

IMAGINE INDIGO RANCH
BASIC FINANCIAL STATEMENTS

June 30, 2014

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JOHN CUTLER
& ASSOCIATES

Board of Directors
Imagine Indigo Ranch
Colorado Springs, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Imagine Indigo Ranch, component unit of the Falcon School District No. 49, and the related notes to the financial statements, as of and for the year ended June 30, 2014, which collectively comprise the basic financial statements of the School, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expression an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluation the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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 Indigo Ranch, as of June 30, 2014, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on page 14 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

John Luttler & Associates, LLC

January 8, 2015

Management's Discussion and Analysis

As management of Imagine Indigo Ranch, we offer readers of Imagine Indigo Ranch's financial statements our narrative overview and analysis of the financial activities of Imagine Indigo Ranch for the fiscal year ended June 30, 2014.

Financial Highlights

The assets of Imagine Indigo Ranch exceeded its liabilities at the close of the most recent fiscal year by \$1,228,946 (net position).

At the close of the fiscal year Imagine Indigo Ranch's governmental funds reported a combined ending fund balance of \$1,228,946, an increase of \$530,489, all of which was in General Fund.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to Imagine Indigo Ranch's basic financial statements. Imagine 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 Imagine Indigo Ranch's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position 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 Imagine Indigo Ranch supported primarily by Per Pupil Operating Revenue or other revenues passed through from the District (Falcon District 49). The governmental activities of Imagine 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. Imagine 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 Imagine 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.

Imagine 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.

Imagine 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 5-13.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of Imagine Indigo Ranch, assets exceeded liabilities by \$565,149 in FY 2011/2012, \$698,457 in FY 2012/2013, and \$1,228,946 in FY 2013/2014 the close of the most recent fiscal year.

Imagine Indigo Ranch's Net Assets		
Governmental		
Activities		
	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Current and other assets	\$1,276,900	\$794,621
Accounts Receivable	\$6,420	0
	-----	-----
Total Assets	\$1,283,320	\$794,621
Other liabilities	54,374	96,164
	-----	-----
Total Liabilities	\$54,374	\$96,164
Restricted for		
Emergencies	165,000	163,000
Unrestricted	1,063,946	535,457
	-----	-----
Total Net Assets	\$1,228,946	\$698,457
	=====	=====

The largest portion of Imagine Indigo Ranch's assets is in cash and investments; 99.5% in 2014, and 100% in 2013. The School's net position increased in 2014 by \$530,489 and in 2013 by \$133,308.

Imagine Indigo Ranch's Statement of Activities
 Governmental
 Activities

	<u>Year Ended</u> <u>June 30, 2014</u>	<u>Year Ended</u> <u>June 30, 2013</u>
Revenue		
Per Pupil Revenue	\$5,001,459	\$4,964,386
Tuition & Fees	382,506	341,866
Capital Construction	82,521	70,916
Donations	8,870	15,886
Federal Grants	43,085	36,332
Other	94,565	86,137
	-----	-----
Total Revenue	\$5,613,006	\$5,515,522
Expenses		
Instructional	2,477,503	2,544,686
Supporting Services	2,605,014	2,837,528
	-----	-----
Total Expenses	5,082,517	5,382,214
Changes in Net Position	530,489	133,308
Net Position, Beginning	698,457	565,149
	-----	-----
Net Position, Ending	\$ 1,228,946	\$ 698,457
	=====	=====

The largest portion of Imagine Indigo Ranch's revenues come from per pupil funding – 89% in 2014 and 90% in 2013. The School's revenue increased by \$97,484 and expenses decreased by \$299,697 in 2014.

Financial Analysis of the Government's Funds

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

Governmental Funds The focus of Imagine 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 Imagine Indigo Ranch's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the School's net resources available for spending at the end of the fiscal year.

Imagine’s enrollment continues to grow and is now at approximately the capacity of the building. Below are the historical enrollment numbers:

Fiscal Year	PreK – 8th FTE	PreK – 8th Enrollment
2008 / 2009	176.5	196
2009 / 2010	544.5	591
2010 / 2011	651.3	688
2011 / 2012	745.3	848
2012 / 2013	808.9	898

As of the end of the current fiscal year, the School’s General Fund reported an ending fund balance of \$1,228,946, an increase of \$530,489.

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 within budget in an effort to remain compliant with Statute.

Capital Asset and Debt Administration

Capital Assets Imagine Indigo Ranch did not have any investment in capital assets as of June 30, 2014.

Long-Term Debt Imagine Indigo Ranch did not have any long-term debt or capital leases as of June 30, 2014.

Economic Factors and Next Year’s Budget

During 2013/2014, the school had a funded FTE pupil count of 808.86 and has approved an original budget based on 751 FTE funded pupils for 2014/2015.

Requests for Information

This financial report is designed to provide a general overview of Imagine 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 Imagine Indigo Ranch Principal, 6464 Peterson Rd, Colorado Springs, CO, 80923.

BASIC FINANCIAL STATEMENTS

IMAGINE INDIGO RANCH

STATEMENT OF NET POSITION

As of June 30, 2014

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and Investments	\$ 1,276,900	\$ 794,621
Accounts Receivable	6,420	-
	<u>1,283,320</u>	<u>794,621</u>
TOTAL ASSETS		
LIABILITIES		
Accounts Payable	54,374	96,164
	<u>54,374</u>	<u>96,164</u>
TOTAL LIABILITIES		
NET POSITION		
Restricted for Emergencies	165,000	163,000
Unrestricted	1,063,946	535,457
	<u>1,228,946</u>	<u>698,457</u>
TOTAL NET POSITION		

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

IMAGINE INDIGO RANCH

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2014	2013
PRIMARY GOVERNMENT						
Governmental Activities						
Instructional	\$ 2,477,503	\$ 382,506	\$ 59,199	\$ -	\$ (2,035,798)	\$ (2,199,220)
Supporting Services	2,605,014	-	-	75,277	(2,529,737)	(2,733,880)
Total Governmental Activities	<u>\$ 5,082,517</u>	<u>\$ 382,506</u>	<u>\$ 59,199</u>	<u>\$ 75,277</u>	(4,565,535)	(4,933,100)
GENERAL REVENUES						
					5,001,459	4,964,386
					94,565	102,022
					<u>5,096,024</u>	<u>5,066,408</u>
					530,489	133,308
					698,457	565,149
					<u>\$ 1,228,946</u>	<u>\$ 698,457</u>

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

IMAGINE INDIGO RANCH

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General Fund	
	2014	2013
ASSETS		
Cash and Investments	\$ 1,276,900	\$ 794,621
Accounts Receivable	6,420	-
TOTAL ASSETS	<u>\$ 1,283,320</u>	<u>\$ 794,621</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 54,374	\$ 96,164
TOTAL LIABILITIES	<u>54,374</u>	<u>96,164</u>
FUND BALANCES		
Restricted for Emergencies	165,000	163,000
Unassigned	1,063,946	535,457
TOTAL FUND BALANCES	<u>1,228,946</u>	<u>698,457</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,283,320</u>	<u>\$ 794,621</u>

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

IMAGINE INDIGO RANCH
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2014

	General Fund	
	2014	2013
REVENUES		
Local Sources	\$ 5,487,400	\$ 5,408,274
State Sources	82,521	70,916
Federal Sources	43,085	36,332
TOTAL REVENUES	5,613,006	5,515,522
EXPENDITURES		
Current		
Instruction	2,477,503	2,544,686
Supporting Services	2,605,014	2,837,528
TOTAL EXPENDITURES	5,082,517	5,382,214
NET CHANGE IN FUND BALANCES	530,489	133,308
FUND BALANCES, Beginning	698,457	565,149
FUND BALANCES, Ending	\$ 1,228,946	\$ 698,457

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

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Imagine 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 position 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 INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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.

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 INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position

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.

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 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 Position — The government-wide fund financial statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted. Investment in capital assets is intended to reflect the portion of net position which is associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. Restricted net position is liquid assets, which have third party limitations on their use. Unrestricted net position represents assets that do not have any third party limitations on their use.

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 INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position (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, 2014.
- 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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

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.

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, 2014, 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.

The School had not obtained a PDPA number at the time of the financial statements. Therefore some of the deposits may have been uncollateralized and uninsured.

At June 30, 2014, the School had deposits with financial institutions with a carrying amount of \$1,276,900. The bank balances with the financial institutions were \$1,313,658. Of these balances, \$250,000 was covered by federal depository insurance and \$1,063,658 was covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 3: *CASH AND INVESTMENTS* (Continued)

Investments

Interest Rate Risk

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

Credit Risk

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

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

At June 30, 2014 the School does not have any investments.

NOTE 4: *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 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 INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 4: **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 5). 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 2012, the employee must contribute 8%. The School is also required to pay an amortization equalization disbursement equal to 7.3 % of the total payroll for the calendar year 2014, (6.4 % of total payroll for the calendar year 2013). For the years ending June 30, 2012, 2013, and 2014 the School's employer contributions for the SDTF were \$214,014, \$264,673, and \$280,418, respectively, equal to their required contributions for each year.

NOTE 5: **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 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 years ending June 30, 2012, 2013, and 2014 the School's employer contributions to the HCTF were \$14,347, \$16,769, and \$16,720, respectively, equal to their required contributions for each year.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 6: 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 7.

NOTE 7: 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, 2014 for the lease was \$1,221,124.

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 \$600,171.

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 \$16,861.

In addition, the School is required to pay a Development Allocation fee of \$2,500 per month for 20 years through August 2028. If the School's operating agreement with Imagine is terminated, the remaining balance of the Development Allocation fee is terminated as well and will not be due and payable to Imagine. Current year development allocation fees paid under this agreement totaled \$5,000.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 7: *COMMITMENTS AND CONTINGENCIES* (Continued)

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, 2014, 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.

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, 2014, the reserve of \$165,000 was recorded as a restriction of fund balance in the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

IMAGINE INDIGO RANCH

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2014

	2014			VARIANCE	2013 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
REVENUES					
Local Sources					
Per Pupil Revenue	\$ 5,045,152	\$ 4,965,195	\$ 5,001,459	\$ 36,264	\$ 4,964,386
Tuition and Fees	315,550	380,700	382,506	1,806	341,866
Grants and Donations	9,000	6,500	8,870	2,370	15,885
Other	17,200	60,500	94,565	34,065	86,137
State Sources					
Grants and Donations	78,376	73,360	82,521	9,161	70,916
Federal Sources					
Grants and Donations	20,000	20,000	43,085	23,085	36,332
TOTAL REVENUES	<u>5,485,278</u>	<u>5,506,255</u>	<u>5,613,006</u>	<u>106,751</u>	<u>5,515,522</u>
EXPENDITURES					
Instruction					
Salaries	1,395,200	1,396,699	1,366,577	30,122	1,329,737
Employee Benefits	480,528	482,232	438,988	43,244	422,572
Purchased Services	521,374	632,908	537,252	95,656	543,798
Supplies and Materials	150,350	173,850	116,852	56,998	171,165
Property	25,000	25,000	11,621	13,379	73,073
Other	-	-	6,213	(6,213)	4,341
Total Instruction	<u>2,572,452</u>	<u>2,710,689</u>	<u>2,477,503</u>	<u>233,186</u>	<u>2,544,686</u>
Supporting Services					
School Administration					
Salaries	423,000	425,553	402,092	23,461	412,163
Employee Benefits	135,360	117,716	101,651	16,065	101,313
Purchased Services	2,141,533	2,129,069	2,000,742	128,327	2,062,440
Supplies and Materials	77,450	80,450	78,368	2,082	90,663
Property	-	-	300	(300)	16,839
Other	130,903	21,861	21,861	-	154,110
Total Supporting Services	<u>2,908,246</u>	<u>2,774,649</u>	<u>2,605,014</u>	<u>169,635</u>	<u>2,837,528</u>
TOTAL EXPENDITURES	<u>5,480,698</u>	<u>5,485,338</u>	<u>5,082,517</u>	<u>402,821</u>	<u>5,382,214</u>
NET CHANGE IN FUND BALANCE					
	4,580	20,917	530,489	509,572	133,308
FUND BALANCE, Beginning	<u>-</u>	<u>-</u>	<u>698,457</u>	<u>698,457</u>	<u>565,149</u>
FUND BALANCE, Ending	<u>\$ 4,580</u>	<u>\$ 20,917</u>	<u>\$ 1,228,946</u>	<u>\$ 1,208,029</u>	<u>\$ 698,457</u>

See the accompanying independent auditors' report.