

**CESAR CHAVEZ ACADEMY**

**FINANCIAL STATEMENTS**

**June 30, 2011**

## TABLE OF CONTENTS

	<b>PAGE</b>
Independent Auditors' Report	
Management's Discussion and Analysis	i - vii
<b>Basic Financial Statements</b>	
Statement of Net Assets	1
Statement of Activities	2
Balance Sheet - Governmental Fund	3
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	4
Statement of Net Assets - Proprietary Fund	5
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund	6
Statement of Cash Flows - Proprietary Fund	7
Notes to Financial Statements	8 - 17
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule - General Fund	18
Notes to Required Supplementary Information	19



Board of Directors  
Cesar Chavez Academy  
Pueblo, Colorado

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Cesar Chavez Academy, component unit of Pueblo School District No. 60, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of Cesar Chavez Academy, as listed in the table of contents. These financial statements are the responsibility of Cesar Chavez Academy'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 Cesar Chavez Academy as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Swanhorst & Company LLC*

October 19, 2011

# **CESAR CHAVEZ ACADEMY**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Cesar Chavez Academy, we offer readers of the Cesar Chavez Academy financial statements this narrative overview and analysis of the financial activities of the Cesar Chavez Academy for the fiscal year ended June 30, 2011.

## **FINANCIAL HIGHLIGHTS**

The net assets from governmental activities of the Cesar Chavez Academy (also referred to as the "Academy") exceeded its liabilities at the close of the most recent fiscal year by \$765,330 (net assets) compared to \$353,254 the prior year, an increase of \$412,076.

The Cesar Chavez Academy Building Corporation was formed for the specific purpose of building or acquiring school facilities including Dolores Huerta Preparatory High (DHPH), which began occupying the building during the 2007-08 school year. DHPH pays rent to Cesar Chavez Academy for use of the facility, which in turn is used to pay the related debt. The Corporation is blended into the Academy's financial statements as an enterprise fund (proprietary fund type). The ending net assets decreased by \$11,166 from \$(593,431) the prior year to \$(604,597) at June 30, 2011.

## **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to Cesar Chavez Academy's basic financial statements. The 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 Academy's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Academy'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 Cesar Chavez Academy is improving or deteriorating.

The statement of activities presents information showing how the Academy'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 expenses and earned but unpaid salary and benefits).

The government-wide statement of activities distinguishes functions/programs of Cesar Chavez Academy supported primarily by per pupil revenue (PPR) or property taxes and state equalization passed through from the District (Pueblo City Schools). The governmental activities of the Academy include instruction and supporting services expense. The government-wide financial statements can be found on pages 1-2 of this report.

### **Fund Financial Statements:**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Cesar Chavez Academy, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Cesar Chavez Academy can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds:** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Academy'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 Academy's near-term financing decisions. When applicable, 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.

Cesar Chavez Academy maintains one governmental fund and adopts an annual appropriated budget. Budgetary comparison statements have been provided to demonstrate compliance with the budget.

**Proprietary Fund:** The Cesar Chavez Academy Building Corporation, considered a component unit of the charter school, has one fund, the Building Enterprise Fund and is represented on the statements of net assets, changes in net assets and statement of cash flows.

**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 on pages 8 through 17.

## GOVERNMENT-WIDE FINANCIAL STATEMENT ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Cesar Chavez Academy, assets exceeded liabilities by \$160,733 at June 30, 2011 compared to liabilities exceeding assets by \$240,177 as of the prior fiscal year end, an increase of \$400,910.

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

	30-Jun-11	30-Jun-10	Net Change
Current and other assets	\$ 2,995,914	\$ 2,569,587	\$ 426,327
Capital assets	<u>\$ 12,709,109</u>	<u>\$ 13,149,506</u>	<u>\$ (440,397)</u>
Total Assets	<u>\$ 15,705,023</u>	<u>\$ 15,719,093</u>	<u>\$ ( 14,070)</u>
Current liabilities	\$ 548,886	\$ 406,243	\$ 142,643
Other liabilities	<u>\$ 14,995,404</u>	<u>\$ 15,553,027</u>	<u>\$ (557,623)</u>
Total Liabilities	<u>\$ 15,544,290</u>	<u>\$ 15,959,270</u>	<u>\$ (414,980)</u>
 Net assets			
Invested in capital assets, (Net of related debt)	\$ (1,699,970)	\$ (1,698,802)	\$ ( 1,168)
Restricted for Debt Repayment	\$ 1,256,888	\$ 1,280,832	\$ (23,944)
Restricted for Repairs & Replacement	\$ 242,878	\$ 165,830	\$ 77,048
Unrestricted	<u>\$ 360,937</u>	<u>\$ 11,963</u>	<u>\$ 348,974</u>
Total Net Assets	<u>\$ 160,733</u>	<u>\$ (240,177)</u>	<u>\$ 400,910</u>

Cash and investments make up 14% of Cesar Chavez Academy's total assets of which 80.5% is restricted in the Building Corporation for maintenance of capital assets and to repay debt. Capital assets, which reflect the Academy's investment in real and personal property and equipment, currently make up 81% of total assets compared to 84% the previous year. The remaining assets make up 5% of total assets. Liabilities decreased \$414,980 primarily due to principal payments to reduce debt associated with the school building offset by an increase to other liabilities such as payroll withholdings and related benefits and rent and purchased services due for June.

**Cesar Chavez Academy  
Statement of Activities  
For the Years Ended June 30, 2011 and June 30, 2010**

	<u>30-Jun-10</u>	<u>30-Jun-10</u>	<u>Net Change</u>
Program Revenue:			
Charges for Services	\$ 898,790	\$ 1,316,032	\$ (417,242)
Operating Grants & Contributions	\$ 611,835	\$ 276,865	\$ 334,970
Total Program Revenue	<u>\$ 1,510,625</u>	<u>\$ 1,592,897</u>	<u>\$ (82,272)</u>
General Revenue:			
Per Pupil Operating Revenue	\$ 5,572,277	\$ 7,502,846	\$ (1,930,569)
Capital Construction Grant	\$ 74,629	\$ 105,763	\$ (31,134)
Investment Income	\$ 1,901	\$ 3,023	\$ (1,122)
Insurance Proceeds	\$ 0	\$ 171,422	\$ (171,422)
Miscellaneous	\$ 48,326	\$ 92,526	\$ (44,200)
Total General Revenue	<u>\$ 5,697,133</u>	<u>\$ 7,875,580</u>	<u>\$ (2,178,447)</u>
Total Revenue	<u>\$ 7,207,758</u>	<u>\$ 9,468,477</u>	<u>\$ (2,260,719)</u>
Expenses:			
Current:			
Instruction	\$ 3,132,044	\$ 4,298,252	\$ (1,166,208)
Supporting Services	\$ 2,617,886	\$ 4,208,316	\$ (1,590,430)
Interest on Long-Term Debt	\$ 19,361	\$ 7,239	\$ 12,122
Building Corporation	\$ 1,037,557	\$ 1,013,098	\$ 24,459
Total Expenses	<u>\$ 6,806,848</u>	<u>\$ 9,526,905</u>	<u>\$ (2,720,057)</u>
Increase (Decrease) in Net Assets	\$ 400,910	\$ (58,428)	\$ 459,338
Beginning Net Assets	<u>\$ (240,177)</u>	<u>\$ (181,749)</u>	<u>\$ (58,428)</u>
Ending Net Assets	<u>\$ 160,733</u>	<u>\$ (240,177)</u>	<u>\$ 400,910</u>

Charges for services decreased \$417,242 due to the elimination of services to network schools. The Academy qualified for Title I and ARRA funds for 2010-11 resulting in an increase in grant funding over the prior year. Per pupil operating revenue decreased \$1,930,569 due to a 6.8% decrease in per pupil funding from \$7,058 to \$6,675 and a decrease in funded pupil count from 1,080 to 832. Capital Construction grant funds continue to decrease as limited funding is being allocated over an increasing number of students enrolled in charter schools. Overall expenditures decreased \$2,720,057 due in part to significant reductions in the number of employees in all areas. Support services decreased due to elimination of some large contracts for services and reduction in overhead costs charged by the District in proportion to the decrease in per pupil funding.

## ANALYSIS OF THE FUND FINANCIAL STATEMENTS

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

**Governmental Funds:** The focus of Cesar Chavez Academy's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing Cesar Chavez Academy's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Academy's net resources available for spending at the end of the fiscal year.

This is the eleventh full year of operations for Cesar Chavez Academy. Total revenue for FY 2010-11 was \$7,145,857 compared to \$9,294,032 the prior year. Per pupil operating revenue, makes up 78% of Governmental Funds revenue for FY 2010-11 compared to 81% the prior year. Funded pupil count decreased from 1,080 for 2009-10 to 832 for 2010-11.

As of the end of the current fiscal year, the Academy reported \$360,937 as the ending fund balance in its General Fund, an increase of \$249,571 from the prior year balance of \$111,366. Reserves are not adequate to meet the operating reserve requirement under debt agreements, but do meet the annual growth requirements set forth in a separate agreement with the lender. Under the charter contract with Pueblo City Schools, the District must set aside funds to meet the Academy's 3% emergency reserve required by TABOR.

**Proprietary Fund:** Net assets of the Building Corporation as of June 30, 2011 are \$(604,597) compared to \$(593,431) in the prior year.

## BUDGETARY HIGHLIGHTS

The Academy approves a budget in June based on enrollment projections for the following school year. In December, after enrollment is finalized, the budget is amended.

The majority of Academy spending in the General Fund is for salaries and benefits (63%) while purchased services make up 26% of total expenditures. The primary sources of spending for purchased services are rental payments to the Building Corporation, overhead costs charged by the District, insurance and legal, audit and financial services.

**Other Budgetary Highlights:** Total expenditures were within the approved budgets for fiscal year 2010-11.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital assets:** Cesar Chavez Academy Building Corporation owns land with a carrying value of \$1,178,524 and building and improvements capitalized at \$11,841,872 at June 30, 2011. Capitalized equipment, including buses, totals \$563,099. The net carrying

value of capital assets after subtracting accumulated depreciation is \$12,071,206. Government Funds purchased certain capital assets, which are reported as governmental activities on the Statement of Activities. Buildings including modular classrooms and improvements are capitalized at \$882,295 at June 30, 2011. Capitalized equipment, including buses, totals \$481,871. The net carrying value of capital assets after subtracting accumulated depreciation is \$637,903.

**Long-term debt:** In April, 2007, the Building Corporation issued \$15,570,000 in bonds under an agreement with the Colorado Educational and Cultural Facilities Authority (CECFA) at interest costs ranging from 4% to 4.5%. Interest payments are due semi-annually and principal payments are due annually on August 1 beginning in 2009, through 2037. These transactions will flow through the State intercept program where the State withholds a portion of the State funding and transfers the funds to a designated trustee that in turn makes the principal and interest payments when due. In September 2005, the Academy entered into a loan agreement with the Charter Fund Inc., for \$225,000, which was originally to be paid back in September 2010. However, in September 2010, this debt was restructured to forgive \$115,000 and the remaining \$110,000 to be paid in four increments beginning in October 2010 and ending in September 2011. In January, 2008, the Academy entered into a capital lease agreement to purchase a school bus, which requires 60 monthly payments of \$1,952 including interest to be made through January, 2013. In July, 2008, the Academy entered into a capital lease agreement to purchase two school buses. Annual lease payments of \$47,927, which include interest, are due July 1, 2009 through 2013.

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

The lease payments to the Corporation for principal and interest due on the 2007 bond issue have stabilized and will increase very little in future years. Funded pupil count must be sustained at approximately 1,000 students and rents from the high school must continue at the current level of \$500,000 annually to meet the commitments under this agreement. Enrollment at October 1, 2010 fell to 872 (funded pupil count of 832) presenting a challenge to CCA. An annual growth plan for enrollment is in place to restore the funded pupil count to an appropriate level.

In November of 2000 voters in Colorado approved a provision to the Colorado constitution that provides annual funding increases for K-12 education at a rate equal to growth in student enrollment plus inflation plus 1% for 10 years and thereafter, growth plus inflation. As a result of this provision the single most important factor in projecting revenues is estimated future inflation. There was a significant recession during the 2008-09 that continued through the 2009-10 fiscal year resulting in deflation (negative growth). In an effort to balance its budget, the State rescinded 2.9% of the funding approved for public schools in 2009-10. Funding for 2010-11 was approved at the same level as 2009-10 after rescissions with a portion of the funding coming from one-time federal grants instead of current State revenues. The one-time funding was not available for 2011-12 resulting in an additional 6.7% decrease in per pupil funding for 2011-12.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Cesar Chavez Academy's finances for all those with an interest in the Academy's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be submitted in writing and addressed to Henry Roman, Executive Director, Cesar Chavez Academy and Dolores Huerta Preparatory High, 2727 W. 18<sup>th</sup> St., Pueblo, CO 81003.

## **BASIC FINANCIAL STATEMENTS**

CESAR CHAVEZ ACADEMY

STATEMENT OF NET ASSETS

June 30, 2011

	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>	<u>BUSINESS-TYPE</u> <u>ACTIVITIES</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash and Investments	\$ 428,340	\$ -	\$ 428,340
Restricted Cash and Investments	-	1,769,002	1,769,002
Accounts Receivable	39,306	-	39,306
Accounts Receivable - Related Parties	76,444	-	76,444
Grants Receivable	96,497	-	96,497
Escrow Deposit	-	92,560	92,560
Debt Issuance Costs, Net of Accumulated Amortization	-	493,765	493,765
Capital Assets, Not Being Depreciated	-	1,178,524	1,178,524
Capital Assets, Net of Accumulated Depreciation	<u>637,903</u>	<u>10,892,682</u>	<u>11,530,585</u>
<b>TOTAL ASSETS</b>	<u>1,278,490</u>	<u>14,426,533</u>	<u>15,705,023</u>
<b>LIABILITIES</b>			
Accounts Payable	139,568	-	139,568
Accounts Payable - Related Parties	5,274	-	5,274
Accrued Liabilities	122,776	-	122,776
Deferred Revenues	12,032	-	12,032
Accrued Interest Payable	-	269,236	269,236
Noncurrent Liabilities			
Due Within One Year	107,119	310,000	417,119
Due in More Than One Year	<u>126,391</u>	<u>14,451,894</u>	<u>14,578,285</u>
<b>TOTAL LIABILITIES</b>	<u>513,160</u>	<u>15,031,130</u>	<u>15,544,290</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	404,393	(2,104,363)	(1,699,970)
Restricted for Debt Service	-	1,256,888	1,256,888
Restricted for Repair and Replacements	-	242,878	242,878
Unrestricted	<u>360,937</u>	<u>-</u>	<u>360,937</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 765,330</u>	<u>\$ (604,597)</u>	<u>\$ 160,733</u>

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

CESAR CHAVEZ ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
<b>PRIMARY GOVERNMENT</b>				
<b>Governmental Activities</b>				
Instruction	\$ 3,132,044	\$ 100,165	\$ 491,364	\$ -
Supporting Services	2,617,886	798,625	60,471	60,000
Interest on Long-Term Debt	19,361	-	-	-
Total Governmental Activities	5,769,291	898,790	551,835	60,000
<b>Business-Type Activities</b>				
Building Corporation	1,037,557	-	-	-
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 6,806,848</b>	<b>\$ 898,790</b>	<b>\$ 551,835</b>	<b>\$ 60,000</b>

GENERAL REVENUES

Per Pupil Revenue

Capital Construction

Investment Income

Grants and Contributions not Restricted to Specific Programs

Other

TRANSFERS

TOTAL GENERAL REVENUES

CHANGE IN NET ASSETS

NET ASSETS, Beginning

NET ASSETS, Ending

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

NET (EXPENSE) REVENUE AND CHANGE IN NET ASSETS

<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
\$ (2,540,515)	\$ -	\$ (2,540,515)
(1,698,790)	-	(1,698,790)
<u>(19,361)</u>	<u>-</u>	<u>(19,361)</u>
<u>(4,258,666)</u>	<u>-</u>	<u>(4,258,666)</u>
<u>-</u>	<u>(1,037,557)</u>	<u>(1,037,557)</u>
<u>(4,258,666)</u>	<u>(1,037,557)</u>	<u>(5,296,223)</u>
5,572,277	-	5,572,277
74,629	-	74,629
-	1,901	1,901
11,796	-	11,796
36,530	-	36,530
<u>(1,024,490)</u>	<u>1,024,490</u>	<u>-</u>
<u>4,670,742</u>	<u>1,026,391</u>	<u>5,697,133</u>
412,076	(11,166)	400,910
<u>353,254</u>	<u>(593,431)</u>	<u>(240,177)</u>
\$ <u><u>765,330</u></u>	\$ <u><u>(604,597)</u></u>	\$ <u><u>160,733</u></u>

CESAR CHAVEZ ACADEMY

BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2011

	<u>GENERAL</u>
<b>ASSETS</b>	
Cash and Investments	\$ 428,340
Accounts Receivable	39,306
Accounts Receivable - Related Parties	76,444
Grants Receivable	96,497
<b>TOTAL ASSETS</b>	<b>\$ 640,587</b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 139,568
Accounts Payable - Related Parties	5,274
Accrued Liabilities	122,776
Deferred Revenues	12,032
<b>TOTAL LIABILITIES</b>	<b>279,650</b>
<b>FUND BALANCE</b>	
Unrestricted, Unassigned	360,937
<b>TOTAL FUND BALANCE</b>	<b>360,937</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 640,587</b>

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

Total Fund Balance of the Governmental Fund	\$ 360,937
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	637,903
Long-term liabilities, including loan payable of (\$80,000) and capital leases (\$153,510), are not due and payable in the current year and, therefore, are not reported in governmental funds.	(233,510)
Total Net Assets of Governmental Activities	<b>\$ 765,330</b>

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

CESAR CHAVEZ ACADEMY

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

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 6,518,993
State Sources	160,531
Federal Sources	466,333
 TOTAL REVENUES	 7,145,857
EXPENDITURES	
Instruction	3,096,383
Supporting Services	3,668,548
Debt Service	
Principal	111,994
Interest and Fees	19,361
 TOTAL EXPENDITURES	 6,896,286
 NET CHANGE IN FUND BALANCE	 249,571
FUND BALANCE, Beginning	111,366
FUND BALANCE, Ending	\$ 360,937

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

Net Change in Fund Balance of the Governmental Fund	\$ 249,571
Capital outlay 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 amount represents depreciation expense in the current year.	(108,892)
Repayments of long-term liabilities are expenditures in governmental funds, but reduce long-term liabilities in the statement of net assets and do not affect the statement of activities.	111,994
Revenues recorded in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds. This amount represents loan forgiveness.	60,000
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 compensated absences.	99,403
Change in Net Assets of Governmental Activities	\$ 412,076

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

CESAR CHAVEZ ACADEMY

STATEMENT OF NET ASSETS

PROPRIETARY FUND

June 30, 2011

	<u>BUILDING CORPORATION</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Restricted Cash and Investments	\$ 1,769,002
Escrow Deposit	<u>92,560</u>
<b>TOTAL CURRENT ASSETS</b>	<u>1,861,562</u>
<b>NONCURRENT ASSETS</b>	
Debt Issuance Costs, Net of Accumulated Amortization	493,765
Capital Assets, Not Being Depreciated	1,178,524
Capital Assets, Net of Accumulated Depreciation	<u>10,892,682</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>12,564,971</u>
<b>TOTAL ASSETS</b>	<u>14,426,533</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accrued Interest Payable	269,236
Loan Payable, Current Portion	<u>310,000</u>
<b>TOTAL CURRENT LIABILITIES</b>	579,236
<b>NONCURRENT LIABILITIES</b>	
Loan Payable	<u>14,451,894</u>
<b>TOTAL LIABILITIES</b>	<u>15,031,130</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	(2,104,363)
Restricted for Debt Service	1,256,888
Restricted for Repair and Replacements	<u>242,878</u>
<b>TOTAL NET ASSETS</b>	<u>\$ (604,597)</u>

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

CESAR CHAVEZ ACADEMY

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

	<u>BUILDING CORPORATION</u>
OPERATING REVENUES	
Rental Income	\$ <u>1,024,490</u>
 TOTAL OPERATING REVENUES	 <u>1,024,490</u>
OPERATING EXPENSES	
Depreciation	331,505
Amortization	18,991
Debt Service	
Interest and Fiscal Charges	<u>687,061</u>
 TOTAL OPERATING EXPENSES	 <u>1,037,557</u>
 NET OPERATING INCOME (LOSS)	 (13,067)
NONOPERATING REVENUES	
Investment Income	<u>1,901</u>
 CHANGE IN NET ASSETS	 (11,166)
NET ASSETS, Beginning	<u>(593,431)</u>
NET ASSETS, Ending	\$ <u><u>(604,597)</u></u>

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

CESAR CHAVEZ ACADEMY

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Increase (Decrease) in Cash and Cash Equivalents  
Year Ended June 30, 2011

	<u>BUILDING CORPORATION</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Lease Payments Received	\$ 1,024,490
Loan Principal Paid	(295,000)
Loan Interest Paid	<u>(660,312)</u>
Net Cash Provided by Operating Activities	<u>69,178</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income Received	<u>1,901</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	71,079
<b>CASH AND CASH EQUIVALENTS, Beginning</b>	<u>1,697,923</u>
<b>CASH AND CASH EQUIVALENTS, Ending</b>	<u>\$ 1,769,002</u>
<b>RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Net Operating Income (Loss)	\$ (13,067)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depreciation Expense	331,505
Amortization of Issuance Costs	18,991
Amortization of Discount	8,774
Changes in Assets and Liabilities	
Accrued Interest Payable	17,975
Loan Payable	<u>(295,000)</u>
Net Cash Provided by Operating Activities	<u>\$ 69,178</u>

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

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

The Cesar Chavez Academy (the “Academy”) was organized in 2000 pursuant to the Colorado Charter Schools Act to form and operate a charter school within Pueblo School District No. 60 (the “District”). The Academy is a non-profit organization as defined in Section 501(c)(3) of the Internal Revenue Code.

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, organizations for which the Academy 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 Academy. 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.

The Academy includes the Cesar Chavez Academy Building Corporation (the “Building Corporation”) within its reporting entity. The Building Corporation was incorporated to acquire, exchange, lease, hold, use, operate or otherwise deal with property, borrow money and secure the repayment of moneys borrowed for the Building Corporation or the Academy. The Building Corporation is blended into the Academy’s financial statements as an enterprise fund. The Building Corporation does not issue separate financial statements.

The Academy is a component unit of the District. The Academy’s charter was granted by the District 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. 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 the *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*.

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

CESAR CHAVEZ ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

**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. Revenues are considered to be available when they are collected within the current year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenue is considered 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The Academy reports the following major funds:

*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.

*Building Corporation* - This fund is used to account for the capital and debt service activities of the Building Corporation.

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

*Cash and Investments* - Cash equivalents are defined as investments with an original maturity of 90 days or less. Investments are stated 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.

*Prepaid Expenses* - Payments to vendors for services that will benefit periods beyond the current year are reported as prepaid expenses.

CESAR CHAVEZ ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

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

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

*Interfund Receivables and Payables* - During the course of operations, certain transactions occur between individual funds. The resulting receivables and payables are classified as *interfund receivables and payables* in the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

*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 Academy as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Buildings and Improvements	10 - 50 years
Equipment	3 - 5 years

*Deferred Revenues* - Deferred revenues include grants collected before the corresponding expenditures have been incurred.

*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. Premiums and discounts, as well as 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. 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 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 employees; and natural disasters. The Academy carries commercial insurance for these risks of loss.

CESAR CHAVEZ ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

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

**Accountability**

At June 30, 2011, the Building Corporation had negative net assets of \$604,597. Management expects this negative balance to be eliminated as the Building Corporation's debt is paid.

**Building Lease Compliance**

At June 30, 2011, the Academy did not meet the unrestricted working capital requirement of its lease agreement, of 10% of operating expenses, which may constitute an event of default as defined in the lease agreement. However, the Academy has obtained a waiver of this requirement from the guarantor for the years ending June 30, 2010, through 2015. As a condition of the waiver, the Academy was required to maintain an unrestricted working capital balance in its operating fund of \$150,000 at June 30, 2011, with increasing balances required in subsequent years.

**NOTE 3: CASH AND INVESTMENTS**

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

Deposits	\$ 428,340
Investments	<u>1,769,002</u>
Total	<u><u>\$ 2,197,342</u></u>

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

Cash and Investments	\$ 428,340
Restricted Cash and Investments	<u>1,769,002</u>
Total	<u><u>\$ 2,197,342</u></u>

**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

**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 the maturity of investment securities to five years from the date of purchase, unless the governing board authorizes an investment in excess of five years. State statutes do not address custodial risk.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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

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

At June 30, 2011, the Building Corporation had \$1,769,002 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 operate 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.

**Restricted Cash and Investments**

At June 30, 2011, the Building Corporation held cash and investments of \$1,769,002 restricted by its loan agreement for future debt service and building repairs.

**NOTE 4: ACCOUNTS RECEIVABLE - RELATED PARTIES**

The Academy routinely paid operating costs on behalf of other related charter schools. The schools were required to reimburse the Academy for these costs. The Academy has reported accounts receivable net of an allowance for doubtful accounts for the amounts management believes are not collectible. At June 30, 2011, the Academy was owed reimbursements of \$76,444 from Dolores Huerta Preparatory High, a related charter school. In addition, the Academy owed \$5,274 to Dolores Huerta Preparatory High.

CESAR CHAVEZ ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE 5: CAPITAL ASSETS**

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

	Balances <u>6/30/10</u>	Additions	Deletions	Balances <u>6/30/11</u>
<b>Governmental Activities</b>				
Capital Assets, Being Depreciated				
Buildings	\$ 558,896	\$ -	\$ -	\$ 558,896
Building Improvements	323,399	-	-	323,399
Equipment	<u>481,871</u>	-	-	<u>481,871</u>
Total Capital Assets, Being Depreciated	<u>1,364,166</u>	<u>-</u>	<u>-</u>	<u>1,364,166</u>
Less Accumulated Depreciation				
Buildings	355,714	55,890	-	411,604
Building Improvements	75,372	14,274	-	89,646
Equipment	<u>186,285</u>	<u>38,728</u>	-	<u>225,013</u>
Total Accumulated Depreciation	<u>617,371</u>	<u>108,892</u>	<u>-</u>	<u>726,263</u>
Governmental Activities Capital Assets, Net	<u>\$ 746,795</u>	<u>\$ (108,892)</u>	<u>\$ -</u>	<u>\$ 637,903</u>

Depreciation expense of the governmental activities was charged to functions/programs as follows.

Instruction	\$ 35,661
Supporting Services	<u>73,231</u>
<b>Total</b>	<b><u>\$ 108,892</u></b>

	Balances <u>6/30/10</u>	Additions	Deletions	Balances <u>6/30/11</u>
<b>Business-Type Activities</b>				
Capital Assets, Not Being Depreciated				
Land	<u>\$ 1,178,524</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,178,524</u>
Capital Assets, Being Depreciated				
Buildings	11,802,663	-	-	11,802,663
Building Improvements	39,209	-	-	39,209
Equipment	<u>563,099</u>	-	-	<u>563,099</u>
Total Capital Assets, Being Depreciated	<u>12,404,971</u>	<u>-</u>	<u>-</u>	<u>12,404,971</u>
Less Accumulated Depreciation				
Buildings	987,774	283,507	-	1,271,281
Building Improvements	1,600	800	-	2,400
Equipment	<u>191,410</u>	<u>47,198</u>	-	<u>238,608</u>
Total Accumulated Depreciation	<u>1,180,784</u>	<u>331,505</u>	<u>-</u>	<u>1,512,289</u>
Total Capital Assets, Being Depreciated, Net	<u>11,224,187</u>	<u>(331,505)</u>	<u>-</u>	<u>10,892,682</u>
Business-Type Activities Capital Assets, Net	<u>\$ 12,402,711</u>	<u>\$ (331,505)</u>	<u>\$ -</u>	<u>\$ 12,071,206</u>

CESAR CHAVEZ ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2011

**NOTE 6: LONG-TERM DEBT**

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

	Balances <u>6/30/10</u>	Additions	Payments	Balances <u>6/30/11</u>	Due Within <u>One Year</u>
<b>Governmental Activities</b>					
Loan Payable	\$ 200,000	\$ -	\$ 120,000	\$ 80,000	\$ 50,000
Capital Leases	205,504	-	51,994	153,510	57,119
Compensated Absences	<u>99,403</u>	<u>-</u>	<u>99,403</u>	<u>-</u>	<u>-</u>
Total	<u><b>\$ 504,907</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 271,397</b></u>	<u><b>\$ 233,510</b></u>	<u><b>\$ 107,119</b></u>
<b>Business-Type Activities</b>					
Building Loan	\$ 15,285,000	\$ -	\$ 295,000	\$ 14,990,000	\$ 310,000
Discount	<u>(236,880)</u>	<u>-</u>	<u>(8,774)</u>	<u>(228,106)</u>	<u>-</u>
Total	<u><b>\$ 15,048,120</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 286,226</b></u>	<u><b>\$ 14,761,894</b></u>	<u><b>\$ 310,000</b></u>

**Loan Payable**

In September, 2005, the Academy entered into a loan agreement for \$200,000 with the Charter Fund, Inc., to purchase modular classroom facilities and other noncapital assets. The terms of the original agreement required a final payment of \$225,000 on or before September 26, 2010. In September, 2010, the Academy approved a loan modification agreement whereby \$115,000 of the outstanding loan balance will be forgiven in increments, if the Academy makes the required payments. For the year ended June 30, 2011, the Academy paid \$60,000 and an equal amount was forgiven. The final payment of \$50,000 is due on September 15, 2011, at which time the remaining loan balance will be forgiven.

**Capital Leases**

In January, 2008, the Academy entered into a capital lease agreement to purchase a school bus. Under the terms of the agreement, the Academy is required to make 60 monthly payments of \$1,952, including interest accruing at 9.3% per annum, through January, 2013. Assets of \$93,729 have been capitalized under this lease agreement.

In July, 2008, the Academy entered into a capital lease agreement to purchase two school buses. The Academy is required to make annual lease payments of \$47,927 on July 1, through 2013, including interest accruing at 6.4% per annum. Assets of \$199,709 have been capitalized under this lease agreement.

Minimum lease payments, to maturity, are as follows:

Year Ended June 30,

2012	\$ 71,356
2013	61,186
2014	<u>48,334</u>
Total Minimum Lease Payments	180,876
Less: Interest Portion	<u>(27,366)</u>
Present Value of Future Minimum Lease Payments	<u><b>\$ 153,510</b></u>

CESAR CHAVEZ ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2011

**NOTE 6: LONG-TERM DEBT (Continued)**

**Building Loan**

In April, 2007, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$15,570,000 Charter School Revenue Bonds, Series 2007. Bond proceeds were loaned to the Building Corporation under a mortgage and loan agreement to refinance various existing debt, purchase land, and construct a new high school. The Academy is obligated under a lease agreement to make monthly lease payments to the Building Corporation for using the buildings and equipment. The Building Corporation is required to make equal loan payments to the Trustee, for payment of the bonds. Interest accrues at rates ranging from 4% to 4.5%. Interest payments are due semi-annually on August 1 and February 1. Principal payments are due annually on August 1, through 2037.

Annual debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 310,000	\$ 643,556	\$ 953,556
2013	320,000	630,956	950,956
2014	335,000	617,856	952,856
2015	345,000	604,256	949,256
2016	360,000	590,156	950,156
2017 - 2021	2,035,000	2,716,616	4,751,616
2022 - 2026	2,505,000	2,249,265	4,754,265
2027 - 2031	3,095,000	1,638,229	4,733,229
2032 - 2036	3,875,000	858,938	4,733,938
2037 - 2038	<u>1,810,000</u>	<u>82,351</u>	<u>1,892,351</u>
Total	<u>\$ 14,990,000</u>	<u>\$ 10,632,179</u>	<u>\$ 25,622,179</u>

The Academy has entered into a sublease agreement with Dolores Huerta Preparatory High to use certain facilities constructed with loan proceeds, and to reimburse the Academy for a portion of the loan. For the year ended June 30, 2011, Dolores Huerta Preparatory High paid \$500,000 to the Academy under this sublease agreement.

**NOTE 7: DEFINED BENEFIT PENSION PLAN**

*Plan Description* - The Academy 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 Academy are members of the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the SDTF. That report may be obtained by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

*Funding Policy* - The contribution requirements of Plan members and the Academy are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members was 8%. The Academy's contribution rate for calendar years 2009, 2010 and 2011 was 12.95%, 13.85% and 14.75% of covered salaries, respectively. A portion of the Academy's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 9). The Academy's contributions to the SDTF for the years ended June 30, 2011, 2010 and 2009 were \$507,036, \$658,285 and \$637,374, respectively, equal to the required contributions for each year.

**NOTE 8: POSTEMPLOYMENT HEALTHCARE BENEFITS**

*Plan Description* - The Academy contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by the PERA. The HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained by contacting PERA as described above.

*Funding Policy* - The Academy was required to contribute at a rate of 1.02% of covered salaries for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Academy are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The Academy's apportionment to the HCTF for the years ended June 30, 2011, 2010 and 2009 was \$33,714, \$50,290 and \$52,116, respectively.

**NOTE 9: COMMITMENTS AND CONTINGENCIES****Management Agreement**

The Academy provides administrative and financial services to Dolores Huerta Preparatory High, a related charter school. During the year ended June 30, 2011, the Academy received or accrued reimbursements from Dolores Huerta Preparatory High of \$263,000 for these services.

**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.

**Litigation**

The Academy has threatened litigation. However, management does not believe this potential claim will have a significant effect on the financial condition of the Academy.

CESAR CHAVEZ ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

**NOTE 9: COMMITMENTS AND CONTINGENCIES (Continued)**

**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 Amendment is complex and subject to judicial interpretation. The Academy 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. In accordance with the charter agreement between the Academy and the District, the District has established and is maintaining the emergency reserve for the Academy.

**Colorado Department of Education Audit**

The Colorado Department of Education conducted audits of the Academy's transportation costs and student counts and assessed the School \$66,429, representing a correction of revenues received in prior years. The Academy paid \$8,052 of this assessment during the year ended June 30, 2011, and accrued \$58,377 at June 30, 2011. The remaining liability is payable during the years ended June 30, 2012 through 2014. The Academy expects an assessment for recent fiscal years. However, the amount of the potential assessment is not currently known, and no liability has been reported in the financial statements for this contingency.

**REQUIRED SUPPLEMENTARY INFORMATION**

CESAR CHAVEZ ACADEMY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2011

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL		Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 6,672,977	\$ 5,549,560	\$ 5,572,277	\$ 22,717
Tuition and Fees	127,890	160,500	100,165	(60,335)
Grants and Contributions	100,000	60,000	11,396	(48,604)
Reimbursed Costs	175,370	339,524	298,625	(40,899)
Building Lease	500,000	500,000	500,000	-
Other	6,614	32,136	36,530	4,394
State Sources				
Capital Construction	100,004	98,873	74,629	(24,244)
Grants	46,122	105,000	85,902	(19,098)
Federal Sources				
Grants	267,884	590,226	466,333	(123,893)
<b>TOTAL REVENUES</b>	<b>7,996,861</b>	<b>7,435,819</b>	<b>7,145,857</b>	<b>(289,962)</b>
EXPENDITURES				
Salaries	3,584,653	3,562,826	3,498,672	64,154
Employee Benefits	943,728	998,348	842,939	155,409
Purchased Services	1,351,672	2,013,296	1,791,560	221,736
Supplies and Materials	491,819	513,770	548,304	(34,534)
Property	157,200	33,000	6,669	26,331
Other	1,495,733	440,079	208,142	231,937
<b>TOTAL EXPENDITURES</b>	<b>8,024,805</b>	<b>7,561,319</b>	<b>6,896,286</b>	<b>665,033</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(27,944)</b>	<b>(125,500)</b>	<b>249,571</b>	<b>375,071</b>
FUND BALANCE, Beginning	125,000	125,500	111,366	(14,134)
FUND BALANCE, Ending	\$ 97,056	\$ -	\$ 360,937	\$ 360,937

See the accompanying Independent Auditors' Report.

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

**Budgets and Budgetary Accounting**

Budgets are required by State statutes for all funds and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The Academy adheres to the following procedures in establishing the budgetary data reflected in the financial statements.

- By June 1, 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 appropriations lapse at fiscal year end.