

**IMAGINE CHARTER SCHOOL AT INDIGO RANCH**

**BASIC FINANCIAL STATEMENTS**

**June 30, 2011**

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**JOHN CUTLER  
& ASSOCIATES**

Board of Directors  
Imagine Charter School at Indigo Ranch  
Colorado Springs, Colorado

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of the governmental activities and each major fund of Imagine Charter School at Indigo Ranch, component unit of the Falcon School District No. 49, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the School, as listed in the table of contents. These financial statements are the responsibility of Imagine Charter School at Indigo Ranch's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Imagine Charter School at Indigo Ranch, as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

*John Cutler & Associates, LLC*

September 28, 2011

## **Management's Discussion and Analysis**

As management of The Imagine Classical Academy at Indigo Ranch, we offer readers of The Imagine Classical Academy at Indigo Ranch's financial statements our narrative overview and analysis of the financial activities of The Imagine Classical Academy at Indigo Ranch for the fiscal year ended June 30, 2011.

### **Financial Highlights**

The liabilities of The Imagine Classical Academy at Indigo Ranch exceeded its assets at the close of the most recent fiscal year by \$321,851 (net assets).

At the close of the fiscal year The Imagine Classical Academy at Indigo Ranch's governmental funds reported a combined ending fund balance of \$293,529, an increase of \$129,765 all of which was in General Fund.

### **Overview of Financial Statements**

This discussion and analysis are intended to serve as an introduction to The Imagine Classical Academy at Indigo Ranch's basic financial statements. The Imagine Classical Academy at Indigo Ranch's basic financial statements are comprised of three components: 1) government-wide financial statements. 2) fund financial statements, and 3) notes to the financial statements.

### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of The Imagine Classical Academy at Indigo Ranch's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of The Imagine Classical Academy at Indigo Ranch's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of The Imagine Classical Academy at Indigo Ranch is improving or deteriorating.

The statement of activities presents information showing how the School's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected grant expenses and earned but unpaid salary and benefits).

The government-wide statement of activities distinguishes functions/programs of The Imagine Classical Academy at Indigo Ranch supported primarily by Per Pupil Operating Revenue or other revenues passed through from the District (Falcon District 49). The governmental activities of The Imagine Classical Academy at Indigo Ranch include instruction and supporting services.

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. The Imagine Classical Academy at Indigo Ranch, like other governmental units or schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of The Imagine Classical Academy at Indigo Ranch are governmental 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 School's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Imagine Classical Academy at Indigo Ranch maintains one individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, because it is considered to be a major fund.

The Imagine Classical Academy at Indigo Ranch adopts an annual appropriated budget for its funds. Budgetary comparison statements have been provided for the funds to demonstrate compliance with the budget.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 6-14.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the School's financial position. In the case of The Imagine Classical Academy at Indigo Ranch, liabilities exceeded assets by \$562,985 in FY 2009/2010 and \$321,851 in FY 2010/2011, the close of the most recent fiscal year.

### The Imagine Classical Academy at Indigo Ranch's Net Assets Governmental Activities

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Current and other assets	\$408,256	\$332,978
Capital assets	0	0
	-----	-----
Total Assets	\$408,256	332,978
Long-term liabilities	615,380	726,749
Other liabilities	114,727	111,246
Deferred Revenues	0	57,968
	-----	-----
Total Liabilities	730,107	895,963
Restricted for		
Emergencies	133,000	116,000
Unrestricted	(454,851)	(678,985)
	-----	-----
Total Net Assets	(\$321,851)	(\$562,985)
	=====	=====

The largest portion of The Imagine Classical Academy at Indigo Ranch's assets is in cash and investments; 100% in 2011, and 91% in 2010. The School's net assets increased in 2011 by \$241,134 and in 2010 by \$89,238.

Long-term liabilities, including loans payable (\$515,000) and capital leases (\$100,380), are not due and payable in the current period and are not reported in the funds.

The Imagine Classical Academy at Indigo Ranch's Statement of Activities  
Governmental  
Activities

	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2010</u>
<b>Revenue</b>		
Per Pupil Revenue	\$4,209,124	\$3,655,901
Tuition & Fees	183,080	125,410
Capital Construction	58,653	53,135
Donations	17,672	12,703
Federal Grants	123,575	392,623
Other	175,417	208
	-----	-----
<b>Total Revenue</b>	<b>\$4,767,521</b>	<b>\$4,239,980</b>
<b>Expenses</b>		
Instructional	1,893,957	2,027,980
Supporting Services	2,632,430	2,241,067
	-----	-----
<b>Total Expenses</b>	<b>4,526,387</b>	<b>4,269,047</b>
<b>Changes in Net Assets</b>	<b>241,134</b>	<b>(29,067)</b>
<b>Net Assets Beginning</b>	<b>(562,985)</b>	<b>(533,918)</b>
	-----	-----
<b>Net Assets Ending</b>	<b>(\$ 321,851)</b>	<b>(\$ 562,985)</b>
	=====	=====

The largest portion of The Imagine Classical Academy at Indigo Ranch's revenues come from per pupil funding – 91% in 2011 and 85% in 2010. In 2011, 2% of revenues came from operating grants; and in 2010, 9% of revenues came from operating grants. The School's revenue increased by \$346,133 and expenses increased by \$284,067 in 2010-2011.

**Financial Analysis of the Government's Funds**

As noted earlier, The Imagine Classical Academy at Indigo Ranch uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

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

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$293,529, an increase of \$129,765.

#### **General Fund Budgetary Highlights.**

The School approves a final budget in May based on enrollment projections for the following school year. In October, after enrollment stabilizes, adjustments are made to the budget. At year-end, the final adjustments to the budget were made, and the school had small variances between its budgeted and actual activities. Expenses remained \$46,015 under budget in an effort to remain compliant with Statute.

#### **Capital Asset and Debt Administration.**

**Capital assets.** The Imagine Classical Academy at Indigo Ranch did not have any investment in capital assets as of June 30, 2011.

**Long-Term Debt.** Long-term liabilities, including loans payable (\$515,000) and capital leases (\$100,380), are not due and payable in the current period and are not reported in the funds. See Note 4 for more information.

#### **Economic Factors and Next Year's Budget**

During 2010/2011, the school had a funded pupil count of 651.3 and is approving a budget based on 745 funded pupils for 2011/2012 in an effort to be conservative and to plan for a funding rescission.

#### **Requests for Information**

This financial report is designed to provide a general overview of The Imagine Classical Academy at Indigo Ranch's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The Imagine Classical Academy at Indigo Ranch Principal, 6464 Peterson Rd, Colorado Springs, CO, 80923.

## **BASIC FINANCIAL STATEMENTS**

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

STATEMENT OF NET ASSETS

As of June 30, 2011

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and Investments	\$ 408,256	\$ 304,751
Accounts Receivable	-	28,227
	<hr/>	<hr/>
TOTAL ASSETS	408,256	332,978
	<hr/>	<hr/>
LIABILITIES		
Accounts Payable	114,727	111,246
Deferred Revenues	-	57,968
Noncurrent Liabilities		
Due in One Year	107,086	111,369
Due in More than One Year	508,294	615,380
	<hr/>	<hr/>
TOTAL LIABILITIES	730,107	895,963
	<hr/>	<hr/>
NET ASSETS		
Restricted for Emergencies	133,000	116,000
Unrestricted	(454,851)	(678,985)
	<hr/>	<hr/>
TOTAL NET ASSETS	<u>\$ (321,851)</u>	<u>\$ (562,985)</u>

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

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2011	2010
<b>PRIMARY GOVERNMENT</b>						
<b>Governmental Activities</b>						
Instructional	\$ 1,893,957	\$ 183,080	\$ 98,204	\$ -	\$ (1,612,673)	\$ (1,889,867)
Supporting Services	2,632,430	-	25,371	58,653	(2,548,406)	(1,795,309)
Total Governmental Activities	<u>\$ 4,526,387</u>	<u>\$ 183,080</u>	<u>\$ 123,575</u>	<u>\$ 58,653</u>	(4,161,079)	(3,685,176)
<b>GENERAL REVENUES</b>						
					4,209,124	3,655,901
					29,745	208
					163,344	-
					<u>4,402,213</u>	<u>3,656,109</u>
					CHANGE IN NET ASSETS	241,134 (29,067)
					NET ASSETS, Beginning	(562,985) (533,918)
					NET ASSETS, Ending	<u>\$ (321,851)</u> <u>\$ (562,985)</u>

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

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2011

	General Fund	
	2011	2010
ASSETS		
Cash and Investments	\$ 408,256	\$ 304,751
Accounts Receivable	-	28,227
	<u>\$ 408,256</u>	<u>\$ 332,978</u>
TOTAL ASSETS		
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 114,727	\$ 111,246
Deferred Revenues	-	57,968
	<u>114,727</u>	<u>169,214</u>
TOTAL LIABILITIES		
FUND BALANCES		
Restricted for Emergencies	133,000	116,000
Unassigned	160,529	47,764
	<u>293,529</u>	<u>163,764</u>
TOTAL FUND BALANCES		
Amounts reported for governmental activities in the statement of net assets are different because:		
Long-term liabilities, including loans payable (\$515,000) and capital leases (\$100,380), are not due and payable in the current period and are not reported in the funds.	<u>(615,380)</u>	<u>(726,749)</u>
Net assets of governmental activities	<u>\$ (321,851)</u>	<u>\$ (562,985)</u>

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

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

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

	General Fund	
	2011	2010
REVENUES		
Local Sources	\$ 4,421,949	\$ 3,812,286
State Sources	58,653	53,135
Federal Sources	123,575	392,623
	<u>4,604,177</u>	<u>4,258,044</u>
TOTAL REVENUES		
EXPENDITURES		
Current		
Instruction	1,893,957	2,027,980
Supporting Services	2,743,799	2,325,709
	<u>4,637,756</u>	<u>4,353,689</u>
TOTAL EXPENDITURES		
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(33,579)</u>	<u>(95,645)</u>
OTHER FINANCING SOURCES		
Insurance Proceeds	163,344	-
Proceeds from Capital Lease	-	153,060
	<u>163,344</u>	<u>153,060</u>
TOTAL OTHER FINANCING SOURCES		
NET CHANGE IN FUND BALANCES	129,765	57,415
FUND BALANCES, Beginning	<u>163,764</u>	<u>106,349</u>
FUND BALANCES, Ending	<u>\$ 293,529</u>	<u>\$ 163,764</u>

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

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

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

Net change in fund balances - total governmental funds	\$ 129,765
Repayments of loan principal (\$30,000), capital lease payments (\$81,369), are expenditures in the governmental funds but reduce long-term liabilities in the statement of net assets.	<u>111,369</u>
Change in net assets of governmental activities	<u>\$ 241,134</u>

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

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

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

Imagine Charter School at Indigo Ranch (the “School”) was formed in June 2008, pursuant to the Colorado Charter Schools Act to form and operate a charter school. The School’s focus is to provide a Core-Knowledge curriculum that encourages students to become well-educated, virtuous citizens who will embody the following attributes: Competence, Curiosity, Courage, Conscience, Compassion, and Citizenship.

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

**Reporting Entity**

The financial reporting entity consists of the School and organizations for which the School is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. In addition, any legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the School.

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

The School is a component unit of the Falcon School District No. 49 (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 of the activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

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

**Government-Wide and Fund Financial Statements** (Continued)

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

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

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

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

The School reports the following major governmental fund:

*General Fund*— This fund is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund.

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

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

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

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

*Deferred Revenues* – Deferred revenues include tuition payments that have been collected for the following school year.

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

*Net Assets* – In the government-wide financial statements, net assets are restricted when constraints placed on the net assets are externally imposed.

*Fund Balance Classification* – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Restricted** – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

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

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

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2011.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The School would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned fund balance.

**Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the School's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

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

**Budgets and Budgetary Accounting**

A budget is adopted for General Fund on a basis consistent with generally accepted accounting principles. School management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget is adopted by the Board of Directors prior to June 30. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year end.

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

**NOTE 3: CASH AND INVESTMENTS**

**Deposits**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2011, State regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held.

The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The School has no policy regarding custodial credit risk for deposits.

At June 30, 2011, the School had deposits with financial institutions with a carrying amount of \$408,156. The bank balances with the financial institutions were \$428,756. Of these balances, \$250,000 was covered by federal depository insurance and \$178,756 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

**Investments**

Interest Rate Risk

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

Credit Risk

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

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

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

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

At June 30, 2011 the School does not have any investments.

**NOTE 4: LONG-TERM DEBT**

Following is a summary of the Academy's long-term debt transactions for the year ended June 30, 2011:

	Balance <u>June 30, 2010</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2011</u>	Due In <u>One Year</u>
Loan Payable	\$ 545,000	\$ -	\$ 30,000	\$ 515,000	\$ 30,000
Equipment Leases	<u>181,749</u>	<u>-</u>	<u>81,369</u>	<u>100,380</u>	<u>77,086</u>
<b>Total</b>	<b><u>\$ 726,749</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 111,369</u></b>	<b><u>\$ 615,380</u></b>	<b><u>\$ 107,086</u></b>

**Loan Payable**

In July, 2008, the School entered into an interest-free loan agreement for \$600,000 with Imagine for development and start-up costs. Under the agreement, the School is obligated to make monthly payments of \$2,500, through August 2028. If the School's operating agreement with Imagine is terminated, the remaining balance of the loan becomes due and payable, discounted at a rate of 10.5%.

Future debt service requirements are as follows:

Year Ended June 30,

2012	\$ 30,000
2013	30,000
2014	30,000
2015	30,000
2016	30,000
2017-2021	150,000
2022-2026	150,000
2027-2029	<u>65,000</u>
<b>Total</b>	<b><u>\$ 515,000</u></b>

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

**NOTE 4: LONG-TERM DEBT** (Continued)

**Equipment Leases**

The School has entered into lease agreements to purchase various equipment. Monthly payments ranging from \$954 to \$4,743 are due under the lease agreement, including interest accruing at rates ranging from 0% to 7.25% per annum. These leases mature from March to November 2012.

Future minimum lease payments are as follows:

Year Ending

June 30,

2012	\$ 80,884
2013	<u>23,718</u>
Total payments	104,602
Less amount representing interest	<u>(4,222)</u>
Future minimum lease payments	<b><u>\$ 100,380</u></b>

**NOTE 5: DEFINED BENEFIT PENSION PLAN**

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

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

**NOTE 5:** **DEFINED BENEFIT PENSION PLAN** (Continued)

**Funding Policy.** The School is required to contribute member and employer contributions to PERA at a rate set by statute. The contribution requirements of plan members and the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members is 8.0 % and for the School it is 10.15 % of covered salary. A portion of the School's contribution (1.02 % of covered salary) is allocated to the Health Care Trust Fund (See Note 6). If the School rehires a PERA retiree as an employee or under any other work arrangement, it is required to report and pay employer contributions on the amounts paid for the retiree, and starting in calendar year 2022, the employee must contribute 8%. The School is also required to pay an amortization equalization disbursement equal to 4.6 % of the total payroll for the calendar year 2011, (3.7 % of total payroll for the calendar year 2010). For the year ending June 30, 2009, 2010, and 2011 the School's employer contributions for the SDTF were \$52,160, \$146,599, and \$149,544 respectively, equal to their required contributions for each year.

**NOTE 6:** **POSTEMPLOYMENT HEALTHCARE BENEFITS**

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

**Funding Policy.** The School is required to contribute at a rate of 1.02% of covered salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208 of the Colorado Revised Statutes, as amended. For the year ending June 30, 2009, 2010 and 2011 the School's employer contributions to the HCTF were \$4,231, \$11,141 and \$10,686, respectively, equal to their required contributions for the year.

**NOTE 7:** **RELATED PARTIES**

The School has entered into multiple agreements with the Imagine Schools, Inc. Imagine Schools, Inc. is responsible for organizing, developing, managing, staffing, and operating the School. During the year, the management company charged fees to the School for management services as described in Note 8.

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Building Lease**

In July 2009, the School entered into an operating lease agreement for a building with Schoolhouse Finance, LLC. The lease requires an annual base rent payment of \$952,274, payable in monthly installments. The annual lease requirement escalates each July 1 at a rate equal to the lesser of 1.5% over the overall Consumer Price Index for the preceding calendar year or the maximum permitted by law. The lease agreement continues so long as the School's operating agreement with Imagine School, Inc. remains in effect.

Total rent expense for the year ended June 30, 2011 for the lease was \$1,163,253.

**Management Service Contract**

The School has entered into a service agreement in June 2008 with Imagine Schools, Inc. The contract is for management services and remains in effect until the expiration of the School's Charter, and may be cancelled or terminated pursuant to the terms and conditions as set forth in the agreement. Under the management agreement, the management company will manage and operate the School during the term of the agreement for an annual fee of 12% of revenues. Current year management fees charged under this agreement totaled \$505,095.

The service agreement also calls for a loss mitigation fee ranging from 1% - 3% of revenues for 20 years. Current year loss mitigation fees charged under the agreement totaled \$126,274.

In addition, the School is required to pay a Development Allocation fee of \$2,500 per month for 20 years. This is recorded as a note payable, see Note 4 for additional information.

**Claims and Judgments**

The School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor government. As of June 30, 2011, significant amounts of grant expenditures have not been audited, but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

**NOTE 8:**     *COMMITMENTS AND CONTINGENCIES* (Continued)

**Tabor Amendment**

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment. As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2011, the reserve of \$133,000 was recorded as a reservation of fund balance in the General Fund.

**REQUIRED SUPPLEMENTARY INFORMATION**

IMAGINE CHARTER SCHOOL AT INDIGO RANCH

GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2011

	ORIGINAL BUDGET	FINAL BUDGET	2011 ACTUAL	VARIANCE Positive (Negative)	2010 ACTUAL
<b>REVENUES</b>					
Local Sources					
Per Pupil Revenue	\$ 4,658,400	\$ 4,209,124	\$ 4,209,124	\$ -	\$ 3,655,901
Tuition and Fees	78,075	183,080	183,080	-	143,474
Grants and Donations	-	17,672	17,672	-	12,703
Other	-	12,073	12,073	-	208
State Sources					
Grants and Donations	-	58,653	58,653	-	53,135
Federal Sources					
Grants and Donations	-	123,575	123,575	-	392,623
<b>TOTAL REVENUES</b>	<u>4,736,475</u>	<u>4,604,177</u>	<u>4,604,177</u>	<u>-</u>	<u>4,258,044</u>
<b>EXPENDITURES</b>					
Instruction					
Salaries	1,068,215	969,906	969,885	21	941,633
Employee Benefits	336,093	320,870	320,870	-	294,293
Purchased Services	451,500	443,383	445,282	(1,899)	366,574
Supplies and Materials	136,900	188,681	151,829	36,852	421,911
Other	500	219	6,091	(5,872)	3,569
Total Instruction	<u>1,993,208</u>	<u>1,923,059</u>	<u>1,893,957</u>	<u>29,102</u>	<u>2,027,980</u>
Supporting Services					
School Administration					
Salaries	238,000	207,877	207,877	-	258,733
Employee Benefits	76,160	69,931	76,985	(7,054)	52,910
Purchased Services	2,196,225	2,136,128	2,130,670	5,458	1,617,129
Supplies and Materials	53,803	54,416	81,903	(27,487)	56,609
Property	2,000	1,219	1,219	-	154,905
Other	167,094	126,273	126,273	-	94,706
Debt Service					
Principal	-	157,365	111,369	45,996	84,642
Interest	7,500	7,503	7,503	-	6,075
Total Supporting Services	<u>2,740,782</u>	<u>2,760,712</u>	<u>2,743,799</u>	<u>16,913</u>	<u>2,325,709</u>
<b>TOTAL EXPENDITURES</b>	<u>4,733,990</u>	<u>4,683,771</u>	<u>4,637,756</u>	<u>46,015</u>	<u>4,353,689</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>					
	<u>2,485</u>	<u>(79,594)</u>	<u>(33,579)</u>	<u>46,015</u>	<u>(95,645)</u>
<b>OTHER FINANCING SOURCES</b>					
Insurance Proceeds	-	163,344	163,344	-	-
Proceeds from Capital Lease	-	-	-	-	153,060
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>-</u>	<u>163,344</u>	<u>163,344</u>	<u>-</u>	<u>153,060</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>2,485</u>	<u>83,750</u>	<u>129,765</u>	<u>46,015</u>	<u>57,415</u>
FUND BALANCE, Beginning	<u>-</u>	<u>-</u>	<u>163,764</u>	<u>163,764</u>	<u>106,349</u>
FUND BALANCE, Ending	<u>\$ 2,485</u>	<u>\$ 83,750</u>	<u>\$ 293,529</u>	<u>\$ 209,779</u>	<u>\$ 163,764</u>

See the accompanying independent auditors' report.