

ROCKY MOUNTAIN PREPARATORY SCHOOL

BASIC FINANCIAL STATEMENTS

June 30, 2014

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FINANCIAL SECTION



**JOHN CUTLER
& ASSOCIATES**

Board of Directors
Rocky Mountain Preparatory School
Denver, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Rocky Mountain Preparatory School, as of and for the 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Rocky Mountain Preparatory School, as of June 30, 2014, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis and the budgetary comparison information on page 16 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

September 2, 2014

Management's Discussion and Analysis

As management of Rocky Mountain Prep Charter School (RMP), we offer readers of Rocky Mountain Prep Charter School's financial statements our narrative overview and analysis of the financial activities of RMP for the fiscal year ended June 30, 2014, the third year of operations as a school.

Financial Highlights

The year ended June 30, 2014 is the second year of operations with students at RMP. The assets of Rocky Mountain Prep Charter School exceeded its liabilities at the close of the most recent fiscal year by \$947,254 (net position).

At the close of the fiscal year Rocky Mountain Prep Charter School's governmental funds also reported a combined ending fund balance of \$895,378.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to Rocky Mountain Prep Charter School's basic financial statements. Rocky Mountain Prep Charter School's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of Rocky Mountain Prep Charter School's finances, in a manner similar to a private-sector business.

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

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

The government-wide statement of activities distinguishes functions/programs of Rocky Mountain Prep Charter School supported primarily by Per Pupil Operating Revenue or other

revenues passed through from the District (Denver Public Schools). The governmental activities of Rocky Mountain Prep Charter School include instruction and supporting services.

The government-wide financial statements can be found on pages 1-2 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Rocky Mountain Prep Charter School, like other governmental units or schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Rocky Mountain Prep Charter School are governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Rocky Mountain Prep Charter School maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital reserve fund, because both are considered to be major funds.

Rocky Mountain Prep Charter School adopts an annual appropriated budget for its funds. Budgetary comparison statements have been provided for the funds to demonstrate compliance with the budget.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 6-12.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of Rocky Mountain Prep Charter School, assets exceeded liabilities by \$947,254 in FY 2013-2014.

Rocky Mountain Prep Charter School's Net Position Governmental Activities

| | <u>June 30, 2014</u> | <u>June 30, 2013</u> |
|------------------------------|----------------------|----------------------|
| ASSETS | | |
| Cash and investments | \$ 786,415 | \$ 520,817 |
| Cash Held by the District | 50,191 | 19,880 |
| Accounts Receivable | 98,325 | 62,102 |
| Inventory | 8,365 | 14,543 |
| Prepaid Expenses | 14,064 | 1,450 |
| Capital Assets, Depreciated | 51,876 | - |
| Total Assets | 1,009,236 | 618,792 |
| LIABILITIES | | |
| Accounts Payable | 61,982 | 7,284 |
| Accrued Salaries & Benefits | - | - |
| Total Liabilities | 61,982 | 7,284 |
| NET POSITION | | |
| Investment in Capital Assets | 51,876 | - |
| Restricted for Emergencies | 62,000 | 34,000 |
| Unrestricted | 833,378 | 577,508 |
| Total Net Position | \$ 947,254 | \$ 611,508 |

The largest portion of Rocky Mountain Prep Charter School's assets is in cash and investments @ 78% in 2014.

**Rocky Mountain Prep Charter School's Change in Net Position
Governmental Activities**

| | <u>June 30, 2014</u> | <u>June 30, 2013</u> |
|--|----------------------|----------------------|
| Program Revenue: | | |
| Charges for Services | - | - |
| Operating Grants and Contributions | 1,405,107 | 1,274,165 |
| Capital Grants and Contributions | 10,302 | 6,952 |
| Total Program Revenue | <u>1,415,409</u> | <u>1,281,117</u> |
| General Revenue: | | |
| Per Pupil Revenue | 1,672,269 | 631,168 |
| Mill Levy Revenue | 298,567 | 252,513 |
| Investment Earnings | 438 | - |
| Miscellaneous & Grants | 77,020 | 13,990 |
| Total General Revenue | <u>2,048,294</u> | <u>952,605</u> |
| Total Revenue | <u>3,463,703</u> | <u>2,178,788</u> |
| Expenses: | | |
| Current: | | |
| Instruction | 1,628,564 | 731,584 |
| Supporting Services | 1,449,393 | 976,724 |
| Total Expenses | <u>3,127,957</u> | <u>1,708,308</u> |
| Increase/(Decrease) in Net Position | 335,746 | 470,480 |
| Net Position, Beginning | <u>611,508</u> | <u>141,028</u> |
| Net Position, Ending | <u>\$ 947,254</u> | <u>\$ 611,508</u> |

The largest portion of Rocky Mountain Prep Charter School's revenues came from grants and contributions and per pupil revenue – 40% and 48%, respectively in 2014.

Financial Analysis of the Government's Funds

As noted earlier, Rocky Mountain Prep Charter School uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds. The focus of Rocky Mountain Prep Charter School's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Rocky Mountain Prep Charter School'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 current fiscal year, the School's General Fund reported an ending fund balance of \$895,378.

General Fund Budgetary Highlights

The School approves a budget in May based on enrollment projections for the upcoming school year. In October, after enrollment stabilizes, adjustments are made to the budget. At year-end, the school had some variances between its final budgeted and actual activities. On the revenue side, the school recognized \$389,074 in additional revenues due to increases in per pupil revenue and student count but realized less-than-anticipated grants and donations that resulted in a decrease of \$364,380. On the expense side, expenses remained \$265,286 under budget in an effort to remain compliant with Statute and to establish a reserve for future growth. One budget amendment was made during the 2013-2014 year.

Debt

Rocky Mountain Prep Charter School has no investments in long-term debt obligations. The school has obtained a line of credit with its local bank for \$150,000 to support organizational growth. As of June 30th, 2014, no amounts have been drawn on the account.

Economic Factors and Next Year's Budget

The primary factor driving the budget for Rocky Mountain Prep Charter School is student enrollment. Enrollment for the 2013-2014 school year was 180.60 funded students. This information was analyzed as part of the 2014-2015 budget which is projecting a 300.72 funded student count.

Requests for Information

This financial report is designed to provide a general overview of Rocky Mountain Prep Charter School'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 the school:

Rocky Mountain Prep Charter School
7808 Cherry Creek S. Drive #3-300
Denver, CO 80231

BASIC FINANCIAL STATEMENTS

ROCKY MOUNTAIN PREPARATORY SCHOOL

STATEMENT OF NET POSITION

As of June 30, 2014

| | Governmental Activities | |
|------------------------------|-------------------------|-------------------|
| | 2014 | 2013 |
| ASSETS | | |
| Cash | \$ 786,415 | \$ 520,817 |
| Cash Held at District | 50,191 | 19,880 |
| Accounts Receivable | 98,325 | 62,102 |
| Inventory | 8,365 | 14,543 |
| Prepaid Expenses | 14,064 | 1,450 |
| Capital Assets, Depreciated | 51,876 | - |
| TOTAL ASSETS | <u>1,009,236</u> | <u>618,792</u> |
| LIABILITIES | | |
| Accounts Payable | <u>61,982</u> | <u>7,284</u> |
| TOTAL LIABILITIES | <u>61,982</u> | <u>7,284</u> |
| NET POSITION | | |
| Investment in Capital Assets | 51,876 | |
| Restricted for Emergencies | 62,000 | 34,000 |
| Unrestricted, Unreserved | <u>833,378</u> | <u>577,508</u> |
| TOTAL NET POSITION | <u>\$ 947,254</u> | <u>\$ 611,508</u> |

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

ROCKY MOUNTAIN PREPARATORY SCHOOL

STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

| FUNCTIONS/PROGRAMS | Expenses | PROGRAM REVENUES | | Net (Expense) Revenue and Change in Net Position | | |
|--------------------------------|---------------------|-------------------------|--|---|-------------------------|-------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | |
| PRIMARY GOVERNMENT | | | | | 2014 | 2013 |
| Governmental Activities | | | | | | |
| Instructional | \$ 1,628,564 | \$ - | \$ 131,195 | \$ - | \$ (1,497,369) | \$ (633,528) |
| Supporting Services | 1,499,393 | - | 1,273,912 | 10,302 | (215,179) | 206,337 |
| Total Governmental Activities | <u>\$ 3,127,957</u> | <u>\$ -</u> | <u>\$ 1,405,107</u> | <u>\$ 10,302</u> | (1,712,548) | (427,191) |
| GENERAL REVENUES | | | | | | |
| | | | | | 1,672,269 | 631,168 |
| Per Pupil Revenue | | | | | 298,567 | 252,513 |
| Mill Levy Override | | | | | 438 | - |
| Interest | | | | | 77,020 | 13,990 |
| Other | | | | | | |
| TOTAL GENERAL REVENUES | | | | | <u>2,048,294</u> | <u>897,671</u> |
| CHANGE IN NET POSITION | | | | | 335,746 | 470,480 |
| NET POSITION, Beginning | | | | | <u>611,508</u> | <u>141,028</u> |
| NET POSITION, Ending | | | | | <u>\$ 947,254</u> | <u>\$ 611,508</u> |

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

ROCKY MOUNTAIN PREPARATORY SCHOOL

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

| | <u>GENERAL FUND</u> | |
|---|---------------------|-------------------|
| | <u>2014</u> | <u>2013</u> |
| ASSETS | | |
| Cash | \$ 786,415 | \$ 520,817 |
| Cash Held at District | 50,191 | 19,880 |
| Accounts Receivable | 98,325 | 62,102 |
| Inventory | 8,365 | 14,543 |
| Prepays | <u>14,064</u> | <u>1,450</u> |
| TOTAL ASSETS | <u>\$ 957,360</u> | <u>\$ 618,792</u> |
| LIABILITIES AND FUND BALANCES | | |
| LIABILITIES | | |
| Accounts Payable | <u>\$ 61,982</u> | <u>\$ 7,284</u> |
| TOTAL LIABILITIES | <u>61,982</u> | <u>7,284</u> |
| FUND BALANCES | | |
| Nonspendable | 22,429 | 15,993 |
| Restricted for Emergencies | 62,000 | 34,000 |
| Unassigned | <u>810,949</u> | <u>561,515</u> |
| TOTAL FUND BALANCES | 895,378 | 611,508 |
| 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>51,876</u> | <u>-</u> |
| Net position of governmental activities | <u>\$ 947,254</u> | <u>\$ 611,508</u> |

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

ROCKY MOUNTAIN PREPARATORY SCHOOL

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

| | <u>GENERAL FUND</u> | |
|-----------------------------|--------------------------|--------------------------|
| | <u>2014</u> | <u>2013</u> |
| REVENUES | | |
| Local Sources | \$ 2,901,265 | \$ 1,757,308 |
| State and Federal Sources | <u>562,438</u> | <u>421,480</u> |
| TOTAL REVENUES | <u>3,463,703</u> | <u>2,178,788</u> |
| EXPENDITURES | | |
| Current | | |
| Instruction | 1,628,564 | 731,584 |
| Supporting Services | <u>1,551,269</u> | <u>976,724</u> |
| TOTAL EXPENDITURES | <u>3,179,833</u> | <u>1,708,308</u> |
| NET CHANGE IN FUND BALANCES | 283,870 | 470,480 |
| FUND BALANCES, Beginning | <u>611,508</u> | <u>141,028</u> |
| FUND BALANCES, Ending | <u><u>\$ 895,378</u></u> | <u><u>\$ 611,508</u></u> |

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

ROCKY MOUNTAIN PREPATORY SCHOOL

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 | \$ 283,870 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$55,581, exceeded depreciation expense (\$3,705) for the current period. | <u>51,876</u> |
| Change in Net Position of Governmental Activities | <u><u>\$ 335,746</u></u> |

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

ROCKY MOUNTAIN PREPARATORY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Rocky Mountain Preparatory School (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Denver Public School District (the “District”) in the State of Colorado. The School began its first set of classes in the fall of 2012.

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 on the application of these criteria, the School does not include additional organizations within its reporting entity. However, the School is a component unit of the Denver Public School 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.

ROCKY MOUNTAIN PREPARATORY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

Major individual governmental funds are reported in separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Intergovernmental revenues, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first and the unrestricted resources as they are needed.

ROCKY MOUNTAIN PREPARATORY SCHOOL

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.

Assets, Liabilities and Fund Balance/Net Position

Receivables – Receivables are reported at their gross value, and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable.

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. Facility improvements are depreciated over 10 years.

Unearned Revenues – Deferred revenues include grant funds that have been collected but the corresponding expense has not been incurred.

Long-Term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures. The School has no long-term debt as of June 30, 2014.

ROCKY MOUNTAIN PREPARATORY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Net Position

The government-wide financial statements, utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets includes the School's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The School typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

Unrestricted Net Position typically includes unrestricted liquid assets. The Board has the authority to revisit or alter this designation.

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 either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. The School considers inventory and 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.

ROCKY MOUNTAIN PREPARATORY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2014.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

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 coverage for these risks of loss. Settlements have not exceeded insurance coverage in the last three years.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the School's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

ROCKY MOUNTAIN PREPARATORY SCHOOL

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.

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 yearend.

NOTE 3: CASH AND INVESTMENTS

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

| | |
|-------------------------------|--------------------------|
| Cash | \$ 786,265 |
| Pooled Cash with the District | 50,191 |
| Petty Cash | <u>150</u> |
| Total | <u>\$ 836,606</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.

ROCKY MOUNTAIN PREPARATORY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 3: CASH AND INVESTMENTS (Continued)

At June 30, 2014, the School had deposits with financial institutions with a carrying amount of \$786,265. The bank balances with the financial institutions were \$804,184. Of these balances, \$500,000 was covered by federal depository insurance and \$304,184 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

Pooled Cash with the District

Cash deposits are pooled with the District's cash and investments which were held by several banking institutions. Pooled investments represent investments in local government investment pools or in money market funds. At June 30, 2014 the School's balance in equity in pooled cash of the District totaled \$50,191.

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

The School has no policy for managing credit risk or interest rate risk.

The School had no investments as of June 30, 2014.

Restricted Cash and Investments

Cash in the amount of \$50,191 is restricted in the General Fund as an emergency reserve related to the TABOR amendment.

ROCKY MOUNTAIN PREPARATORY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

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, Depreciated | | | | |
| Facility Improvements | \$ - | \$ 55,581 | \$ - | \$ 55,581 |
| Accumulated Depreciation | | | | |
| Facility Improvements | - | 3,705 | - | 3,705 |
| Net Capital Assets | <u>\$ -</u> | <u>\$ 51,876</u> | <u>\$ -</u> | <u>\$ 51,876</u> |

Depreciation has been charged to supporting services program of the School.

NOTE 5: LINE OF CREDIT

The School has obtained a line of credit with a local bank in the amount of \$150,000. This line of credit carries an interest rate of 7.25% and matures on January 13, 2015. As of June 30, 2014, no amounts have been drawn on this line of credit.

NOTE 6: PENSION PLANS

Defined Benefit Pension Plan

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

ROCKY MOUNTAIN PREPARATORY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 6: **PENSION PLANS** (Continued)

Funding Policy. The School is required to contribute member and employer contributions to PERA at a rate set by statute. The contribution requirements of plan members and the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members is 8.0 % and for the School it is 4.16 % of the total payroll for the calendar year 2014 (5.64 % of total payroll for the calendar year 2013). 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, who is required to contribute 8% of covered salary. For the years ending June 30, 2014 and 2013 the School's employer contribution for the SDTF were \$99,327 and \$31,959, respectively, equal to the required contribution for each year.

Taxable Pension Certificates of Participation (PCOPs)

The District issued Taxable Pension Certificates of Participation (PCOPs) on July 17, 1997 to fully fund the unfunded actuarial accrued liability (UAAL) of the Plan. Full funding of the UAAL reduced the employer contribution rate from the full funding rate of 15.75% to the normal cost rate of 4.98%. This rate is based upon actuarially determined contribution requirements, the approval and recommendation of the Plan's Board and approval of the District's Board of Education. The School contributed 10.8% of covered payroll for the fiscal year ended June 30, 2014 to the District to cover its obligation relating to the PCOPs.

During the fiscal years ended June 30, 2014 and 2013, the School made contributions totaling \$134,102 and \$76,046 to the District towards its PCOPs obligation.

NOTE 7: **COMMITMENTS AND CONTINGENCIES**

Facilities Use Agreement

In June 2012, the School entered into a facility use agreement with the District. Under the terms of the agreement, the School is required to pay an annual use fee of \$710 per student. The facility use fee is payable in three installments, 25% in July and October and 50% in January of each fiscal year. As long as the School is not in default under the terms of the agreement it will remain in force concurrent with the School's charter contract.

The School paid \$152,650 under the terms of this agreement for the year ended June 30, 2014.

ROCKY MOUNTAIN PREPARATORY SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

NOTE 7: *COMMITMENTS AND CONTINGENCIES* (Continued)

Claims and Judgments

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

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment.

As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2014, the reserve of \$62,000 was recorded as a reservation of fund balance in the General Fund. The District also holds \$50,191 in pooled cash on behalf of the School for this reserve.

NOTE 8: *RELATED PARTIES*

The President of the School's Board of Director is the Vice President of Revolution Foods, the vendor for the School's food service program. During the fiscal year ended June 30, 2014 the School paid \$172,225 to Revolution Foods for services provided under the School's food service program agreement.

NOTE 9: *SUBSEQUENT EVENTS*

The School has evaluated subsequent events through the date which the financial statements were issued. There were no material subsequent events that required recognition or additional disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

ROCKY MOUNTAIN PREPARATORY SCHOOL

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended June 30, 2014

| | 2014 | | | VARIANCE | 2013 |
|--------------------------------|--------------------|-------------------|-------------------|------------------------|-------------------|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | Positive (Negative) | ACTUAL |
| REVENUES | | | | | |
| Local Sources | | | | | |
| Per Pupil Revenue | \$ 1,292,539 | \$ 1,283,195 | \$ 1,672,269 | \$ 389,074 | \$ 631,168 |
| Mill Levy Override | 242,775 | 298,567 | 298,567 | - | 252,513 |
| Grants and Donations | 829,925 | 1,227,653 | 852,971 | (374,682) | 859,637 |
| Other | 2,500 | 68,000 | 77,020 | 9,020 | 13,990 |
| Interest | - | 400 | 438 | 38 | - |
| State and Federal Sources | | | | | |
| Grants and Donations | 574,846 | 567,304 | 562,438 | (4,866) | 421,480 |
| TOTAL REVENUES | 2,942,585 | 3,445,119 | 3,463,703 | 18,584 | 2,178,788 |
| EXPENDITURES | | | | | |
| Salaries | 1,438,194 | 1,343,000 | 1,374,697 | (31,697) | 722,930 |
| Employee Benefits | 356,749 | 430,127 | 421,219 | 8,908 | 177,831 |
| Purchased Services | 797,338 | 973,104 | 965,229 | 7,875 | 507,671 |
| Supplies and Materials | 179,774 | 247,400 | 259,255 | (11,855) | 225,542 |
| Property | 122,038 | 138,350 | 125,928 | 12,422 | 68,698 |
| Other | 8,586 | 313,138 | 33,505 | 279,633 | 5,636 |
| TOTAL EXPENDITURES | 2,902,679 | 3,445,119 | 3,179,833 | 265,286 | 1,708,308 |
| CHANGE IN FUND BALANCES | 39,906 | - | 283,870 | 283,870 | 470,480 |
| FUND BALANCE, Beginning | 737,284 | 611,508 | 611,508 | - | 141,028 |
| FUND BALANCE, Ending | \$ 777,190 | \$ 611,508 | \$ 895,378 | \$ 283,870 | \$ 611,508 |

See the accompanying independent auditors' report.