

**IMAGINE INDIGO RANCH**  
**BASIC FINANCIAL STATEMENTS**

**June 30, 2017**

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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, 2017, 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, 2017, 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 25-27 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*

November 9, 2017

## **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, 2017.

### **Financial Highlights**

As of June 30, 2017, net position decreased to (\$6,432,247) which was a change of (\$2,446,685) from (\$3,985,562) on June 30, 2016. This negative net position is based on the implementation of new regulations under the Governmental Accounting Standards Board Statement (GASB) Number 68. Further information about GASB 68 is provided in Note 4 of the financial statements.

At the close of the fiscal year Imagine Indigo Ranch's governmental funds reported a combined ending fund balance of \$1,276,094 which was a decrease of \$167,997 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 6-24.

## 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, liabilities exceeded assets resulting in a Net Position of (\$6,432,247) in FY 2016-2017. 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, 2017</u>	<u>June 30, 2016</u>
Current and other Assets	\$1,241,542	\$1,448,907
Accounts Receivable	46,200	0
Prepaid Expenses	8,431	0
	-----	-----
Total Assets	\$1,296,173	\$1,448,907
Deferred Outflows		
Related to Pensions	\$5,406,345	\$1,200,301
Long-term Liabilities	0	0
Other Liabilities	\$20,079	\$4,816
Net Pension Liability	\$13,055,696	\$6,537,298
	-----	-----
Total Liabilities	\$13,075,775	\$6,542,114
Deferred Inflows		
Related to Pensions	58,990	92,656
Restricted for		
Emergencies	185,000	173,000
Unassigned	(6,617,247)	(4,158,562)
	-----	-----
Total Net Position	\$(6,432,247)	\$(3,985,562)
	=====	=====

The largest portion of Imagine Indigo Ranch's assets is in cash and investments; 96% in 2017, and 100% in 2016. The School's net position decreased in 2017 by \$2,446,685, in 2016 by \$335,483 and in 2015 by \$4,879,025 but showed an increase in prior years.

Imagine Indigo Ranch's Statement of Activities  
 Governmental  
 Activities

	<u>Year Ended</u> <u>June 30, 2017</u>	<u>Year Ended</u> <u>June 30, 2016</u>
<b>Revenue</b>		
Per Pupil Revenue	\$5,287,753	\$5,333,635
Tuition & Fees	418,919	411,316
Grants and Donations	264,416	276,278
Mill Levy Override	173,674	-
Other	241,566	12,796
	-----	-----
<b>Total Revenue</b>	<b>\$6,386,328</b>	<b>\$6,034,025</b>
<b>Expenses</b>		
Instructional	4,233,490	2,795,166
Supporting Services	4,599,523	3,574,342
Interest on debt	0	0
	-----	-----
<b>Total Expenses</b>	<b>8,833,013</b>	<b>6,369,508</b>
<b>Changes in Net Position</b>	<b>(2,466,685)</b>	<b>(335,483)</b>
<b>Net Position, Beginning</b>	<b>(3,985,562)</b>	<b>(3,650,079)</b>
	-----	-----
<b>Fund Balance, Ending</b>	<b>(\$ 6,432,247)</b>	<b>(\$ 3,985,562)</b>
	=====	=====

The largest portion of Imagine Indigo Ranch's revenues come from per pupil funding – 86% in 2017, 85% in 2016 and 87% in 2015. The School's revenue increased by \$352,303 and expenses increased by \$569,169 in 2017.

**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:

<b>Fiscal Year</b>	<b>PreK – 8th FTE</b>	<b>PreK – 8th Enrollment</b>
<b>2013 / 2014</b>	<b>808.86</b>	<b>898</b>
<b>2014 / 2015</b>	<b>706.46</b>	<b>751</b>
<b>2015 / 2016</b>	<b>723.86</b>	<b>773</b>
<b>2016 / 2017</b>	<b>747.28</b>	<b>797</b>

As of the end of the current fiscal year, the School’s General Fund reported an ending fund balance of \$1,276,094 which was a decrease of \$167,997.

**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, 2017.

**Long-Term Debt** Imagine Indigo Ranch did not have any long-term debt or capital leases as of June 30, 2017.

**Economic Factors and Next Year’s Budget**

During 2016/2017, the school had a funded FTE pupil count of 747.28 and had initially approved a budget based on 783 FTE funded pupils for 2017/2018. That budget was amended in September 2017 to reflect an anticipated reduction of students with 700 FTE funded pupils for the 2017/2018 school year.

**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, 2017

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and Investments	\$ 1,241,542	\$ 1,448,907
Accounts Receivable	46,200	-
Prepaid Expenses	8,431	-
	<u>1,296,173</u>	<u>1,448,907</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	<u>5,406,345</u>	<u>1,200,301</u>
LIABILITIES		
Accounts Payable	17,199	1,926
Unearned Revenues	2,880	2,890
Noncurrent Liabilities		
Net Pension Liability	<u>13,055,696</u>	<u>6,537,298</u>
	<u>13,075,775</u>	<u>6,542,114</u>
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	<u>58,990</u>	<u>92,656</u>
NET POSITION		
Restricted for Emergencies	185,000	173,000
Unrestricted	<u>(6,617,247)</u>	<u>(4,158,562)</u>
	<u>\$ (6,432,247)</u>	<u>\$ (3,985,562)</u>

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



IMAGINE INDIGO RANCH

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2017

	General Fund	
	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and Investments	\$ 1,241,542	\$ 1,448,907
Accounts Receivable	46,200	-
Prepaid Expenses	8,431	-
	<u>8,431</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 1,296,173</u>	<u>\$ 1,448,907</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 17,199	\$ 1,926
Unearned Revenues	2,880	2,890
	<u>20,079</u>	<u>4,816</u>
TOTAL LIABILITIES	<u>20,079</u>	<u>4,816</u>
FUND BALANCES		
Nonspendable	8,431	
Restricted for Emergencies	185,000	173,000
Unassigned	1,082,663	1,271,091
	<u>1,082,663</u>	<u>1,271,091</u>
TOTAL FUND BALANCES	1,276,094	1,444,091
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 (\$13,055,696), deferred outflows related to pensions of \$5,406,345, and deferred inflows related to pensions of (\$58,990).	<u>(7,708,341)</u>	<u>(5,429,653)</u>
Net position of the governmental activities.	<u>\$ (6,432,247)</u>	<u>\$ (3,985,562)</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, 2017

	General Fund	
	2017	2016
REVENUES		
Local Sources	\$ 6,138,466	\$ 5,757,747
State Sources	238,988	260,315
Federal Sources	8,874	15,963
	6,386,328	6,034,025
EXPENDITURES		
Current		
Instruction	2,641,667	2,529,123
Supporting Services	3,912,658	3,456,033
	6,554,325	5,985,156
NET CHANGE IN FUND BALANCES	(167,997)	48,869
FUND BALANCES, Beginning	1,444,091	1,395,222
FUND BALANCES, Ending	\$ 1,276,094	\$ 1,444,091

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, 2017

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

Net change in fund balances - total governmental funds	\$ (167,997)
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>(2,278,688)</u>
Change in net assets of governmental activities	<u><u>\$ (2,446,685)</u></u>

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



IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

**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, 2017

**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, 2017

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

**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.

**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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

**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:

- Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The School classifies Prepaid Expenses as nonspendable as these items are not expected to be converted to cash within the next year.
- 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, 2017.
- 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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2017

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

**Comparative Data**

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

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

**Budgets and Budgetary Accounting**

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

**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, 2017, 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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2017

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

At June 30, 2017, the School had deposits with financial institutions with a carrying amount of \$1,241,542. The bank balances with the financial institutions were \$1,246,308. Of these balances, \$250,000 was covered by federal depository insurance and \$996,308 was covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

**Investments**

Interest Rate Risk

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

Credit Risk

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

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

At June 30, 2017 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, 2017

**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](http://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, 2017

**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, 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 (AIR) 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.



IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

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

The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2017
Employer contribution rate <sup>1</sup>	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) <sup>1</sup>	(1.02)%	(1.02)%
Amount apportioned to the SCHDTF <sup>1</sup>	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	4.50%	5.00%
<b>Total employer contribution rate to the SCHDTF<sup>1</sup></b>	<b>18.13%</b>	<b>18.63%</b>

<sup>1</sup>Rates 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 from the School were \$390,306 for the year ended June 30, 2017.

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

At June 30, 2017, the School reported a liability of \$13,055,696 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll-forward the total pension liability to December 31, 2016. The School's proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2016 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2016, the School's proportion was 0.04384 percent, which was an increase of 0.00111 percent from its proportion measured as of December 31, 2015.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

**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, 2017, the School recognized pension expense of \$2,668,993. At June 30, 2017 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	\$436,555	\$115
Changes of assumptions or other inputs	\$4,236,302	\$58,875
Net difference between projected and actual earnings on pension plan investments	\$163,216	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$372,241	N/A
Contributions subsequent to the measurement date	\$198,031	N/A
Total	\$5,406,345	\$58,990

\$198,031 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30,:</b>	
2018	\$2,077,709
2019	\$2,051,412
2020	\$ 981,744
2021	\$ 38,121
2022	\$ 338

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

**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, 2015 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.10 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.50 percent
Discount rate	7.50 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Based on the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA's Board on November 18, 2016 and effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015 to December 31, 2016:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.70 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	5.26 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

**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)

Mortality rates used in the December 31, 2015 valuation 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. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back 2 years for males and set back 2 years for females) was assumed.

The actuarial assumptions used in the December 31, 2015 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.

As a result of the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic actuarial assumptions including withdrawal rates, retirement rates for early reduced and unreduced retirement, disability rates, administrative expense load, and pre- and post-retirement and disability mortality rates were adopted by PERA's Board on November 18, 2016 to more closely reflect PERA's actual experience. As the revised economic and demographic assumptions are effective as of the measurement date, December 31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions reflect the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

**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 disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016. As a result of the October 28, 2016 actuarial assumptions workshop and the November 18, 2016 PERA Board meeting, the economic assumptions changed, effective December 31, 2016, as follows:

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.
- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.
- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

Several factors were considered in evaluating the long-term rate of return assumption for the SCHDTF, including long-term historical data, estimates inherent in current market data, and 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 by the investment consultant 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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

**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)

As of the November 18, 2016 adoption of the current long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	21.20%	4.30%
U.S. Equity – Small Cap	7.42%	4.80%
Non U.S. Equity – Developed	18.55%	5.20%
Non U.S. Equity – Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income – Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
<b>Total</b>	<b>100.00%</b>	

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 7.25%.

*Discount rate.* The discount rate used to measure the total pension liability was 5.26 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated economic and demographic actuarial assumptions adopted by PERA’s Board on November 18, 2016.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

**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)

- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2017

**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)

Based on the above assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.86 percent, resulting in a discount rate of 5.26 percent.

As of the prior measurement date, the projection test indicated the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.50 percent was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use a municipal bond index rate and the discount rate was 7.50 percent, 2.24 percent higher compared to the current measurement date.

*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 5.26 percent, 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 (4.26 percent) or 1-percentage-point higher (6.26 percent) than the current rate:

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	\$16,417,121	\$13,055,698	\$10,317,941

*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](http://www.copera.org/investments/pera-financial-reports).



IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

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

**Other Post-Employment Benefits**

Health Care Trust Fund

*Plan Description* – The School 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](http://www.copera.org/investments/pera-financial-reports).

*Funding Policy* – The School 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 School 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, 2017, 2016, and 2015, the School contributions to the HCTF were \$20,521, \$20,320, and \$16,521, respectively, equal to their required contributions for each year.

**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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 6:** **COMMITMENTS AND CONTINGENCIES** (Continued)

Total rent expense for the year ended June 30, 2017 for the lease was \$1,285,191.

**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 \$634,502.

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, 2017.

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, 2017.

**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, 2017, 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, 2017, the reserve of \$185,000 was recorded as a restriction of fund balance in the General Fund.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

**NOTE 7: DEFICIT NET POSITION**

The Net Position of the government type activities is in a deficit position of \$6,432,247 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, 2017

	2017			VARIANCE	2016 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
<b>REVENUES</b>					
Local Sources					
Per Pupil Revenue	\$ 5,232,384	\$ 5,287,753	\$ 5,287,753	\$ -	\$ 5,145,335
Mill Levy Override	120,000	173,674	173,674	-	188,300
Tuition and Fees	409,085	368,021	418,919	50,898	411,316
Grants and Donations	-	16,598	16,554	(44)	-
Other	-	292,421	241,566	(50,855)	12,796
State Sources					
Grants and Donations	213,750	238,987	238,988	1	260,315
Federal Sources					
Grants and Donations	-	8,874	8,874	-	15,963
<b>TOTAL REVENUES</b>	<u>5,975,219</u>	<u>6,386,328</u>	<u>6,386,328</u>	<u>-</u>	<u>6,034,025</u>
<b>EXPENDITURES</b>					
Instruction					
Salaries	1,725,283	1,821,271	1,549,136	272,135	1,475,246
Employee Benefits	672,457	653,194	269,110	384,084	276,172
Purchased Services	495,174	466,613	567,335	(100,722)	600,274
Supplies and Materials	126,505	285,347	93,618	191,729	135,741
Property	5,000	4,000	105,067	(101,067)	12,325
Other	6,200	18,023	57,401	(39,378)	29,365
<b>Total Instruction</b>	<u>3,030,619</u>	<u>3,248,448</u>	<u>2,641,667</u>	<u>606,781</u>	<u>2,529,123</u>
Supporting Services					
School Administration					
Salaries	412,137	396,310	668,445	(272,135)	656,041
Employee Benefits	126,525	121,508	505,592	(384,084)	455,213
Purchased Services	2,320,655	2,388,984	2,593,724	(204,740)	2,221,474
Supplies and Materials	76,590	118,834	122,461	(3,627)	83,463
Property	45,450	271,034	22,436	248,598	39,842
Other	5,878	10,380	-	10,380	-
Reserves	-	624,921	-	-	-
Unappropriated Reserves	-	650,000	-	650,000	-
<b>Total Supporting Services</b>	<u>2,987,235</u>	<u>4,581,971</u>	<u>3,912,658</u>	<u>44,392</u>	<u>3,456,033</u>
<b>TOTAL EXPENDITURES</b>	<u>6,017,854</u>	<u>7,830,419</u>	<u>6,554,325</u>	<u>651,173</u>	<u>5,985,156</u>
<b>NET CHANGE IN</b>					
<b>FUND BALANCE</b>	(42,635)	(1,444,091)	(167,997)	1,276,094	48,869
<b>FUND BALANCE, Beginning</b>	<u>1,359,770</u>	<u>1,444,091</u>	<u>1,444,091</u>	<u>-</u>	<u>1,395,222</u>
<b>FUND BALANCE, Ending</b>	<u>\$ 1,317,135</u>	<u>\$ -</u>	<u>\$ 1,276,094</u>	<u>\$ 1,276,094</u>	<u>\$ 1,444,091</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>	<u>2015</u>	<u>2016</u>
School's proportionate share of the Net Pension Liability	0.042%	0.038%	0.043%	0.044%
School's proportionate share of the Net Pension Liability	\$ 5,323,923	\$ 5,197,184	\$ 6,537,298	\$ 13,055,696
School's covered-employee payroll	\$ 1,675,812	\$ 1,565,373	\$ 1,848,164	\$ 1,991,253
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	317.7%	332.0%	353.7%	655.7%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%	43.1%

See the accompanying independent auditors' report.

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

Years Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Statutorily required contributions	\$ 280,418	\$ 296,993	\$ 373,465	\$ 390,306
Contributions in relation to the Statutorily required contributions	<u>280,418</u>	<u>296,993</u>	<u>373,465</u>	<u>390,306</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 1,639,246	\$ 1,619,706	\$ 1,992,152	\$ 2,011,839
Contributions as a percentage of covered-employee payroll	17.11%	18.34%	18.75%	19.40%

See the accompanying independent auditors' report.