

COLORADO SPRINGS EARLY COLLEGES

BASIC FINANCIAL STATEMENTS

June 30, 2014

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JOHN CUTLER & ASSOCIATES

Board of Directors
Colorado Springs Early Colleges
Colorado Springs, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Colorado Springs Early Colleges (the "School"), as of and year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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, the business-type activities, and each major funds of the Colorado Springs Early Colleges, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on page 22 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 Luttrell & Associates, LLC

October 21, 2014

Colorado Springs Early Colleges

Management's Discussion and Analysis

Year Ended June 30, 2014

As management of Colorado Springs Early Colleges (CSEC), we offer readers of these financial statements this narrative and analysis of the financial activities of CSEC for the year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information provided in the financial statements.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to CSEC's financial statements. The statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. For the year ended June 30, 2014, CSEC had its seventh financial audit completed.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of CSEC's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of CSEC's net position changed during the 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 the related cash flows in future periods.

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. CSEC, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental fund, its general fund.

CSEC adopts an annual budget for its general fund. A budgetary comparison has been provided for the general fund on page 22 as part of the basic financial statements.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of CSEC's financial position. For the year ended June 30, 2014 CSEC's liabilities were less than its assets by \$3,739,254. Approximately \$133,000 of total net position is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. Invested in capital assets is \$609,647, which includes unrestricted cash and investments of \$2,478,423, less accounts payable of \$415,087, less accrued salaries of \$202,034 and Due to Related Party of \$58,217. You will note the Interfund Balances are from combining the Colorado Early Colleges-Building Corp. with Colorado Springs Early Colleges.

Net position as of June 30, 2014

Assets:

Current assets	\$ 3,480,233
Capital and other assets, net	<u>5,684,359</u>
Total Assets	<u>9,164,592</u>

Liabilities:

Accrued liabilities and accounts payable	675,338
Long-term debt	<u>4,750,000</u>
Total Liabilities	<u>5,425,338</u>

Net position:

Invested in capital assets, net of related debt	609,647
Restricted for TABOR	133,000
Unrestricted	<u>2,996,607</u>
Total net position	<u>\$ 3,739,254</u>

The total net position of CSEC increased to \$3,739,254 for the year ended June 30, 2014 from \$2,819,539 for the year ended June 30, 2013. This increase in net position of \$919,715 resulted primarily from careful spending and more students.

Change in net position for the year ended June 30, 2014

Revenue:

Program revenues	
Grants and contributions	\$ 420,393
General Revenue	
School Finance Act revenue	4,290,035
Other	<u>110,167</u>
Total School Revenue	4,820,595
Business-Type Revenue	
Building Corporation	<u>831,238</u>
Total Revenue	<u>5,651,833</u>

Expenses:

Current:

Instruction	2,017,332
Supporting Services	<u>2,243,399</u>
Total School Expenses	4,260,731

Business-Type Activities

Building Corporation	<u>471,387</u>
Total expenses	<u>4,732,118</u>

Change in net position \$ 919,715

The operations of CSEC are funded primarily by the per pupil revenue received under the State School Finance Act. State revenue for fiscal year 2014 totaled approximately \$4,290,035, representing an increase of \$504,218 over the total for the year ended June 30, 2013. The increase in per pupil revenue for the year ended June 30, 2014 was due to the addition in students.

Financial Analysis of CESC's Funds

CSEC has one governmental fund, the general fund. The general fund is considered a major fund and is used to account for CSEC's general operations. The general fund had a positive fund balance of \$2,392,280 at the beginning of the year. The fund balance of the general fund increased to \$2,995,888 at June 30, 2014. In addition, a reserve of approximately \$133,000 at June 30, 2014 has been made to satisfy the requirements of the TABOR Amendment. CSEC has a positive unreserved fund balance of \$2,862,888, which is shown net of accounts payable and accrued salaries and benefits.

Capital Assets and Debt Administration

As of June 30, 2014, capital assets consist primarily of the school busses, leasehold improvements and food service equipment. Capital assets, totaling \$221,859 as of June 30, 2014, are shown net of accumulated depreciation of \$550,882. See Note 4 for more information.

Economic Factors and Next Year's Budget

The primary factor in budget development for CSEC is student enrollment. CSEC's enrollment was 702.5 students for the 2013-2014 school year. Based on historical trends and current projections, CSEC expects an increase in enrollment for the 2014-2015 school year. CSEC also considers stability in per pupil funding levels to be an important factor in developing its budget for fiscal year 2015.

Requests for Information

This financial report is designed to provide a general overview of CSEC's finances for all those with an interest in CSEC. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Colorado Springs Early Colleges
Attention of Keith King
4435 N. Chestnut
Colorado Springs, CO 80907

BASIC FINANCIAL STATEMENTS

COLORADO SPRINGS EARLY COLLEGES

STATEMENT OF NET POSITION

June 30, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS	
			2014	2013
ASSETS				
Cash and Investments	\$ 2,374,061	\$ 104,362	\$ 2,478,423	\$ 1,710,802
Accounts Receivable	58,813	-	58,813	28,109
Due From Related Parties	443,671	8,292	451,963	139,707
Deposits	468,500	22,534	491,034	47,534
Interfund Amounts	324,712	(324,712)	-	-
Capital Assets, Depreciated, Net of Accumulated Depreciation	221,859	5,462,500	5,684,359	5,919,770
TOTAL ASSETS	3,891,616	5,272,976	9,164,592	7,845,922
LIABILITIES				
Accounts Payable	413,618	1,469	415,087	64,858
Accrued Salaries and Benefits	202,034	-	202,034	206,725
Due To Related Party	58,217	-	58,217	-
Security Deposits	-	-	-	4,800
Noncurrent Liabilities Due in More Than One Year	-	4,750,000	4,750,000	4,750,000
TOTAL LIABILITIES	673,869	4,751,469	5,425,338	5,026,383
NET POSITION				
Net Investment in Capital Assets Restricted for Emergencies	221,859	387,788	609,647	337,239
Unrestricted	133,000	-	133,000	118,000
	2,862,888	133,719	2,996,607	2,364,300
TOTAL NET POSITION	\$ 3,217,747	\$ 521,507	\$ 3,739,254	\$ 2,819,539

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

COLORADO SPRINGS EARLY COLLEGES

STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

<u>FUNCTIONS/PROGRAMS</u>	PROGRAM REVENUES			
	<u>EXPENSES</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	\$ 2,017,332	\$ -	\$ -	\$ -
Supporting Services	2,243,399	-	354,910	65,483
Total Governmental Activities	4,260,731	-	354,910	65,483
Business-Type Activities				
Building Corporation	315,719	831,238	-	-
Interest on Long-Term Debt	155,668	-	-	-
Total Business-Type Activities	471,387	831,238	-	-
Total Primary Government	\$ 4,732,118	\$ 831,238	\$ 354,910	\$ 65,483
GENERAL REVENUES				
Per Pupil Revenues				
Investment Earnings				
Other				
TOTAL GENERAL REVENUES				
CHANGE IN NET POSITION				
NET POSITION, Beginning				
NET POSITION, Ending				

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

Net (Expense) Revenue
and Changes
in Net Position

Governmental Activities	Business-Type Activities	TOTALS	
		2014	2013
\$ (2,017,332)	\$ -	\$ (2,017,332)	\$ (2,284,612)
(1,823,006)	-	(1,823,006)	(1,037,906)
(3,840,338)	-	(3,840,338)	(3,322,518)
-	515,519	515,519	258,680
-	(155,668)	(155,668)	(121,298)
-	359,851	359,851	137,382
(3,840,338)	359,851	(3,480,487)	(3,185,136)
4,290,035	-	4,290,035	3,785,817
1,446	-	1,446	1,372
108,721	-	108,721	47,311
4,400,202	-	4,400,202	3,834,500
559,864	359,851	919,715	649,364
2,657,883	161,656	2,819,539	2,170,175
<u>\$ 3,217,747</u>	<u>\$ 521,507</u>	<u>\$ 3,739,254</u>	<u>\$ 2,819,539</u>

COLORADO SPRINGS EARLY COLLEGES

BALANCE SHEET
GENERAL FUND
June 30, 2014

	GENERAL FUND	
	2014	2013
ASSETS		
Cash and Investments	\$ 2,374,061	\$ 1,633,116
Accounts Receivable	58,813	28,109
Due From Related Parties	443,671	139,707
Deposits	468,500	25,000
Advances to Other Funds	865,000	925,000
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 4,210,045</u>	<u>\$ 2,750,932</u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts Payable	\$ 413,618	\$ 59,458
Accrued Salaries and Benefits	202,034	206,725
Due To Related Parties	58,217	-
Due To Other Funds	540,288	92,469
	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>1,214,157</u>	<u>358,652</u>
FUND BALANCES		
Nonspendable	1,333,500	950,000
Restricted for Emergencies	133,000	118,000
Unassigned	1,529,388	1,324,280
	<u> </u>	<u> </u>
TOTAL FUND BALANCES	2,995,888	2,392,280
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	<u>221,859</u>	<u>265,603</u>
Net position of governmental activities	<u>\$ 3,217,747</u>	<u>\$ 2,657,883</u>

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

COLORADO SPRINGS EARLY COLLEGES

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GENERAL FUND
Year Ended June 30, 2014

	<u>GENERAL FUND</u>	
	<u>2014</u>	<u>2013</u>
REVENUES		
Local Sources		
Per Pupil Revenue	\$ 4,290,035	\$ 3,785,817
Charges for Services	-	93,216
Interest	1,446	1,372
Other	108,721	23,037
State Sources		
Grants	<u>420,393</u>	<u>298,129</u>
TOTAL REVENUES	<u>4,820,595</u>	<u>4,201,571</u>
EXPENDITURES		
Instruction	2,017,332	2,305,331
Supporting Services	<u>2,199,655</u>	<u>1,350,249</u>
TOTAL EXPENDITURES	<u>4,216,987</u>	<u>3,655,580</u>
NET CHANGE IN FUND BALANCES	<u>603,608</u>	<u>545,991</u>
FUND BALANCES, Beginning	<u>2,392,280</u>	<u>1,846,289</u>
FUND BALANCES, Ending	<u>\$ 2,995,888</u>	<u>\$ 2,392,280</u>

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

COLORADO SPRINGS EARLY COLLEGES

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

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

Net change in fund balances - total governmental funds	\$ 603,608
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount of depreciation expense for the year	<u>(43,744)</u>
Change in net position of governmental activities	<u>\$ 559,864</u>

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

COLORADO SPRINGS EARLY COLLEGES

STATEMENT OF NET POSITION
 PROPRIETARY FUND TYPE

June 30, 2014

	<u>BUILDING CORPORATION</u>	
	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash and Investments	\$ 104,362	\$ 77,686
Due From Other Funds	540,288	92,469
Due From Related Party	8,292	-
Deposits	<u>22,534</u>	<u>22,534</u>
Total Current Assets	<u>675,476</u>	<u>192,689</u>
Long-term Assets		
Capital Assets, Net of Accumulated Depreciation	<u>5,462,500</u>	<u>5,654,167</u>
Total Long-term Assets	<u>5,462,500</u>	<u>5,654,167</u>
TOTAL ASSETS	<u>6,137,976</u>	<u>5,846,856</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable	1,469	5,400
Security Deposits	<u>-</u>	<u>4,800</u>
Total Current Liabilities	<u>1,469</u>	<u>10,200</u>
Long-term Liabilities		
Advances from Other Funds	865,000	925,000
Notes Payable	<u>4,750,000</u>	<u>4,750,000</u>
Total Long-term Assets	<u>5,615,000</u>	<u>5,675,000</u>
TOTAL LIABILITIES	<u>5,616,469</u>	<u>5,685,200</u>
NET POSITION		
Net Investment in Capital Assets	(152,500)	(20,833)
Unrestricted	<u>674,007</u>	<u>182,489</u>
TOTAL NET POSITION	<u>\$ 521,507</u>	<u>\$ 161,656</u>

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

COLORADO SPRINGS EARLY COLLEGES

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND TYPE
Year Ended June 30, 2014

	<u>BUILDING CORPORATION</u>	
	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Rent	\$ 831,238	\$ 479,104
TOTAL OPERATING REVENUES	<u>831,238</u>	<u>479,104</u>
OPERATING EXPENSES		
Purchased Services	124,052	124,591
Depreciation	191,667	95,833
TOTAL OPERATING EXPENSES	<u>315,719</u>	<u>220,424</u>
OPERATING INCOME	<u>515,519</u>	<u>258,680</u>
NON-OPERATING (REVENUE) EXPENSES		
Insurance Proceeds	-	24,274
Interest Expense	(155,668)	(121,298)
TOTAL NON-OPERATING (REVENUES) EXPENSES	<u>(155,668)</u>	<u>(97,024)</u>
NET INCOME	359,851	161,656
NET POSITION, Beginning	<u>161,656</u>	<u>-</u>
NET POSITION, Ending	<u>\$ 521,507</u>	<u>\$ 161,656</u>

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

COLORADO SPRINGS EARLY COLLEGES

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE
 Year Ended June 30, 2014

	<u>BUILDING CORPORATION</u>	
	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Rental Operations	\$ 375,127	\$ 368,901
Cash Paid to Suppliers	<u>(132,783)</u>	<u>(119,191)</u>
Net Cash Provided by Operating Activities	<u>242,344</u>	<u>249,710</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	-	(5,750,000)
Proceeds from the Issuance of Note Payable	-	4,750,000
Proceeds from Advance from Other Funds	10,000	1,000,000
Insurance Proceeds	-	24,274
Repayments on Advances from Other Funds	(70,000)	(75,000)
Interest Payments	<u>(155,668)</u>	<u>(121,298)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(215,668)</u>	<u>(172,024)</u>
NET INCREASE IN CASH	26,676	77,686
Cash, Beginning	<u>77,686</u>	<u>-</u>
Cash, Ending	<u><u>\$ 104,362</u></u>	<u><u>\$ 77,686</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	<u>\$ 515,519</u>	<u>\$ 258,680</u>
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities		
Depreciation	191,667	95,833
Changes in Assets and Liabilities		
Due From Other Funds	(447,819)	(92,469)
Due From Related Party	(8,292)	-
Deposits	-	(22,534)
Accounts Payable	(3,931)	5,400
Security Deposits	<u>(4,800)</u>	<u>4,800</u>
TOTAL NET POSITION	<u><u>\$ 242,344</u></u>	<u><u>\$ 249,710</u></u>

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

COLORADO SPRINGS EARLY COLLEGES

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Colorado Springs Early Colleges (the “School”) was formed in 2006 pursuant to the Colorado Charter Schools Act to form and operate a charter school. The School provides a means for students to obtain college credit while completing their High School diploma requirements. The School is a member of the Charter School Institute and receives State funding from that organization.

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.

The School includes the Colorado Early Colleges-Fort Collins Building Corporation (the “Building Corporation”) within its reporting entity. The Building Corporation was formed during fiscal year 2013 to support and assist the School to perform its function and to carry out its purpose, specifically to oversee the leasing activities of the school’s real estate properties and to assist in the financing of the School’s facilities. The Building Corporation is reported in the School’s financial statements as an enterprise fund. Separate financial statements are not available for this entity.

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.

COLORADO SPRINGS EARLY COLLEGES
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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.

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.

COLORADO SPRINGS EARLY COLLEGES
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

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.

The School reports the following enterprise fund:

Building Corporation – This fund is used to account for the activities of the Building Corporation.

Assets, Liabilities and Fund Balance/Net Position

Investments – Investments are recorded at fair value.

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.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: leasehold improvements and machinery, 5 years, vehicles 10 years.

Net Position – The government-wide and business-type 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.

COLORADO SPRINGS EARLY COLLEGES

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

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 Deposits and Advances to Other Funds 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, 2014.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

COLORADO SPRINGS EARLY COLLEGES

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

The School's policy allows employees to accumulate paid time off. Upon termination of employment, the unused portion of leave is paid out limited to a maximum of 15 days. The employees can be paid for unused paid time off after four years of service at a rate up to \$80 per day. As of June 30, 2014, no employees met these criteria. Therefore, no liability has been accrued for these absences.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. 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 debt service expenditures.

Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "Internal Amounts". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries commercial insurance for these risks of loss. Settled claims have not exceeded insured amounts in the last three years.

COLORADO SPRINGS EARLY COLLEGES
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

A budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles.

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

Cash and Investments at June 30, 2014 consisted of the following:

Cash on Hand	\$ 160
Deposits	<u>2,478,263</u>
Total	<u>\$ 2,478,423</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2014 State regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held.

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

COLORADO SPRINGS EARLY COLLEGES

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 3: CASH AND INVESTMENTS (Continued)

Deposits (Continued)

At June 30, 2014, the School had deposits with financial institutions with a carrying amount of \$2,478,263. The bank balances with the financial institutions were \$2,577,967. Of these balances, \$500,000 was covered by federal depository insurance and \$2,077,967 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

NOTE 4: CAPITAL ASSETS

Capital Assets activity for the year ended June 30, 2014 is summarized below.

	Balance <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>
Governmental Activities				
Capital Assets, Being Depreciated				
Building Improvements	\$ 305,692	\$ -	\$ -	\$ 305,692
Vehicles	437,150	-	-	437,150
Furniture and Equipment	<u>29,899</u>	<u>-</u>	<u>-</u>	<u>29,899</u>
 Total Capital Assets, Being Depreciated	 <u>772,741</u>	 <u>-</u>	 <u>-</u>	 <u>772,741</u>
 Accumulated Depreciation				
Building Improvements	305,692	-	-	305,692
Vehicles	171,547	43,744	-	215,291
Furniture and Equipment	<u>29,899</u>	<u>-</u>	<u>-</u>	<u>29,899</u>
Total Accumulated Depreciation	<u>507,138</u>	<u>43,744</u>	<u>-</u>	<u>550,882</u>
 Net Capital Assets	 <u>\$ 265,603</u>	 <u>\$ (43,744)</u>	 <u>\$ -</u>	 <u>\$ 221,859</u>

Depreciation has been charged to the Supporting Services program of the School.

COLORADO SPRINGS EARLY COLLEGES

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 4: CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2014</u>
Business-type Activities				
Capital Assets, Being Depreciated				
Buildings	\$ 5,750,000	\$ -	\$ -	\$ 5,750,000
 Total Capital Assets, Being Depreciated	 <u>5,750,000</u>	 <u>-</u>	 <u>-</u>	 <u>5,750,000</u>
 Accumulated Depreciation				
Buildings	<u>95,833</u>	<u>191,667</u>	<u>-</u>	<u>287,500</u>
Total Accumulated Depreciation	<u>95,833</u>	<u>191,667</u>	<u>-</u>	<u>287,500</u>
 Net Capital Assets	 <u>\$ 5,654,167</u>	 <u>\$ (191,667)</u>	 <u>\$ -</u>	 <u>\$ 5,462,500</u>

NOTE 5: INTERFUND BALANCES

The composition of interfund balances as of June 30, 2014 is as follows:

<u>Due To</u>	<u>Due From</u>	<u>Amount</u>
General Fund - Advance	Building Corporation	\$ 865,000
Building Corporation	General Fund	<u>(540,288)</u>
Total		<u>\$ 324,712</u>

Due to Other Funds

These due to/from balances are the result of operating expenses, rents, and other operating activities paid on behalf of the payable school or fund by the receiving school or fund. Amounts owed will be repaid in the current fiscal year.

COLORADO SPRINGS EARLY COLLEGES
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2014

NOTE 5: INTERFUND BALANCES (Continued)

Advances to Other Funds

During 2013, the School loaned the Building Corporation \$1,000,000. During the year, the School advanced an additional \$10,000 to the Building Corporation and the Building Corporation paid the School \$75,000 in 2013 and \$70,000 in 2014 towards this advance. The balance is being repaid with monthly installments with no interest accruing on any portion of the advance if repaid in full by January 15, 2018. After January 15, 2018, interest will accrue on any unpaid balances at a rate of 10% per annum.

NOTE 6: ACCRUED SALARIES AND BENEFITS

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from September to August, but are earned during a school year of nine months. The salaries and benefits earned, but unpaid, as of June 30, 2014, were \$202,034 in the General Fund.

NOTE 7: LONG-TERM DEBT

Business-type Activities

Following is a summary of long-term debt transactions for the governmental activities for the year ended June 30, 2014.

	Balance <u>6/30/13</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>6/30/14</u>	Due In <u>One Year</u>
Promissory Note –					
Ft. Collins Facility	\$ 4,750,000	\$ _____ -	\$ _____ -	\$ 4,750,000	\$ _____ -

Promissory Note – Ft. Collins Facility

In September 2013, the School entered into a loan agreement for \$4,750,000 to purchase the Fort Collins building at a cost of \$5,750,000. The interest rate is variable based on the prime rate published by the Wall Street Journal. Monthly payments are required through September, 2016, including interest accruing at a rate of 3.25% as of June 30, 2014.

COLORADO SPRINGS EARLY COLLEGES

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 7: LONG-TERM DEBT (Continued)

Annual debt service requirements for the outstanding notes and bonds at June 30, 2014 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ -	\$ 154,375	\$ 154,375
2016	-	154,375	154,375
2017	<u>4,750,000</u>	<u>38,594</u>	<u>4,788,594</u>
Total Debt Service Requirements	<u>\$ 4,750,000</u>	<u>\$ 347,344</u>	<u>\$ 5,097,344</u>

NOTE 8: DEFINED BENEFIT PENSION PLAN

Plan Description. The School contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). Prior to January 1, 2006, the SDTF was part of the Combined State and School Division Trust Fund (CSSDTF), a cost-sharing multiple-employer defined benefit pension. The State Division Trust Fund and the School Division Trust Fund were separated into two funds as of January 1, 2006. The SDTF provides retirement and disability, annual increases, and death benefits for members or their beneficiaries. All employees of the School are members of the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the SDTF (prior to January 1, 2006 this fund was part of the CSSDTF). That report may be obtained online at www.copera.org or by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

Funding Policy. The School is required to contribute member and employer contributions to PERA at a rate set by statute. The contribution requirements of plan members and the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members is 8.0 % and for the Academy it is 10.15 % of covered salary. A portion of the School's contribution (1.02 % of covered salary) is allocated to the Health Care Trust Fund (See Note 9). If the School rehires a PERA retiree as an employee or under any other work arrangement, it is required to report and pay employer contributions on the amounts paid for the retiree, and the retiree is required to contribute 8% of covered salary. The School is also required to pay an amortization equalization disbursement equal to 7.3% of the total payroll for the calendar year 2014, (6.4% of total payroll for the calendar year 2013). For the years ending June 30, 2012, 2013, and 2014, the School's employer contributions for the SDTF were \$231,441, \$240,733, and \$287,803, respectively, equal to their required contributions for each year.

COLORADO SPRINGS EARLY COLLEGES

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 9: POSTEMPLOYMENT HEALTHCARE BENEFITS

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

Funding Policy. The School is required to contribute at a rate of 1.02% of covered salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208 of the Colorado Revised Statutes, as amended. For the years ending June 30, 2012, 2013, and 2014, the School's employer contributions to the HCTF were \$15,517, \$15,258, and \$17,262, respectively, equal to their required contributions for each year.

NOTE 10: COMMITMENTS AND CONTINGENCIES

Operating Lease

The School has entered into a non-cancellable operating lease for its building. This agreement requires monthly payments ranging from \$10,476 to \$12,088. The final payment is due August 31, 2015. The future minimum lease payments are as follows:

Year Ended	
<u>June 30</u>	
2014	\$ 143,438
2015	145,050
2016	<u>24,175</u>
Total	<u>\$ 312,663</u>

Total rent expense for the year ended June 30, 2014 for the lease was \$131,056.

COLORADO SPRINGS EARLY COLLEGES
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 10: **COMMITMENTS AND CONTINGENCIES** (Continued)

Operating Lease (Continued)

During the year ended June 30, 2014 the School's building was sold and the School's Building Corporation entered into a new lease agreement with the new landlord. The lease agreement is a lease with option to purchase which the Building Corporation is scheduled to exercise in November 2014.

Claims and Judgments

The School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor government. As of June 30, 2014, significant amounts of grant expenditures have not been audited, but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment. As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2014, the reserve of \$133,000 was recorded as a reservation of net position in the General Fund.

NOTE 11: **RELATED PARTY TRANSACTIONS**

The School received payments on behalf of Colorado Early Colleges – Fort Collins, a related party. As of June 30, 2014, the School owed \$58,217 to the related party.

The School paid expenses on behalf of Colorado Early Colleges – Douglas County, a related party. As of June 30, 2014 the related party owed \$443,671 to the School.

COLORADO SPRINGS EARLY COLLEGES
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 12: SUBSEQUENT EVENT

The Building Corporation is in the process of purchasing the building the School is currently leasing from another party. In addition, the School has received approval for a new charter school to be located in Douglas County, Colorado. The Building Corporation is currently in the process of purchasing a building for the new charter school as well.

In anticipation of purchasing the new buildings, the School has deposited \$468,500 in escrow as of June 30, 2014.

Financing has not been finalized as of the date of the audit. However, the new financing agreement will combined the Building Corporation's existing debt with the debt for the purchase of the new building. The School is scheduled to complete these transactions in November 2014.

REQUIRED SUPPLEMENTARY INFORMATION

COLORADO SPRINGS EARLY COLLEGES

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2014

	2014		VARIANCE Positive (Negative)	2013 ACTUAL
	ORIGINAL AND FINAL BUDGET	ACTUAL		
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 3,649,315	\$ 4,290,035	\$ 640,720	\$ 3,785,817
Charges for Services	-		-	93,216
Interest	10,000	1,446	(8,554)	1,372
Other	1,007,267	108,721	(898,546)	23,037
State and Federal Sources				
Grants and Donations	249,000	420,393	171,393	298,129
TOTAL REVENUES	4,915,582	4,820,595	(94,987)	4,201,571
EXPENDITURES				
Instruction				
Salaries	958,693	880,877	77,816	1,067,735
Employee Benefits	256,824	213,730	43,094	238,737
Purchased Services	1,435,407	797,107	638,300	826,248
Supplies and Materials	99,000	125,618	(26,618)	155,702
Other	-	-	-	16,909
Total Instruction	2,749,924	2,017,332	732,592	2,305,331
Supporting Services				
School Administration				
Salaries	543,200	820,340	(277,140)	491,632
Employee Benefits	164,925	143,920	21,005	109,374
Purchased Services	1,101,965	828,161	273,804	661,545
Supplies and Materials	102,000	228,153	(126,153)	37,256
Property	39,000	125,280	(86,280)	43,552
Other	-	53,801	(53,801)	6,890
Total Supporting Services	1,951,090	2,199,655	(248,565)	1,350,249
TOTAL EXPENDITURES	4,701,014	4,216,987	484,027	3,655,580
NET CHANGE IN FUND BALANCE	\$ 214,568	603,608	\$ 389,040	545,991
FUND BALANCE, Beginning		2,392,280		1,846,289
FUND BALANCE, Ending		<u>\$ 2,995,888</u>		<u>\$ 2,392,280</u>

See the accompanying independent auditors' report.