

IMAGINE INDIGO RANCH
BASIC FINANCIAL STATEMENTS

June 30, 2015

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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, 2015, 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, 2015, 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, the budgetary comparison information, schedule of the school's proportionate share, and schedule of the school's contributions on pages 21-23 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 Luttrell & Associates, LLC

December 3, 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, 2015.

Financial Highlights

As of June 30, 2015, net position decreased to (\$3,650,079) based on the implementation of new regulations under the Governmental Accounting Standards Board Statement (GASB) Number 68. Based on the timing of implementing the regulation in 2014, the Beginning Net Position of the Government Type Activities was restated for FY2015. Further information about GASB 68 is provided in Note 7 of the financial statements.

At the close of the fiscal year Imagine Indigo Ranch's governmental funds reported a combined ending fund balance of \$1,395,222, an increase of \$166,276 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 Imagine Indigo Ranch'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 Imagine Indigo Ranch'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 Imagine Indigo Ranch'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 6-20.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of Imagine Indigo Ranch's financial position. In the case of Imagine Indigo Ranch, liabilities exceeded assets resulting in a Net Position of (\$3,650,079) in FY 2014-2015. Again, this is directly related to the new pension liability reporting requirement under GASB 68.

Imagine Indigo Ranch's Net Assets		
Governmental		
Activities		

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Current and other Assets	\$1,262,857	\$1,276,900
Capital Assets	\$46,532	\$6,420
Prepaid Expenses	\$103,490	0
	-----	-----
Total Assets	\$1,412,879	\$1,283,320
Deferred Outflows		
Related to Pensions	\$247,228	
Long-term Liabilities	0	0
Other Liabilities	17,657	54,374
Net Pension Liability	\$5,197,184	0
	-----	-----
Total Liabilities	\$5,214,841	\$54,374
Restricted for		
Emergencies	157,000	165,000
Unrestricted	(3,807,079)	1,063,946
	-----	-----
Total Net Position	\$(3,650,079)	1,228,946
	=====	=====

The largest portion of Imagine Indigo Ranch's assets is in cash and investments; 99% in 2014, and 89% in 2015. Imagine Indigo Ranch's net position decreased in 2015 by \$4,879,025 but showed an increased previously in 2014 by \$530,489 and by \$133,308 in 2013.

Imagine Indigo Ranch's Statement of Activities
 Governmental
 Activities

	<u>Year Ended June 30, 2015</u>	<u>Year Ended June 30, 2014</u>
Revenue		
Per Pupil Revenue	\$4,725,172	\$5,001,459
Tuition & Fees	359,067	382,506
Capital Construction	111,110	82,521
Donations	1,172	8,870
Federal Grants	20,887	36,332
Other	199,310	43,085
	-----	-----
Total Revenue	\$5,416,718	\$5,613,006
Expenses		
Instructional	2,071,431	2,477,503
Supporting Services	3,037,895	2,605,014
Interest on debt	0	0
	-----	-----
Total Expenses	5,109,326	5,082,517
Changes in Net Position	307,392	530,489
Net Position, Beginning, Restated	(3,957,471)	698,457
	-----	-----
Fund Balance, Ending	\$ (3,650,079)	\$ 1,228,946
	=====	=====

The largest portion of Imagine Indigo Ranch's revenues come from per pupil funding – 87% in 2015 and 89% in 2014. Imagine Indigo Ranch's revenue decreased by \$196,288 and expenses decreased by \$26,809 in 2015.

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 Imagine Indigo Ranch’s net resources available for spending at the end of the fiscal year.

Imagine Indigo Ranch’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
2012 / 2013	745.3	848
2013 / 2014	808.86	898
2014 / 2015	706.46	751

As of the end of the current fiscal year, Imagine Indigo Ranch’s General Fund reported an ending fund balance of \$1,395,222 an increase of \$166,276.

General Fund Budgetary Highlights

Imagine Indigo Ranch 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, 2015.

Long-Term Debt Imagine Indigo Ranch did not have any long-term debt or capital leases as of June 30, 2015.

Economic Factors and Next Year’s Budget

During 2014/2015, Imagine Indigo Ranch had a funded FTE pupil count of 706.46 and has approved an original budget based on 724.5 FTE funded pupils for 2015/2016.

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, 2015

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and Investments	\$ 1,262,857	\$ 1,276,900
Accounts Receivable	46,532	6,420
Prepaid Expenses	103,490	-
	<u>1,412,879</u>	<u>1,283,320</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	247,228	-
	<u>247,228</u>	<u>-</u>
LIABILITIES		
Accounts Payable	17,657	54,374
Noncurrent Liabilities		
Net Pension Liability	5,197,184	-
	<u>5,214,841</u>	<u>54,374</u>
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	95,345	-
	<u>95,345</u>	<u>-</u>
NET POSITION		
Restricted for Emergencies	157,000	165,000
Unrestricted	(3,807,079)	1,063,946
	<u>(3,650,079)</u>	<u>1,063,946</u>
TOTAL NET POSITION	<u>\$ (3,650,079)</u>	<u>\$ 1,228,946</u>

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

IMAGINE INDIGO RANCH

STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

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	
					2015	2014
PRIMARY GOVERNMENT						
Governmental Activities						
Instructional	\$ 2,071,431	\$ 365,544	\$ 11,437	\$ -	\$ (1,694,450)	\$ (2,035,798)
Supporting Services	3,037,895	-	61,753	111,110	(2,865,032)	(2,529,737)
Total Governmental Activities	<u>\$ 5,109,326</u>	<u>\$ 365,544</u>	<u>\$ 73,190</u>	<u>\$ 111,110</u>	(4,559,482)	(4,565,535)
GENERAL REVENUES						
					4,725,172	5,001,459
					141,702	94,565
					<u>4,866,874</u>	<u>5,096,024</u>
					307,392	530,489
					<u>(3,957,471)</u>	<u>698,457</u>
					<u>\$ (3,650,079)</u>	<u>\$ 1,228,946</u>

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

IMAGINE INDIGO RANCH

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	General Fund	
	2015	2014
ASSETS		
Cash and Investments	\$ 1,262,857	\$ 1,276,900
Accounts Receivable	46,532	6,420
Prepaid Expenses	103,490	-
	<u>\$ 1,412,879</u>	<u>\$ 1,283,320</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 17,657	\$ 54,374
	<u>17,657</u>	<u>54,374</u>
FUND BALANCES		
Restricted for Emergencies	157,000	165,000
Unassigned	1,238,222	1,063,946
	<u>1,395,222</u>	<u>1,228,946</u>
Amounts reported for governmental activities in the statement of net position are different because:		
Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This amount is comprised of net pension liability of (\$5,197,184), deferred outflows related to pensions of \$247,228, and deferred inflows related to pensions of (\$95,345).	<u>(5,045,301)</u>	<u>-</u>
Net position of the governmental activities.	<u>\$ (3,650,079)</u>	<u>\$ 1,228,946</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, 2015

	General Fund	
	2015	2014
REVENUES		
Local Sources	\$ 5,243,855	\$ 5,487,400
State Sources	151,976	82,521
Federal Sources	20,887	43,085
TOTAL REVENUES	5,416,718	5,613,006
EXPENDITURES		
Current		
Instruction	2,169,854	2,477,503
Supporting Services	3,080,588	2,605,014
TOTAL EXPENDITURES	5,250,442	5,082,517
NET CHANGE IN FUND BALANCES	166,276	530,489
FUND BALANCES, Beginning	1,228,946	698,457
FUND BALANCES, Ending	\$ 1,395,222	\$ 1,228,946

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

IMAGINE 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, 2015

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

Net change in fund balances - total governmental funds	\$ 166,276
Deferred charges related to pension are not recognized in the governmental funds. However, for the government-wide funds that amount is capitalized and amortized.	<u>141,116</u>
Change in net assets of governmental activities	<u><u>\$ 307,392</u></u>

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

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

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, 2015

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, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and balance sheets will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to the liabilities, the statement of financial position and balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position and fund balance that applies to a futures period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.
- 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, 2015

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, 2015, 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, 2015, the School had deposits with financial institutions with a carrying amount of \$1,262,857. The bank balances with the financial institutions were \$1,391,650. Of these balances, \$250,000 was covered by federal depository insurance and \$1,141,650 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, 2015

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, 2015 the School does not have any investments.

NOTE 4: DEFINED BENEFIT PENSION PLAN

Pensions. The School participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SCHDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 4: **DEFINED BENEFIT PENSION PLAN**(Continued)

General Information about the Pension Plan

Plan description. Eligible employees of the School are provided with pensions through the School Division Trust Fund (SCHDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned.

If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 4: **DEFINED BENEFIT PENSION PLAN** (Continued)

General Information about the Pension Plan (Continued)

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the SCHDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled. Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions. Eligible employees and the School are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

	For the Year Ended December 31, 2014	For the Year Ended December 31, 2015
Employer Contribution Rate ¹	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF ¹	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	3.80%	4.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	3.50%	4.00%
Total Employer Contribution Rate to the SCHDTF ¹	16.43%	17.33%

¹Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF School were \$296,993 for the year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015 the School reported a liability of \$5,197,184 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. Standard update procedures were used to roll forward the total pension liability to December 31, 2014. The School's proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2014 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2014, the School's proportion was 0.03835%, which was a decrease of 0.00339% from its proportion measured as of December 31, 2013.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 4: DEFINED BENEFIT PENSION PLAN(Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

For the year ended June 30, 2015 the School recognized pension expense of \$155,877. At June 30, 2015, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	N/A	\$ 291
Net difference between projected and actual earnings on pension plan investments	\$ 89,638	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	N/A	\$ 95,054
Contributions subsequent to the measurement date	\$ 157,590	N/A
Total	\$ 247,228	\$ 95,345

\$157,590 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30, 2015	
2016	(\$ 1,902)
2017	(\$ 1,902)
2018	(\$ 1,901)

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 4: DEFINED BENEFIT PENSION PLAN(Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Actuarial assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Price inflation	2.80%	
Real wage growth	1.10%	
Wage inflation	3.90%	
Salary increases, including wage inflation	3.90%-10.10%	
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50%	
Future post-retirement benefit increases:		
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00%	
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)		Financed by the Annual Increase Reserve

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

The SCHDTF's long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent analysis of the long-term expected rate of return, presented to the PERA Board on November 15, 2013, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

* In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the fixed statutory rates specified in law, including current and future AED and SAED, until the Actuarial Value Funding Ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Based on those assumptions, the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$ 6,852,962	\$ 5,197,184	\$ 3,811,270

Pension plan fiduciary net position. Detailed information about the SCHDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

Other Post-Employment Benefits

Plan Description – The Academy contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy – The Academy is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Academy are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2015, 2014, and 2013, the School's employer contributions to the HCTF were \$16,521, \$16,720, and \$16,769, respectively, equal to their required contributions for each year.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2015

NOTE 5: 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 6.

NOTE 6: 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, 2015 for the lease was \$1,241,883.

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 \$566,834.

The service agreement also calls for a loss mitigation fee ranging from 1% - 3% of revenues for 20 years. There were no loss mitigation fees charged under the agreement for the year ended June 30, 2015.

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. No development allocation fees were paid under this agreement for the year ended June 30, 2015.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2015

NOTE 6: **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, 2015, 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, 2015, the reserve of \$157,000 was recorded as a restriction of fund balance in the General Fund.

NOTE 7: **RESTATEMENT OF NET POSITION**

The Beginning Net Position of the Government Type Activities was decreased by \$5,186,417 to (\$3,957,471) as the School implemented Governmental Accounting Standards Board Statement (GASB) No. 68.

NOTE 8: **DEFICIT NET POSITION**

The Net Position of the government type activities is in a deficit position of \$3,650,079 due to the School including the Net Pension Liability per GASB No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

IMAGINE INDIGO RANCH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2015

	2015			VARIANCE Positive (Negative)	2014 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
REVENUES					
Local Sources					
Per Pupil Revenue	\$ 4,994,901	\$ 4,701,102	\$ 4,725,172	\$ 24,070	\$ 5,001,459
Mill Levy Override	-	93,000	-	(93,000)	-
Tuition and Fees	238,700	294,000	365,544	71,544	382,506
Grants and Donations	-	-	11,437	11,437	8,870
Other	116,450	109,295	141,702	32,407	94,565
State Sources					
Grants and Donations	75,000	123,992	151,976	27,984	82,521
Federal Sources					
Grants and Donations	30,000	14,000	20,887	6,887	43,085
TOTAL REVENUES	<u>5,455,051</u>	<u>5,335,389</u>	<u>5,416,718</u>	<u>81,329</u>	<u>5,613,006</u>
EXPENDITURES					
Instruction					
Salaries	1,434,000	1,434,573	1,284,780	149,793	1,366,577
Employee Benefits	480,140	487,117	215,954	271,163	438,988
Purchased Services	500,000	512,000	500,687	11,313	537,252
Supplies and Materials	162,400	99,285	62,469	36,816	116,852
Property	-	-	81,350	(81,350)	11,621
Other	5,000	5,500	24,614	(19,114)	6,213
Total Instruction	<u>2,581,540</u>	<u>2,538,475</u>	<u>2,169,854</u>	<u>368,621</u>	<u>2,477,503</u>
Supporting Services					
School Administration					
Salaries	420,000	378,700	557,305	(178,605)	402,092
Employee Benefits	133,000	111,165	390,520	(279,355)	101,651
Purchased Services	2,186,538	2,144,266	2,019,174	125,092	2,000,742
Supplies and Materials	91,000	85,500	108,301	(22,801)	78,368
Property	33,800	5,000	5,288	(288)	300
Other	4,000	3,179	-	3,179	21,861
Total Supporting Services	<u>2,868,338</u>	<u>2,727,810</u>	<u>3,080,588</u>	<u>(352,778)</u>	<u>2,605,014</u>
TOTAL EXPENDITURES	<u>5,449,878</u>	<u>5,266,285</u>	<u>5,250,442</u>	<u>15,843</u>	<u>5,082,517</u>
NET CHANGE IN FUND BALANCE					
	5,173	69,104	166,276	97,172	530,489
FUND BALANCE, Beginning	<u>698,457</u>	<u>1,228,946</u>	<u>1,228,946</u>	<u>-</u>	<u>698,457</u>
FUND BALANCE, Ending	<u>\$ 703,630</u>	<u>\$ 1,298,050</u>	<u>\$ 1,395,222</u>	<u>\$ 97,172</u>	<u>\$ 1,228,946</u>

See the accompanying independent auditors' report.

IMAGINE INDIGO RANCH

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
SCHOOL DIVISION TRUST FUND

Years Ended December 31,

	<u>2013</u>	<u>2014</u>
School's proportionate share of the Net Pension Liability	0.042%	0.038%
School's proportionate share of the Net Pension Liability	\$ 5,323,923	\$ 5,197,184
School's covered-employee payroll	\$ 1,675,812	\$ 1,565,373
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	317.7%	332.0%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%

See the accompanying independent auditors' report.

IMAGINE INDIGO RANCH
 SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
 SCHOOL DIVISION TRUST FUND

Years Ended June 30,

	2014	2015
Statutorily required contributions	\$ 280,418	\$ 296,993
Contributions in relation to the Statutorily required contributions	280,418	296,993
Contribution deficiency (excess)	\$ -	\$ -
School's covered-employee payroll	\$ 1,639,246	\$ 1,619,706
Contributions as a percentage of covered-employee payroll	17.11%	18.34%

See the accompanying independent auditors' report.