

IMAGINE CHARTER SCHOOL AT FIRESTONE

BASIC FINANCIAL STATEMENTS

June 30, 2017



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TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	
Management's Discussion and Analysis	i -vi
Basic Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	5
Notes to the Financial Statements	6 – 25
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	26
Schedule of the School's Proportionate Share	27
Schedule of the School's Contributions	28



JOHN CUTLER & ASSOCIATES

Board of Directors
Imagine Charter School at Firestone
Firestone, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of Imagine Charter School of Firestone (the "School"), component unit of the St. Vrain Valley School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, 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 expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Imagine Charter School of Firestone 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 26-28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

John Luttler & Associates, LLC

October 31, 2017



Management's Discussion and Analysis

As management of Imagine Charter School at Firestone (hereinafter Imagine Firestone, or School), we offer readers of Imagine Firestone's financial statements this narrative overview and analysis of the financial activities of Imagine Firestone for the fiscal year ended June 30, 2017.

Financial Highlights

The year ended June 30, 2017 is the ninth year of operations for Imagine Firestone. As of June 30, 2017, the school's net position decreased to (\$6,524,606) 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 5 of the financial statements.

At the close of the fiscal year Imagine Firestone's general fund ending fund balance was \$1,992,536, an increase of \$46,537 from the prior year. Capital Reserve and Grant Funds maintain a \$0 fund balance.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to Imagine Firestone's basic financial statements. Imagine Firestone's basic financial statements are comprised of two components: 1) government-wide financial statements and 2) 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 Firestone's finances, in a manner similar to a private-sector business.

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

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

The government-wide statement of activities distinguishes functions/programs of Imagine Firestone supported primarily by per pupil operating revenue (PPR) or other revenue passed through from the District (St. Vrain Valley RE-1J). The governmental activities of Imagine Firestone include instruction and supporting services expense.

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 Charter School at Firestone, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Imagine Charter School at Firestone are categorized as 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 Charter School at Firestone maintains three individual governmental funds, however all funds are presented in one financial statement covering all funds.

Imagine Charter School at Firestone adopts an annual appropriated budget for its funds. Budgetary comparison statements have been provided for these 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 6-25.

Government-wide Financial Analysis - Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of Imagine Firestone, liabilities exceeded assets resulting in a Net Position of (\$6,524,606) in FY 2016-2017. As in FY16, this is **directly related** to the new pension liability reporting requirement under GASB 68.

	Governmental Activities <u>June 30, 2017</u>	Governmental Activities <u>June 30, 2016</u>
ASSETS		
Cash and Investments	\$2,171,443	\$2,177,886
Accounts Receivable	31,503	757
Prepaid Expenses	10,892	2,819
Total Assets	<u>2,213,838</u>	<u>2,181,462</u>
DEFERRED OUTFLOW OF RESOURCES		
Related to Pensions	\$5,970,739	\$1,778,648
LIABILITIES		
Accounts Payable	2,475	1,502
Due to District		878
Accrued Salaries/Benefits	179,249	181,367
Deferred Revenues	39,578	51,716
Non-Current Liabilities:		
Due in One Year	10,655	
Due in More than One Year	42,108	
Net Pension Liability	14,343,581	7,401,431
Total Liabilities	<u>14,617,646</u>	<u>7,636,894</u>
DEFERRED INFLOWS OF RESOURCES		
Related to pensions	<u>91,537</u>	<u>104,903</u>
NET POSITION		
Restricted for Emergencies (TABOR)	165,000	162,000
Unrestricted	<u>(6,689,606)</u>	<u>(3,943,687)</u>
Total Net Assets	<u><u>(6,524,606)</u></u>	<u><u>(3,781,687)</u></u>

The largest portion of Imagine Charter School at Firestone's assets is in cash and investments for FY2017.

Imagine Charter School at Firestone – Statement of Activities
For the Years Ended June 30, 2016 and June 30, 2017

	Governmental Activities <u>June 30, 2017</u>	Governmental Activities <u>June 30, 2016</u>
Program Revenue:		
Charges for Services	\$519,255	\$472,746
Operating Grants and Contributions (READ)	92,119	52,482
Capital Grants and Contributions	148,297	142,920
Total Program Revenue	<u>759,671</u>	<u>668,148</u>
General Revenue:		
Per Pupil Operating Revenue	3,878,210	3,936,656
Taxes and Other	1,128,680	980,047
Capital Contributions from SVVSD	5,648	
Total General Revenue	<u>5,012,538</u>	<u>4,916,703</u>
Expenses (include pension related items):		
Current:		
Instruction	4,997,539	3,417,222
Supporting Services	3,517,589	3,103,016
Total Expenses	<u>8,515,128</u>	<u>6,520,238</u>
Increase (Decrease) in Net Position	(2,742,919)	(935,387)
Beginning Net Position	<u>(3,781,687)</u>	<u>(2,846,300)</u>
Ending Net Position	<u><u>(6,524,606)</u></u>	<u><u>(3,781,687)</u></u>

The largest portion of Imagine Firestone’s revenues come from per pupil revenue – 67% in FY2017.

Financial Analysis of the Government's Funds

As noted earlier, the Imagine Charter School at Firestone uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

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

As of the end of the fiscal year, the school's general fund reported an ending fund balance of \$1,992,536, an increase of \$46,537. Per Pupil Revenue decreased by \$58,446, which is reflective of a decrease in enrollment and an increase in funding from FY16 to FY17.

The School's enrollment had a decrease last year. Below are the historical enrollment numbers:

Fiscal Year	Enrollment
2010 / 2011	566
2011 / 2012	588
2012 / 2013	629
2013 / 2014	600
2014 / 2015	606
2015 / 2016	551
2016 / 2017	534

General Fund Budgetary Highlights

The School approves a budget in April based on enrollment projections for the following school year. In December after enrollment stabilizes, adjustments are made to the budget. The School approved an Amended budget in December to true up the beginning fund balance and adjust to the actual student count. The Amended budget included spending down the reserve by \$395,800, however actual expenditures were less than budgeted expenditures, allowing the school to avoid spending down reserves.

Capital Asset and Debt Administration

Capital assets. Imagine Charter School at Firestone's has no capital assets at June 30, 2017.
Long-term debt. Imagine Charter School at Firestone has no long-term debt at June 30, 2017.

Economic Factors and Next Year's Budget

In November of 2000 voters in Colorado approved a provision to the Colorado constitution providing that K-12 funding would increase at pupil growth, plus inflation, plus 1% for 10 years and thereafter, growth plus inflation. This provision was thought to stabilize the school finance act and removes funding from the political process. However, with the downturn in the economy and state shortfalls the school finance act was not exempt from budget cuts. Funding for FY 2011/2012 was adjusted downward by approximately \$336 per student because of those cuts.

Funding has been trending slightly upward since FY 2011/2012. PPR for FY2012/2013 was initially approved at the same per student amount as the end of the 2011/2012 fiscal year, and then was revised upward to \$6332 per FTE early in the fiscal year. The FY 2013/2014 PPR was approved at \$6506 per FTE, bringing funding back to approximately the 2009 level. Funding increased for 2014/2015 (to \$6898) and again for 2015/2016 (to \$7122). Funding for the 2016/2017 school year was \$7223, continuing the slight upward trend.

The FY 2016/2017 budget projected that Imagine Charter School at Firestone's general fund balance would show a decrease, which the school was able to mitigate with aggressive cost controls and actually added to the fund balance by \$46,537. The FY17/18 budget again shows usage of the school's reserve, though a smaller amount than the FY16/17 budget allocated, and the school plans to again employ aggressive cost controls to avoid spending reserves if possible. The school is actively engaged in marketing activities in an effort to increase enrollment for FY18 and beyond.

Requests for Information

This financial report is designed to provide a general overview of Imagine Charter School at Firestone'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 Lori Olson, Business Manager, Imagine Charter School at Firestone, 5753 Twilight Avenue, Firestone, CO 80504.

BASIC FINANCIAL STATEMENTS

IMAGINE CHARTER SCHOOL AT FIRESTONE

STATEMENT OF NET POSITION

As of June 30, 2017

	Governmental Activities	
	2017	2016
ASSETS		
Cash and Investments	\$ 2,171,443	\$ 2,177,886
Accounts Receivable	31,503	757
Prepaid Expenses	10,892	2,819
TOTAL ASSETS	<u>2,213,838</u>	<u>2,181,462</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	<u>5,970,739</u>	<u>1,778,648</u>
LIABILITIES		
Accounts Payable	2,475	1,502
Due to the District	-	878
Accrued Salaries and Benefits	179,249	181,367
Unearned Revenues	39,578	51,716
Noncurrent Liabilities		
Due in One Year	10,655	-
Due in More Than One Year	42,108	-
Net Pension Liability	<u>14,343,581</u>	<u>7,401,431</u>
TOTAL LIABILITIES	<u>14,617,646</u>	<u>7,636,894</u>
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	<u>91,537</u>	<u>104,903</u>
NET POSITION		
Restricted for Emergencies	165,000	162,000
Unrestricted	<u>(6,689,606)</u>	<u>(3,943,687)</u>
TOTAL NET POSITION	<u>\$ (6,524,606)</u>	<u>\$ (3,781,687)</u>

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

IMAGINE CHARTER SCHOOL AT FIRESTONE

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

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	
					2017	2016
PRIMARY GOVERNMENT						
Governmental Activities						
Instructional	\$ 4,997,539	\$ 519,255	\$ 92,119	\$ -	\$ (4,386,165)	\$ (2,891,994)
Supporting Services	3,517,589	-	-	148,297	(3,369,292)	(2,960,096)
Total Governmental Activities	<u>\$ 8,515,128</u>	<u>\$ 519,255</u>	<u>\$ 92,119</u>	<u>\$ 148,297</u>	(7,755,457)	(5,852,090)
GENERAL REVENUES						
					3,878,210	3,936,656
					791,451	770,681
					337,229	209,366
SPECIAL ITEM						
					5,648	-
					<u>5,012,538</u>	<u>4,916,703</u>
TOTAL GENERAL REVENUES						
					(2,742,919)	(935,387)
CHANGE IN NET POSITION						
					(3,781,687)	(2,846,300)
NET POSITION, Beginning						
					<u>\$ (6,524,606)</u>	<u>\$ (3,781,687)</u>
NET POSITION, Ending						

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

IMAGINE CHARTER SCHOOL AT FIRESTONE

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	TOTAL	
	2017	2016
ASSETS		
Cash and Investments	\$ 2,171,443	\$ 2,177,886
Accounts Receivable	31,503	757
Prepaid Expenses	10,892	2,819
	<u>10,892</u>	<u>2,819</u>
TOTAL ASSETS	<u>\$ 2,213,838</u>	<u>\$ 2,181,462</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 2,475	\$ 1,502
Due to the District	-	878
Accrued Salaries and Benefits	179,249	181,367
Unearned Revenues	39,578	51,716
	<u>39,578</u>	<u>51,716</u>
TOTAL LIABILITIES	<u>221,302</u>	<u>235,463</u>
FUND BALANCES		
Nonspendable	10,892	2,819
Restricted for Emergencies	165,000	162,000
Unassigned	1,816,644	1,781,180
	<u>1,816,644</u>	<u>1,781,180</u>
TOTAL FUND BALANCES	1,992,536	1,945,999
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 liability includes capital lease payable of (\$52,763), net pension liability of (\$14,343,581), deferred outflows related to pensions of \$5,970,739, and deferred inflows related to pensions of (\$91,537).	<u>(8,517,142)</u>	<u>(5,727,686)</u>
Net Position of governmental funds	<u>\$ (6,524,606)</u>	<u>\$ (3,781,687)</u>

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

IMAGINE CHARTER SCHOOL AT FIRESTONE

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	TOTAL	
	2017	2016
REVENUES		
Local Sources	\$ 5,526,145	\$ 5,389,449
State Sources	240,416	195,402
TOTAL REVENUES	<u>5,766,561</u>	<u>5,584,851</u>
EXPENDITURES		
Current		
Instruction	2,855,634	2,857,021
Supporting Services	2,870,038	2,946,235
TOTAL EXPENDITURES	<u>5,725,672</u>	<u>5,803,256</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>40,889</u>	<u>(218,405)</u>
OTHER FINANCING SOURCES		
Capital Contribution from the District	5,648	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>5,648</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	46,537	(218,405)
FUND BALANCES, Beginning	<u>1,945,999</u>	<u>2,164,404</u>
FUND BALANCES, Ending	<u>\$ 1,992,536</u>	<u>\$ 1,945,999</u>

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

IMAGINE CHARTER SCHOOL AT FIRESTONE

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	\$	46,537
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This includes proceeds from the issuance of capital lease (\$61,362) and capital lease payments of \$8,599.		(52,763)
Deferred Charges related to pensions are not recognized in the governmental funds. However, for the government-wide funds those amounts are capitalized and amortized.		<u>(2,736,693)</u>
Change in net position of governmental activities	\$	<u>(2,742,919)</u>

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

IMAGINE CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Imagine Charter School at Firestone (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 St. Vrain Valley School District (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 CHARTER SCHOOL AT FIRESTONE

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 CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. At June 30, 2017, none of the School's expenditures qualify for capitalization.

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 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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

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

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

IMAGINE CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Nonspendable – This classification includes amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. The School considers prepaid expenses to be nonspendable.
- 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.

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.

IMAGINE CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Data (Continued)

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. Interfund eliminations have not been made in the aggregation of this data.

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 CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

Deposits (Continued)

At June 30, 2017, the School had deposits with financial institutions with a carrying amount of \$2,171,443. The bank balances with the financial institutions were \$2,179,329. Of these balances, \$251,250 was covered by federal depository insurance and \$1,928,079 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

Investments

Interest Rate Risk

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

Credit Risk

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

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

At June 30, 2017 the School did not have any investments.

NOTE 4: ACCRUED SALARIES AND BENEFITS

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve-month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, as of June 30, 2017, were \$179,249. Accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of the General Fund.

IMAGINE CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 5: LONG-TERM DEBT

Following is a summary of the School's long-term debt transactions for the year ended June 30, 2017:

	Balance <u>June 30, 2016</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2017</u>	Due In <u>One Year</u>
Capital Lease	-	\$ 61,362	\$ 8,599	\$ 52,763	\$ 10,655

Capital Lease

In August 2016, the School entered into lease purchase agreement with Frontier Business Produce to finance the purchase of 13 Sharp Aquos Boards. Principal and interest payments in the amount of \$1,307 are due monthly from September 1, 2016 through August 1, 2021.

Following is a schedule of the future minimum lease payments required under the outstanding capital lease obligations at June 30, 2017.

Year Ended June 30,

2018	\$ 15,684
2019	15,684
2020	15,684
2021	15,684
2021	<u>2,615</u>
Total Minimum Lease Payments	65,351
Less: Interest	<u>(12,588)</u>
Present Value of Future Minimum Lease Payments	<u>\$ 52,763</u>

IMAGINE CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Policies

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.

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.

IMAGINE CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: **DEFINED BENEFIT PENSION PLAN** (Continued)

General Information about the Pension Plan (Continued)

The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) benefit structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance 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.

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.

IMAGINE CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

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:

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2017
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	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	4.50%	5.00%
Total employer contribution rate to the SCHDTF¹	18.13%	18.63%

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 from School were \$425,304 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 \$14,343,581 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 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.

IMAGINE CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

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

At December 31, 2016, the School's proportion was 0.04818 percent, which was a decrease of 0.00022 from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the School recognized pension expense of \$3,161,997. 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	\$ 179,317	\$ 126
Net difference between projected and actual earnings on pension plan investments	\$ 479,619	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$ 440,720	\$ 26,729
Changes in assumptions and other inputs	\$ 4,654,193	\$ 64,682
Contributions subsequent to the measurement date	\$ 216,890	N/A
Total	\$ 5,970,739	\$ 91,537

\$216,890 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:

Year ended June 30,	
2018	\$2,498,323
2019	\$2,131,112
2020	\$1,034,825
2021	(\$1,882)
2022	(\$66)

IMAGINE CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: 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 CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: **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 CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: **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.

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:

IMAGINE CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 6: 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	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%
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 7.25%.

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.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- 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.

IMAGINE CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

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

- 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.

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.

IMAGINE CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: 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 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	\$18,036,592	\$14,343,581	\$11,335,757

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

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.

IMAGINE CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

Other Post-Employment Benefits

Health Care Trust Fund

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, 2015, 2016 and 2017 the School's employer contributions to the HCTF were \$20,786, \$21,961, and \$22,134, respectively, equal to their required contributions for each year.

NOTE 7: RELATED PARTIES

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

NOTE 8: COMMITMENTS AND CONTINGENCIES

Building Lease

In September 2008, 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, 2017 for the lease was \$1,127,001.

IMAGINE CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 8: COMMITMENTS AND CONTINGENCIES (Continued)

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 PPR revenues. Current year management fees charged under this agreement totaled \$542,777.

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

NOTE 9: CAPITAL CONTRIBUTION FROM THE DISTRICT

During the year ended June 30, 2017, the District agreed to allocate a portion of its 2016 Bond Proceeds to pay for various capital improvements and upgrades to the School's facility. As of June 30, 2017 improvements in the amount of \$5,648 were paid for by the District. The contribution and related expenditure has been reported and an Other Financing Source in the General Fund and as a Special Item in the Statement of Activities.

The total cost of improvements paid for by the District are estimated to be \$70,000 and should be completed during the year ended June 30, 2018.

IMAGINE CHARTER SCHOOL AT FIRESTONE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 10: DEFICIT NET POSITION

The School reported a deficit Net Position of the government type activities in the amount of \$6,524,606. This is due to the School including the Net Pension Liability per GASB No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2017

	2017			VARIANCE	2016 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
REVENUES					
Local Sources					
Per Pupil Revenue	\$ 3,972,650	\$ 3,835,413	\$ 3,878,210	\$ 42,797	\$ 3,936,656
Mill Levy Override	633,051	633,051	791,451	158,400	770,681
Tuition and Fees	452,333	457,431	519,255	61,824	472,746
Other	24,000	24,000	337,229	313,229	209,366
State and Federal Sources					
Grants and Donations	189,758	184,826	240,416	55,590	195,402
TOTAL REVENUES	<u>5,271,792</u>	<u>5,134,721</u>	<u>5,766,561</u>	<u>631,840</u>	<u>5,584,851</u>
EXPENDITURES					
Instruction					
Salaries	1,832,588	1,821,367	1,800,815	20,552	1,831,419
Employee Benefits	788,455	762,003	791,170	(29,167)	775,611
Purchased Services	34,409	39,882	80,703	(40,821)	61,663
Supplies and Materials	74,543	72,643	121,097	(48,454)	187,410
Property	-	-	61,849	(61,849)	897
Other	1,500	1,500	-	1,500	21
Total Instruction	<u>2,731,495</u>	<u>2,697,395</u>	<u>2,855,634</u>	<u>(158,239)</u>	<u>2,857,021</u>
Supporting Services					
School Administration					
Salaries	480,305	498,751	558,180	(59,429)	512,551
Employee Benefits	202,868	214,400	123,640	90,760	111,902
Purchased Services	2,089,402	2,001,601	1,980,332	21,269	2,199,425
Supplies and Materials	103,251	113,752	199,245	(85,493)	117,470
Property	-	-	4,575	(4,575)	708
Other	-	4,400	4,066	334	4,179
Appropriated Reserves	987,776	720,876	-	720,876	-
Total Supporting Services	<u>3,863,602</u>	<u>3,553,780</u>	<u>2,870,038</u>	<u>683,742</u>	<u>2,946,235</u>
TOTAL EXPENDITURES	<u>6,595,097</u>	<u>6,251,175</u>	<u>5,725,672</u>	<u>525,503</u>	<u>5,803,256</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,323,305)</u>	<u>(1,116,454)</u>	<u>40,889</u>	<u>1,157,343</u>	<u>(218,405)</u>
OTHER FINANCING SOURCES					
Capital Contributions for District	-	-	5,648	5,648	-
CHANGE IN FUND BALANCE	<u>(1,323,305)</u>	<u>(1,116,454)</u>	<u>46,537</u>	<u>1,162,991</u>	<u>(218,405)</u>
FUND BALANCE, Beginning	<u>2,164,404</u>	<u>1,945,999</u>	<u>1,945,999</u>	<u>-</u>	<u>2,164,404</u>
FUND BALANCE, Ending	<u>\$ 841,099</u>	<u>\$ 829,545</u>	<u>\$ 1,992,536</u>	<u>\$ 1,162,991</u>	<u>\$ 1,945,999</u>

See the accompanying independent auditors' report.

IMAGINE CHARTER SCHOOL AT FIRESTONE

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
SCHOOL DISTRICT 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	0.039%	0.047%	0.048%	0.042%
School's proportionate share of the Net Pension Liability	\$ 4,961,328	\$ 6,352,906	\$ 7,401,431	\$ 14,343,581
School's covered-employee payroll	\$ 1,486,549	\$ 2,104,809	\$ 2,153,001	\$ 2,162,183
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	333.7%	301.8%	343.8%	663.4%
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 CHARTER SCHOOL AT FIRESTONE
 SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
 SCHOOL DISTRICT TRUST FUND

Years Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Statutorily required contributions	\$ 322,095	\$ 367,378	\$ 404,061	\$ 425,305
Contributions in relation to the Statutorily required contributions	<u>322,095</u>	<u>367,378</u>	<u>404,061</u>	<u>425,305</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 1,866,813	\$ 2,037,811	\$ 2,153,001	\$ 2,170,036
Contributions as a percentage of covered-employee payroll	17.25%	18.03%	18.77%	19.60%

See the accompanying independent auditors' report.