equipment	380,720	79,258	-	459,978
Net Capital Assets	<u>\$ 253,781</u>	<u>\$ (57,347)</u>	<u>\$ -</u>	<u>\$ 196,434</u>

Depreciation has been charged to the Instructional program for the School.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 5: 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, as of June 30, 2010, were \$63,756. Accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of the General Fund.

NOTE 6: LONG-TERM DEBT

The following is a summary of the School's long-term debt transactions for the year ended June 30, 2010:

	Balance <u>06/30/2009</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>06/30/2010</u>	Due In <u>One Year</u>
Line of Credit	\$ 250,000	\$ -	\$ 100,000	\$ 150,000	\$ 150,000
Note Payable	-	100,000	-	100,000	17,878
Loan Payable	-	60,000	-	60,000	-
Total	<u>\$ 250,000</u>	<u>\$ 160,000</u>	<u>\$ 100,000</u>	<u>\$ 310,000</u>	<u>\$ 167,878</u>

Line of Credit

The School obtained a line of credit from Old National Bank. The line of credit carries a variable interest rate of prime plus one percent which was 4.25% at June 30, 2010. The School is required to make monthly interest payments on the amount drawn. The School converted a portion of the line of credit into a long term note. The remaining principal balance is due in June, 2011.

Note Payable

In June, 2010, the School entered into a loan agreement in the amount of \$100,000 with Old National Bank. Proceeds of the note were used to pay down the School's line of credit. The note is unsecured and carries and accrues interest at a rate of 5.6% per year. Monthly principal and interest payments in the amount of \$1,919 are due through June 2015.

Loan Payable

During 2010, the School obtained a loan from the GEO Foundation to establish an emergency reserve related to the TABOR amendment. No written agreement was executed between the two parties and the loan carries no interest. However, the School plans to repay this amount within 5 years.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 6: LONG-TERM DEBT (Continued)

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 167,878	\$ 5,146	\$ 173,024
2012	18,905	4,119	23,024
2013	19,991	3,033	23,024
2014	21,140	1,884	23,024
2015	<u>82,086</u>	<u>669</u>	<u>82,755</u>
Total	<u>\$ 310,000</u>	<u>\$ 14,851</u>	<u>\$ 324,851</u>

NOTE 7: MANAGEMENT AGREEMENT

The School entered into a management agreement with the Greater Educational Opportunities Foundation, Inc. (GEO), which is not-for-profit 501(c)(3) research and educational institution. The agreement terminates June 30, 2012 at which time it automatically renews for successive one year terms, unless either party notifies the other within a 120 day period prior to the first day of the new school year of their attention not to renew the agreement. While the Board has contracted the daily operations of the school to GEO, the Board remains responsible for all budgetary and policy issues, in addition to holding GEO accountable for the administration, operation, and performance of the School in accordance with the School's contract with the Charter School Institute.

The agreement requires that the School pay GEO an annual fee equivalent to 100% of all state, local, and federal funds received per enrolled student at the School. State, local and federal funds received by the School were \$2,254,182 for the year ended June 30, 2010. Under the agreement, GEO receives these funds from the School and pays all School bills. However, budgetary shortfalls precluded this agreement from being fully executed. In practice, the School pays its own payroll related liabilities and is billed by GEO on a bi-monthly basis for payments of operating expenses made on behalf of the School.

As of June 30, 2010, the School owed GEO \$631,012. GEO also charges an administrative fee sufficient to cover GEO's administrative costs. Reimbursements include, but are not limited to, curriculum materials, textbooks, furniture, computers, building payments, and maintenance costs.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 8: DEFINED BENEFIT PENSION PLAN

Plan Description. GEO, on behalf of the School contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The SDTF provides retirement and disability, post-retirement annual increases, and death benefits for members or their beneficiaries. All employees of the School are members of the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the SDTF. That report may be obtained online at www.copera.org or by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

Funding Policy. The School is required to contribute member and employer contributions to PERA at a rate set by statute. The contribution requirements of plan members and the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members is 8.0 % and for the School it is 10.15 % of covered salary. A portion of the School's contribution (1.02 % of covered salary) is allocated to the Health Care Trust Fund (See Note 9). If the School rehires a PERA retiree as an employee or under any other work arrangement, it is required to report and pay employer contributions on the amounts paid for the retiree, however no member contributions are required. The School is also required to pay an amortization equalization disbursement equal to 3.7 % of the total payroll for the calendar year 2010, (2.8 % of total payroll for the calendar year 2009). For the years ending June 30, 2008, 2009, and 2010 the School's employer contributions for the SDTF were \$71,250, \$101,303, and \$102,018, respectively, equal to their required contributions for each year.

NOTE 9: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description. GEO, on behalf of the School contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by PERA. The HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained online at www.copera.org or by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 9: POSTEMPLOYMENT HEALTHCARE BENEFITS (Continued)

Funding Policy. The School is required to contribute at a rate of 1.02% of covered salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208 of the Colorado Revised Statutes, as amended. For the years ending June 30, 2008, 2009, and 2010, the School's employer contributions to the HCTF were \$6,245, \$8,278, and, \$7,658, respectively, equal to their required contributions for each year.

NOTE 10: COMMITMENTS AND CONTINGENCIES

Operating Lease

The School has entered into a non-cancellable operating lease for a building with the GEO Foundation Holdings Colorado, LLC. Required rent payments may be increased on an annual basis at a maximum rate of 7% per year. The term of the lease ends on August 31, 2012 and may be renewed with the written agreement of both parties.

The future minimum lease payments are as follows:

Year Ended	
<u>June 30</u>	
2011	\$ 300,000
2012	300,000
2013	<u>50,000</u>
Total	<u>\$ 650,000</u>

Total rent expense for the year ended June 30, 2010 for the lease was \$282,673.

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 units. 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. As of June 30, 2010, 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.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

NOTE 10: *COMMITMENTS AND CONTINGENCIES* (Continued)

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment. As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2010, the reserve of \$61,000 was recorded as a reservation of fund balance in the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

PIKES PEAK PREP
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2010

	2010		VARIANCE Positive (Negative)	2009 ACTUAL
	ORIGINAL AND FINAL BUDGET	ACTUAL		
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 1,675,000	\$ 1,924,446	\$ 249,446	\$ 1,357,930
Tuition and Fees	-	15,355	15,355	7,922
Grants and Contributions	300,000	7,500	(292,500)	-
Other	-	69,058	69,058	70,793
Federal and State Sources				
Grants and Donations	155,000	237,823	82,823	246,300
TOTAL REVENUES	<u>2,130,000</u>	<u>2,254,182</u>	<u>124,182</u>	<u>1,682,945</u>
EXPENDITURES				
Instruction				
Salaries	668,596	628,074	40,522	664,319
Employee Benefits	129,089	83,139	45,950	79,158
Purchased Services	68,700	6,722	61,978	16,576
Supplies and Materials	46,000	22,499	23,501	42,441
Total Instruction	<u>912,385</u>	<u>740,434</u>	<u>171,951</u>	<u>802,494</u>
Supporting Services				
Salaries	231,889	262,569	(30,680)	180,153
Employee Benefits	45,415	119,312	(73,897)	103,382
Purchased Services	439,900	596,483	(156,583)	687,573
Purchased Services - Occupancy	300,000	282,673	17,327	288,499
Supplies and Materials	22,500	78,147	(55,647)	46,010
Property	103,000	30,217	72,783	31,180
Other	-	23,081	(23,081)	6,946
Debt Service				
Principal	50,000	100,000	(50,000)	-
Interest	-	10,766	(10,766)	-
Total Supporting Services	<u>1,192,704</u>	<u>1,503,248</u>	<u>(310,544)</u>	<u>1,343,743</u>
TOTAL EXPENDITURES	<u>2,105,089</u>	<u>2,243,682</u>	<u>(138,593)</u>	<u>2,146,237</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>24,911</u>	<u>10,500</u>	<u>(14,411)</u>	<u>(463,292)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Issuance of Debt	-	160,000	160,000	250,000
Transfers Out	-	-	-	(21,268)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>160,000</u>	<u>160,000</u>	<u>228,732</u>
NET CHANGE IN FUND BALANCE	24,911	170,500	145,589	(234,560)
FUND BALANCE, Beginning	-	(551,659)	(551,659)	(317,099)
FUND BALANCE, Ending	<u>\$ 24,911</u>	<u>\$ (381,159)</u>	<u>\$ (406,070)</u>	<u>\$ (551,659)</u>

See the accompanying independent auditors' report.