
GRAND CENTER ARTS ACADEMY LEA
A LOCAL EDUCATIONAL AGENCY OF
CONFLUENCE ACADEMY, INC.
FINANCIAL STATEMENTS
JUNE 30, 2011



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Independent Auditors' Report

Board of Directors
Confluence Academy, Inc.
St. Louis, Missouri

We have audited the accompanying financial statements of the governmental activities and each major fund of Grand Center Arts Academy LEA (the LEA), a Local Educational Agency (LEA) of Confluence Academy, Inc. (the Academy), which collectively comprise the LEA's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the LEA's and 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 basic 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.

As discussed in Note 1, the basic financial statements of the LEA are intended to present the financial position and the changes in financial position of only that portion of the Academy that is attributable to the LEA. They do not purport to, and do not, present fairly the financial position of the Academy as of June 30, 2011, and its changes in its financial position for the period then ended, in conformity with accounting principles generally accepted in the United States of America.

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 LEA as of June 30, 2011, and the respective changes in financial position for the period then ended, in conformity with generally accepted accounting principles accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011, on our consideration of the LEA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Information as listed in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the LEA's basic financial statements. The accompanying supplementary information, as listed in the accompanying table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

RubinBrown LLP

December 7, 2011

GRAND CENTER ARTS ACADEMY LEA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Year Ended June 30, 2011
(Unaudited)

The management's discussion and analysis of Grand Center Arts Academy (the Art Academy) financial performance provides an overall review of the Art Academy's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the Art Academy's financial performance as a whole; readers should also review the financial statements, including the notes to the basic financial statements to enhance their understanding of the Art Academy's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- The initial year results ended with negative net assets of (\$2,567,672).
- General revenues accounted for \$1,548,831 in revenue or 74% of all revenues. Program specific revenues in the form of operating grants and contributions accounted for \$555,175 or 26% of total revenues of \$2,104,006.
- Total assets of governmental activities are \$2,659,757 and liabilities are \$5,227,429. Included in the liabilities is a \$4,117,157 qualified low-income community investment loan.
- The Art Academy had \$4,671,678 in expenses; only \$555,175 of these expenses was offset by program specific grants or contributions.
- Of the \$4,671,678 in total expenses, \$109,064 related to the payment of management fees to the Art Academy's managerial company.
- The Governmental Funds had \$2,104,006 in revenues and \$5,708,767 in expenditures. The initial year results ended with a fund balance of \$1,147,523.

Using This Generally Accepted Accounting Principles Report (GAAP)

This annual report consists of a series of financial statements and notes to those statements. The Statement of Net Assets and the Statement of Activities (on pages 10 and 11) provide information about the activities of the Art Academy as a whole and present a longer-term view of the Art Academy's finances. Fund financial statements start on page 12. For governmental activities, these statements provide information on how these services were financed in the short term, as well as what remains for future spending. The statements then proceed to provide an increasingly detailed look at specific financial activities.

Statement Of Net Assets And The Statement Of Activities

The view of the Art Academy as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all significant assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid. These two statements report the Art Academy's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Art Academy as a whole, the financial position of the Art Academy has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. In the Statement of Net Assets and the Statement of Activities, the Art Academy reports governmental activities. Governmental activities are the activities where all of the Art Academy's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The Art Academy does not have any business-type activities.

Fund Financial Statements

Fund financial statements provide detailed information about the Art Academy's major funds. The Art Academy's major governmental funds are the General and Teachers' Funds.

GRAND CENTER ARTS ACADEMY LEA

Management's Discussion And Analysis (*Continued*)

The Art Academy's activities are reported in governmental funds, which focus on how money flows into and out of the funds and the balance left at fiscal year-end that is available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Art Academy's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental funds is reconciled in the financial statements.

The Art Academy As A Whole

Recall that the Statement of Net Assets provides the perspective of the Art Academy as a whole.

Table 1 provides a summary of the Art Academy's statement of net assets for fiscal year 2011:

Assets	
Current and other assets	\$ 2,151,880
Capital assets, net of accumulated depreciation	<u>507,877</u>
Total Assets	<u>2,659,757</u>
Liabilities	
Current liabilities	862,845
Long-term liabilities	<u>4,364,584</u>
Total Liabilities	<u>5,227,429</u>
Net Assets	
Invested in capital assets, net of related debt	191,876
Restricted for rent payments	1,703,397
Unrestricted	<u>(4,462,945)</u>
Total Net Assets	<u>\$ (2,567,672)</u>

GRAND CENTER ARTS ACADEMY LEA

Management's Discussion And Analysis (*Continued*)

Total assets at year end were \$2,659,757. The largest component was \$1,703,397 restricted cash for future rent payments. Total liabilities at year end were \$5,227,429. The largest component was \$4,117,157 of qualified low-income community investment loans. Unrestricted net assets of the Art Academy, which are the part of net assets that can be used to finance day-to day activities without constraints established by grants or legal requirements, was a negative (\$4,462,945).

Table 2 shows the changes in net assets for fiscal year 2011.

Revenues

Program Revenues:	
Operating grants and contributions	\$ 555,175
General Revenues:	
State aid not restricted to specific purposes	1,544,768
Interest and investment earnings	3,520
Miscellaneous	543
Total Revenues	<u>2,104,006</u>

Program Expenses

Instruction	1,043,275
Student Services	21,797
Instructional staff support	209,979
General administration and central services	2,927,508
Operation of plant	308,060
Food service	106,316
Interest and fiscal charges	54,743
Total Program Expenses	<u>4,671,678</u>

Change In Net Assets	<u>\$ (2,567,672)</u>
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GRAND CENTER ARTS ACADEMY LEA

Management's Discussion And Analysis (*Continued*)

The Statement of Activities shows the cost of program services and the grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State aid and entitlements, interest and other miscellaneous sources.

	Total Cost Of Services	Net Cost Of Services
Instruction	\$ 1,043,275	\$ (785,036)
Student services	21,797	(21,797)
Instructional staff support	209,979	(195,419)
General administration and central services	2,927,508	(2,725,766)
Operation of plant	308,060	(308,060)
Food service	106,316	(25,682)
Interest and fiscal charges	54,743	(54,743)
Total Expenses	\$ 4,671,678	\$ (4,116,503)

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Instructional staff support includes the activities involved with assisting staff with the content and process of teaching to pupils.

General administration and central services include expenses associated with administrative and financial supervision of the Art Academy. It also includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public. General administration and central services included a \$2,218,000 one-time foundation grant to Friends of Confluence in 2011.

Operation of plant activities involves keeping the school grounds, buildings, and equipment in an effective working condition.

Transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Food services include the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities.

Interest and fiscal charges involve the transactions associated with the payment of interest and other related charges for debt of the Art Academy.

GRAND CENTER ARTS ACADEMY LEA

Management's Discussion And Analysis (*Continued*)

The Art Academy's Funds

Information about the Art Academy's major funds starts on page 12. Governmental Funds are accounted for using the modified accrual basis of accounting. General (Incidental) and Special Revenue (Teachers') Funds are the main operating funds of the Art Academy. These funds had total revenues of \$2,104,006 and expenditures of \$5,708,767. The remaining fund balance at June 30, 2011, is \$1,147,523.

General Fund Budgetary Highlights

The Art Academy's budget is prepared according to Missouri law and is based on accounting for transactions on a modified-accrual basis.

The Art Academy uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

The Art Academy's actual revenues were below its budget in the General Fund by \$202,614 which was due to lower than anticipated State aid payments.

Capital Assets

For 2011, significant capital assets activity occurred. The balances at June 30, 2011, are as follows:

Construction in progress	\$ 285,809
Furniture and equipment	255,507
Accumulated depreciation	<u>(33,439)</u>
Capital Assets, Net	<u><u>\$ 507,877</u></u>

Additional information on capital assets can be found in Note 3 on page 23 of this report.

Long-Term Debt

At June 30, 2011, the Art Academy had \$4,117,157 in qualified low-income community investment loans, \$39,036 in capital lease obligations, and \$276,965 in a food service loan. Additional information on long-term debt can be found in Note 4 on pages 23 through 25 of this report.

Current Financial Issues And Concerns

The Art Academy is financially stable. The Art Academy is proud of its community support of the public schools. The Art Academy became a Local Education Agency at the beginning of the 2010 fiscal year. The Art Academy continues to examine ways to secure all of the revenues that it is entitled to receive.

Contacting The Art Academy's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Art Academy's finances and to show the Art Academy's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Paul Tice, Treasurer.

GRAND CENTER ARTS ACADEMY LEA

STATEMENT OF NET ASSETS

June 30, 2011

Assets

Cash and cash equivalents	\$ 104,178
Accounts receivable:	
State	69,490
Other	13,162
Restricted assets:	
Cash and cash equivalents	1,703,397
Debt issuance cost, net	216,450
Other assets	45,203
Capital assets:	
Nondepreciable	285,809
Depreciable, net	<u>222,068</u>
Total Assets	<u><u>2,659,757</u></u>

Liabilities

Accounts payable	52,339
Accrued liabilities	137,629
Due to affiliates	586,045
Unearned revenue	18,258
Noncurrent liabilities:	
Due within one year	68,574
Due in more than one year	<u>4,364,584</u>
Total Liabilities	<u><u>5,227,429</u></u>

Net Assets

Invested in capital assets, net of related debt	191,876
Restricted for debt service	1,703,397
Unrestricted	<u>(4,462,945)</u>
Total Net Assets	<u><u>\$ (2,567,672)</u></u>

GRAND CENTER ARTS ACADEMY LEA

STATEMENT OF ACTIVITIES For The Year Ended June 30, 2011

Functions	Expenses	Program Revenues		Net (Expenses)
		Operating Grants And Contributions	Governmental Activities	Revenues And Changes In Net Assets
Governmental Activities				
Instruction	\$ 1,043,275	\$ 258,239		\$ (785,036)
Student services	21,797	—		(21,797)
Instructional staff support	209,979	14,560		(195,419)
General administration and central services	2,927,508	201,742		(2,725,766)
Operation of plant	308,060	—		(308,060)
Food service	106,316	80,634		(25,682)
Interest and fiscal charges	54,743	—		(54,743)
Total Governmental Activities	\$ 4,671,678	\$ 555,175		(4,116,503)
General Revenues				
State aid not restricted to specific purposes				1,544,768
Interest and investment earnings				3,520
Miscellaneous				543
Total General Revenues				1,548,831
Change In Net Assets				(2,567,672)
Net Assets - Beginning Of Year				—
Net Assets - End Of Year				\$ (2,567,672)

GRAND CENTER ARTS ACADEMY LEA

BALANCE SHEET GOVERNMENTAL FUNDS June 30, 2011

	General Fund	Teachers' Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 104,178	\$ —	\$ 104,178
Accounts receivable:			
State	69,490	—	69,490
Other	13,162	—	13,162
Restricted assets:			
Cash and cash equivalents	1,703,397	—	1,703,397
Other assets	45,203	—	45,203
<hr/>			
Total Assets	\$ 1,935,430	\$ —	\$ 1,935,430
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Liabilities			
Accounts payable	\$ 52,339	\$ —	\$ 52,339
Accrued liabilities	131,265	—	131,265
Due to affiliates	586,045	—	586,045
Deferred revenue	18,258	—	18,258
Total Liabilities	787,907	—	787,907
<hr/>			
Fund Balances			
Nonspendable:			
Other assets	45,203	—	45,203
Restricted for:			
Debt service	1,703,397	—	1,703,397
Unassigned	(601,077)	—	(601,077)
Total Fund Balances	1,147,523	—	1,147,523
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Total Liabilities And Fund Balance	\$ 1,935,430	\$ —	\$ 1,935,430
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GRAND CENTER ARTS ACADEMY LEA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2011

Total fund balance - governmental funds \$ 1,147,523

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. The cost of the assets is \$541,316 and the accumulated depreciation is \$33,439.

507,877

Long-term assets and liabilities applicable to the Academy's governmental activities are not receivable or due and payable in the current period and, accordingly, are not reported as assets/liabilities within the fund financial statements. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Accrued interest on long-term debt	(6,364)
Qualified low-income community investment loans payable	(4,117,157)
Equipment loans payable	(276,965)
Capital lease obligations	(39,036)
Unamortized debt issuance costs	216,450

Total net assets - governmental activities \$ (2,567,672)

GRAND CENTER ARTS ACADEMY LEA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS For The Year Ended June 30, 2011

	General Fund	Teachers' Fund	Total Governmental Funds
Revenues			
Local	\$ 114,480	\$ 91,325	\$ 205,805
State	725,234	819,534	1,544,768
Federal	251,521	101,912	353,433
Total Revenues	1,091,235	1,012,771	2,104,006
Expenditures			
Instruction	154,258	889,017	1,043,275
Student services	21,797	—	21,797
Instructional staff support	209,979	—	209,979
General administration and central services	2,991,873	123,754	3,115,627
Operation of plant	308,060	—	308,060
Food service	106,316	—	106,316
Capital outlay	831,631	—	831,631
Debt service:			
Principal retirement	28,811	—	28,811
Interest and fiscal charges	43,271	—	43,271
Total Expenditures	4,695,996	1,012,771	5,708,767
Revenues Under Expenditures	(3,604,761)	—	(3,604,761)
Other Financing Sources			
Issuance of debt	4,407,471	—	4,407,471
Issuance of equipment loan	290,315	—	290,315
Issuance of capital lease obligation	54,498	—	54,498
Total Other Financing Sources	4,752,284	—	4,752,284
Net Change In Fund Balance	1,147,523	—	1,147,523
Fund Balance - Beginning Of Year	—	—	—
Fund Balance - End Of Year	\$ 1,147,523	\$ —	\$ 1,147,523

GRAND CENTER ARTS ACADEMY LEA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For The Year Ended June 30, 2011

Total net change in fund balances - governmental funds \$ 1,147,523

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

Capital outlays are reported in the governmental funds as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays over the capitalization threshold totaling \$541,316 were greater than depreciation of \$33,439 in the current period.

507,877

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Amortization of issuance costs and change in accrued interest payable	(11,472)
Proceeds from qualified low-income community investment loans	(4,117,157)
Proceeds from equipment loans	(290,314)
Proceeds from capital lease	(54,498)
Repayment of principal on long term debt	13,350
Principal payments on capital lease	15,461
Capitalized debt issuance costs	221,558

Change in net assets of governmental activities \$ (2,567,672)

GRAND CENTER ARTS ACADEMY LEA

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

1. Basis Of Presentation

The accompanying basic financial statements include the accounts of Confluence Academy, Inc. (the Academy) that are established as part of the Local Educational Agency, Grand Center Arts Academy LEA (the LEA). The basic financial statements reflect only the assets, liabilities, net assets/fund balance and revenues and expenditures/expense of the LEA. The LEA consists of one middle school located in the City of St. Louis. The school serves approximately 200 students in grades 6 and 7.

The LEA defines its reporting entity to include all component units for which the LEA is financially accountable. The LEA is financially accountable for an organization if the LEA appoints a voting majority of the organization's governing board and is able to impose its will on the potential component unit, or the relationship has the potential for creating specific financial benefits to, or impose specific financial burdens on the LEA. Management has determined there are no component units of the LEA, as defined under current accounting standards.

The LEA's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

2. Summary Of Significant Accounting Policies

Operations

The Academy is a not-for-profit organization and a public Charter School located in the City of St. Louis, Missouri. The Academy was established in 2000 under the Statutes of the State of Missouri and operates as a "six director" organization as described in the Articles of Incorporation. The Academy operates two separate LEAs which are regulated by the Missouri Department of Elementary and Secondary Education. The first LEA, Confluence Academy, was approved to be classified as a LEA of the State of Missouri effective July 1, 2007. The second LEA, Grand Center Arts Academy, was approved as a LEA by the State of Missouri effective April 19, 2010.

The mission of the Academy is to give students the highest quality pre-collegiate education possible through the implementation and evaluation of the educational tools and practices in various fields including mathematics, science and technology.

GRAND CENTER ARTS ACADEMY LEA

Notes To Basic Financial Statements (*Continued*)

Government-Wide 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 nonfiduciary activities of the LEA. The effect of interfund activity has been removed from these statements to minimize the duplication of internal activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State aid, unrestricted interest earnings and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Following the government-wide financial statements are separate financial statements for the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All of the LEA's funds are major funds. The total fund balance for the governmental funds is reconciled to total net assets for governmental activities as shown on the statement of net assets. The net change in fund balance for the governmental funds is reconciled to the total change in net assets as shown on the statement of activities in the government-wide financial statements.

Governmental Fund Type

Governmental funds are those through which most governmental functions of the LEA are financed. The acquisition, use and balances of the LEA's expendable financial resources, and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of and changes in financial position rather than upon net income. The LEA reports the following major governmental funds:

General (Incidental) Fund - The General Fund accounts for general activities of the LEA, including expenditures for noncertified employees, pupil transportation costs, operation of plant, student activities, food service and textbooks and any expenditure not required to be accounted for in another fund.

Teachers' Fund - This is a special revenue fund used to account for financial resources and expenditures for certified employees involved in administration and instruction. It includes revenues restricted by the State of Missouri to be used for the payment of teachers' salaries, related benefits and tuition for students.

Measurement Focus And Basis Of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operation of the LEA are included in the statement of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year.

GRAND CENTER ARTS ACADEMY LEA

Notes To Basic Financial Statements *(Continued)*

Nonexchange transactions, in which the LEA receives value without directly giving equal value in return, include state aid, grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the LEA must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the LEA on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized. For the LEA available means expected to be received within 60 days of year end.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: state aid, tuition, fees, interest and grants. When both restricted and unrestricted resources are available for use, it is the LEA's policy to use restricted resources first, then unrestricted resources as they are needed.

Accounts Receivable

Accounts receivable at June 30, 2011 consist of subsidies from federal and state authorities as well as amounts due from related affiliates. All receivables are considered by management to be fully collectible. Accordingly, no allowance for doubtful accounts is included in the financial statements.

Cash, Cash Equivalents And Investments

The LEA considers all highly liquid securities purchased with a maturity of three months or less to be cash equivalents. Accounting standards require that all investments be reported at fair value. Fair value is established as readily determinable current market value for equity and debt securities.

For cash and cash equivalents, custodial credit risk is the risk that in the event of bank failure, the LEA's deposits may not be returned to it. Protection of the LEA's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution or by a single collateral pool established by the financial institution. At June 30, 2011, the LEA had \$1,481,000 of deposits at one institution which were uninsured and uncollateralized.

GRAND CENTER ARTS ACADEMY LEA

Notes To Basic Financial Statements *(Continued)*

Due to the fact that the LEA does not currently hold any investments and the LEA does not have a formal investment policy, disclosures concerning interest rate risk, credit risk, custodial risk and concentration risk are not applicable. Missouri State Statutes allow the LEA to invest in United States Treasury securities, government agency and instrumentality obligations, repurchased agreements collateralized by government securities, time certificates of deposit, bankers' acceptances issued by domestic commercial banks and commercial paper issued by domestic corporations.

Restricted Cash Held For Rent Reserve

Certain proceeds of the LEA's qualified low-income community investment loans (QLCI) are restricted for rent reserves and have been classified in restricted assets in accordance with the agreements (Note 4).

Debt Issuance Costs

Debt issuance costs include, among other costs, professional fees, underwriters discounts and insurance. Debt issuance costs are amortized based on the straight-line basis over the remaining life of the debt balance.

Capital Assets

Capital assets, which include equipment and construction in progress, are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The LEA does not possess any infrastructure. Improvements are capitalized while the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Assets held under capital lease are depreciated over the remaining lease term. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Years</u>
Furniture and equipment	5 - 7

GRAND CENTER ARTS ACADEMY LEA

Notes To Basic Financial Statements (*Continued*)

Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities of the statement of net assets. Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds using the straight-line method.

Fund Balance Classifications

As of June 30, 2011, fund balances of the General and Teachers' funds are classified as follows:

Nonspendable - Amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - Amounts that can be used only for specific purposes determined by a formal action of the LEA. The Board of Directors of the Academy is the highest level of decision-making authority for the LEA. Fund balance is committed by a majority vote of the Board of Directors and modifications cannot be made to a committed balance without the approval of the Board.

Assigned - Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Fund balance is assigned by the highest levels of management of the LEA, under the authority of the Chief Operating Officer. Management assigns fund balance during the budgetary process.

Unassigned - All other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the LEA considers restricted funds to have been spent first. When an expenditure is incurred in circumstances where committed, assigned, or unassigned fund balances are available, the LEA considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the LEA or the Board of Directors has provided otherwise in its commitment or assignment actions.

GRAND CENTER ARTS ACADEMY LEA

Notes To Basic Financial Statements (*Continued*)

Net Assets

In the government-wide financial statements, net assets are displayed in three components as follows:

Invested In Capital Assets, Net Of Related Debt - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvements of those assets.

Restricted - This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted - This consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Income Taxes

The LEA is part of a qualified not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and is, therefore, exempt from federal income taxes.

GRAND CENTER ARTS ACADEMY LEA

Notes To Basic Financial Statements (Continued)

3. Capital Assets

Capital asset activity for the year ended June 30, 2011 is as follows:

	Balance July 1, 2010	Additions	Disposals	Balance June 30, 2011
Governmental Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ —	\$ 285,809	\$ —	\$ 285,809
Total capital assets, not being depreciated	—	285,809	—	285,809
Capital assets being depreciated:				
Moveable equipment	—	255,507	—	255,507
Total capital assets being depreciated	—	255,507	—	255,507
Less accumulated depreciation for:				
Movable equipment	—	33,439		33,439
Total accumulated depreciation	—	33,439	—	33,439
Total capital assets being depreciated, net	—	222,068	—	222,068
Governmental activities capital assets, net	\$ —	\$ 507,877	\$ —	\$ 507,877

Depreciation expense of \$33,439 has been reported as part of general administration and central services expenses for the period ended June 30, 2011.

4. Long-Term Obligation

During the year ended June 30, 2011, the following changes occurred in long-term obligations:

	Beginning July 1, 2010	Additions	Retirements	Ended June 30, 2011	Due Within One Year
Qualified low-income community investment loans	\$ —	\$ 4,117,157	\$ —	\$ 4,117,157	\$ —
Capital lease obligations	—	54,498	15,462	39,036	17,881
Food service equipment loan	—	290,314	13,349	276,965	50,693
	\$ —	\$ 4,461,969	\$ 28,811	\$ 4,433,158	\$ 68,574

GRAND CENTER ARTS ACADEMY LEA

Notes To Basic Financial Statements (Continued)

Qualified Low-Income Community Investment Loans

During 2011, Confluence Academy, Inc. entered into two separate qualified low income community investment (QLICI) loan agreements totaling \$9,600,000 with an unrelated entity created as part of a new market tax credit agreement. Note A totaling \$5,413,000 and Note B totaling \$4,187,000 were funded in November 2010. The proceeds from these two loans were used to finance capital improvements at the Confluence Preparatory Academy, which is a member school of Confluence Academy LEA, and also to finance construction of the new Beaux Arts Center, which is the location of a separate school building and is part of the LEA. Total borrowings on the notes of \$9,600,000 have been allocated ratably to the LEA and Confluence Academy LEA based on use of funds during the year. Interest accrues annually at 1.85% and is paid in monthly installments through December 31, 2016, at which time monthly payments of both interest and principal are due through November 1, 2040, as follows:

Year Ending June 30	QLICI Loans	
	Principal	Interest
2012	\$ —	\$ 177,600
2013	—	177,600
2014	—	177,600
2015	—	177,600
2016	—	177,600
2017-2021	1,216,410	849,981
2022-2026	1,880,100	691,316
2027-2031	2,062,159	509,256
2032-2036	2,261,848	309,567
2037-2041	2,179,483	91,932
	<u>9,600,000</u>	<u>3,340,052</u>
Less: allocated to Confluence Academy LEA	<u>5,482,843</u>	<u>1,903,830</u>
Total	\$ 4,117,157	\$ 1,436,222

Capital Lease Obligation

The LEA has entered into lease agreements which qualify as capital leases. See Note 9 for further information.

GRAND CENTER ARTS ACADEMY LEA

Notes To Basic Financial Statements (Continued)

Food Services Equipment Loan

During 2011, the LEA entered into a loan agreement with its food service provider in order to finance certain pieces of equipment. The loan is noninterest-bearing and is due in payments of principal only over a period of seven years with maturity on May 31, 2018. Future principal payments are as follows:

<u>Year Ending June 30</u>	
2012	\$ 50,693
2013	50,693
2014	35,116
2015	35,116
2016	35,116
Thereafter	70,231
<u>Total</u>	<u>\$ 276,965</u>

5. Related Party Transactions

As described in Note 4, the LEA was party to a new market tax credit agreement which ultimately provided the Academy with funds to expand its physical plant and equipment at both the Confluence Preparatory Academy and the Beaux Arts Academy. As part of that agreement, the LEA was required to grant funds totaling approximately \$2,200,000 to a related entity, Friends of Confluence Academy (Friends). For the year ended June 30, 2011, this grant expenditure has been reported as part of general administration and central services expenses.

In addition, the LEA will from time to time borrow funds from its affiliate, Confluence Academy, LEA (Confluence), for working capital purposes. Advances under these arrangements are unsecured and do not bear interest. As of June 30, 2011, total amounts due to Confluence amounted to \$586,045.

6. Retirement Plan

The LEA contributes to the Public School Retirement System of the City of St. Louis (the System), a cost-sharing multiple-employer defined benefit pension plan. The System provides retirement, disability, death and survivor benefits for employees of St. Louis Public Schools, employees of the System, employees of the Charter Schools located within St. Louis and certain employees of Harris-Stowe State University. The System benefits are paid in addition to any benefits payable by Social Security.

GRAND CENTER ARTS ACADEMY LEA

Notes To Basic Financial Statements (*Continued*)

The System specific benefit provisions are set forth in RSMo. Chapters 169.410-.540 and general provisions are set forth in RSMo. Chapters 169.560-.597 and 105.660-.691. The statutes assign responsibility for the administration of the system to an 11-member Board of Trustees.

The System issues a publicly available, annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Public School Retirement System of the City of St. Louis, One U.S. Bank Plaza, 505 North Seventh Street, Suite 2510, St. Louis, Missouri 63101-1657 or by calling 1-314-241-7763. The report can also be found on the System's website: <http://www.psrstl.org>.

Employees are required to contribute 5% of their annual covered salary and the LEA is required to contribute a percentage of its employees' covered compensation as determined annually by an actuarial valuation of the System. At June 30, 2011, the employer contribution rate from July 1, 2010 through December 31, 2010 was 8.27%, and from January 1, 2011 through June 30, 2011 was 10.03%. Member contributions to the System for the year ended June 30, 2011 were \$44,016. The LEA's contributions for the year ended June 30, 2011 were \$81,426. These contributions were 100% of the required contributions for those periods.

7. Risk Management

The LEA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The LEA believes it maintains adequate insurance to protect itself from such risks. Settled claims have not exceeded commercial coverage in the current period.

8. Management Agreements

In September 2009, the LEA signed a management contract with American Quality Schools (AQS). The contract is effective through June 2013. Under the agreement, the LEA will be obligated to AQS for seven percent (7%) of state and local tax revenues received for operating the school. This percentage calculation will not include any revenues received that may only be used for special purposes, such as Title I, special education, gifted or talented, or other funding that state or federal legislation require to be used for direct services.

GRAND CENTER ARTS ACADEMY LEA

Notes To Basic Financial Statements (Continued)

The management contract also states that the LEA will reimburse AQS up to \$40,000 annually for costs related to regional operating staff. The gross management fee expense for the LEA under this agreement totaled \$109,064 for the year ended June 30, 2011. At June 30, 2011, the LEA had a payable of \$10,239 due to AQS for management services rendered.

9. Leases

Operating Leases

In 2010, the Academy entered into a facility lease at 620 N. Grand Blvd. (Grand Lease) with The Third Baptist Church of St. Louis. The Grand Lease commenced on July 1, 2010 and terminated on June 30, 2011. Total rent expense recorded under this lease during the year ended June 30, 2011 was \$180,000.

Capital Leases

The LEA has entered into an agreement with an unrelated entity to lease computer equipment. Based upon the provisions of the agreement, the arrangement meets the criteria of a capital lease. Assets leased by the LEA consist of computer equipment with an aggregate cost of \$54,497. The implied interest rate within the lease agreement is 8.5%.

The following is an analysis of future minimum lease payments under the agreement at June 30, 2011:

<u>Year Ending June 30</u>	<u>Amount</u>
2012	\$ 20,508
2013	20,508
2014	1,710
Total minimum lease payments	42,726
Less: Amount representing interest	3,690
Present value of net minimum lease payments	<u>\$ 39,036</u>

Amortization of the capital lease is included with depreciation expense.

GRAND CENTER ARTS ACADEMY LEA

Notes To Basic Financial Statements *(Continued)*

During 2010, the LEA entered into a lease agreement to rent land and buildings for the Beaux Arts Center. The lease will commence subsequent to year end on July 1, 2011, and expires on June 30, 2026. Base rent payments and supplemental rent payments are fixed annually through June 30, 2018, at \$582,400 and \$181,500 per year, respectively. Beginning July 1, 2018, the base rent payments are subject to adjustment for the remainder of the lease term based on market conditions in effect at that time. In addition, as of July 1, 2018, the supplemental rent payments will increase to \$720,240 annually for the remainder of the lease term. Included within the lease agreement is an option for the LEA to purchase the land and buildings during specified time periods later in the lease term.

Based on the provisions of the lease agreement at inception, the LEA has determined that the agreement meets the criteria for classification as a capital lease and will reflect the transaction as such in future periods.

10. Commitments And Contingencies

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims or errors in reporting, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the LEA expects such amounts, if any, to be immaterial.

Required Supplementary Information

GRAND CENTER ARTS ACADEMY LEA

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET TO ACTUAL
GENERAL FUND****For The Year Ended June 30, 2011**

	Original And Final Budget	Actual	Variance With Final Budget
Revenues			
Local	\$ 521,957	\$ 114,480	\$ (407,477)
State	768,892	725,234	(43,658)
Federal	3,000	251,521	248,521
Total Revenues	1,293,849	1,091,235	(202,614)
Expenditures			
Instruction	273,662	154,258	119,404
Student services	10,000	21,797	(11,797)
Instructional staff support	136,318	209,979	(73,661)
General administration and central services	490,963	2,991,873	(2,500,910)
Operation of plant	324,070	308,060	16,010
Food service	—	106,316	(106,316)
Capital outlay	27,995	831,631	(803,636)
Debt service:			
Principal retirement	—	28,811	(28,811)
Interest and fiscal charges	—	43,271	(43,271)
Total Expenditures	1,263,008	4,695,996	(3,432,988)
Revenues Over (Under) Expenditures	30,841	(3,604,761)	(3,635,602)
Other Financing Sources			
Issuance of capital leases and loans	—	4,752,284	4,752,284
Net Change In Fund Balance	\$ 30,841	\$ 1,147,523	\$ 1,116,682

GRAND CENTER ARTS ACADEMY LEA

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET TO ACTUAL
TEACHERS' FUND**

For The Year Ended June 30, 2011

	Original And Final Budget	Actual	Variance With Final Budget
Revenues			
Local	\$ 90,821	\$ 91,325	\$ 504
State	825,601	819,534	(6,067)
Federal	100,000	101,912	1,912
Total Revenues	1,016,422	1,012,771	(3,651)
Expenditures			
Instruction	881,301	889,017	(7,716)
General administration and central services	135,121	123,754	11,367
Total Expenditures	1,016,422	1,012,771	3,651
Net Change In Fund Balance	\$ —	\$ —	\$ —

GRAND CENTER ARTS ACADEMY LEA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2011

1. Explanation Of Budgetary Process

The LEA's budgetary practices are intended to conform to Chapter 67 of the Revised Missouri State Statutes and are prepared on a basis consistent with accounting principles generally accepted in the United States of America. The LEA did prepare a budget for the Teachers' Fund. The budget is in accordance with Chapter 67.

The LEA follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to March 31, the third party management company works with the school site to determine revenue, as well as personnel and nonpersonnel cost projections, for the upcoming year.
- b. Preliminary budgets are analyzed and revised during April through June.
- c. Prior to June 30, a final budget is proposed and presented to the LEA's Board for review, approval and adoption.
- d. Expenditures may not exceed budget appropriations at the fund level.
- e. The Board must authorize any material amendments.

2. Violations Of Budgetary Laws And Regulations

Expenditures exceeded appropriations in the following funds for the year ended June 30, 2011:

<u>Fund</u>	<u>Amount</u>
General	\$ 3,432,988

Supplementary Information

GRAND CENTER ARTS ACADEMY LEA

SCHEDULE OF REVENUES BY SOURCE - GOVERNMENTAL FUNDS
For The Year Ended June 30, 2011

Local

Earnings on investment	\$ 3,520
Other local	202,285
Total Local	<u>205,805</u>

State

Basic formula	1,544,768
Total State	<u>1,544,768</u>

Federal

Food service	80,634
ESEA - schoolwide program	90,981
IDEA	36,719
CSP	145,099
Total Federal	<u>353,433</u>

\$ 2,104,006