

RICARDO FLORES MAGON ACADEMY

FINANCIAL STATEMENTS

June 30, 2014

RICARDO FLORES MAGON ACADEMY

Board of Directors

June 30, 2014

Chairperson	Virginia Longoria
Vice-Chairperson	Cleopatra Estrada
Secretary	Gina Del Castillo
Board Member	Anna Halaburda
Board Member	Yulia Hernandez

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Board of Directors
Ricardo Flores Magon Academy
Westminster, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Ricardo Flores Magon Academy as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Ricardo Flores Magon Academy, 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.

Auditors' 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 auditors' 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 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 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 fund of the Ricardo Flores Magon Academy as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, 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 the required supplementary information listed in the table of contents 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 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.

Swanlund & Company LLC

September 9, 2014

Ricardo Flores Magon Academy

Management's Discussion and Analysis

Fiscal Year Ending June 30, 2014

As management of Ricardo Flores Magon Academy (RFMA), we offer readers of RFMA's basic financial statements this narrative and analysis of the financial activities of RFMA for the year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

Financial Highlights

The year ended June 30, 2014 was the seventh year of operations for RFMA. The general fund balance for fiscal year ending June 30, 2014 is \$332,131. The net position for the Building Corporation is \$684,406.

The operations of RFMA are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue was \$2,328,986.

RFMA expanded the use of its current building during the year with two phases of construction. Full use of the building transpired in December 2013. A loan of \$1,500,000 was taken to complete these two phases of construction. This loan has interest accruing at a current rate of 5.5%. A balloon payment of \$1,274,891 is due at maturity on July 5, 2019. Another long term loan was taken from the Colorado Charter School Institute for \$50,000. This non-interest bearing loan is due in twenty equal payments of \$2,500 beginning November 1, 2014 through June 1, 2016.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to RFMA's basic financial statements. The basic 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 RFMA's finances in a manner similar to a private-sector business.

The statement of net position presents information on all RFMA's assets and liabilities, with the difference between the two being reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial position of RFMA is improving or deteriorating. The statement of activities presents information showing how RFMA'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. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end).

The government-wide statement of activities distinguishes functions/programs of RFMA that are primarily supported by the per-pupil operating revenue passed from the Colorado Charter School Institute. These activities include instruction and supporting services expense.

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. RFMA keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements, except that the focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Both the balance sheet and the statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the governmental fund and the governmental activities.

Notes to Financial Statements

The notes 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 RFMA's financial position. For the year ended June 30, 2014, RFMA's combined assets exceeded liabilities by \$1,019,827. Of RFMA's net position, \$209,131 is unrestricted and is available to meet RFMA's ongoing financial obligations \$73,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. RFMA's net investment in Capital Assets is \$737,696.

Net Position		2013-2014	2012-2013
	Assets		
	Cash	430,211	\$222,858
	Accounts Receivable	23,210	10,325
	Prepaid Expenses	12,078	
	Grants Receivable	69,642	36,021
	Internal Balances		-
	Capital Assets, Not being Depreciated	66,000	269,094
	Capital Assets, Net of Accumulated Depreciation	<u>2,177,009</u>	<u>1,086,699</u>
	Total Assets	2,778,150	1,624,997
	Liabilities		
	Accounts Payable	28,768	181,778
	Retainage Payable		18,010
	Accrued Liabilities	57,236	49,551
	Accrued Salaries and Benefits	117,006	95,785
	Line of Credit Payable		75,000
	Accrued Interest Payable	5,313	
	Non Current Liabilities		
	Due in One Year	62,056	167,032
	Due in More than One Year	<u>1,487,944</u>	<u>0</u>
	Total Liabilities	1,758,323	587,156
	Total Net Position		
	Net Investment in Capital Assets	737,696	733,662
	Restricted for Emergencies	73,000	64,305
	Unrestricted	209,131	239,874
	Total Net Position	1,019,827	\$1,037,841

Changes in Net Position		2013-2014	2012-2013
	Revenues		
	Per Pupil Revenue	2,328,986	\$2,073,174
	Charges for Services	30,611	33,524
	Operating Grants and Contributions	417,352	333,893
	Capital Construction Funding	31,527	26,204
	Investment Earnings	346	
	Grants and Contributions not Restricted to Specific Programs	13,171	27,577
	Miscellaneous	33,279	2,021
	Total Revenue	<u>\$2,855,272</u>	<u>\$2,496,393</u>
	Expenses		
	Instruction	1,142,426	965,513
	Support Services	1,590,897	1,373,586
	Building Corporation	139,963	48,833
	Total Expenses	<u>\$2,873,286</u>	<u>\$2,387,932</u>
	Increase/(Decrease) in Net Position	(18,014)	108,461
	Net Position, Beginning	1,037,841	929,380
	Net Position, Ending	1,019,827	1,037,841

Governmental fund

The focus of Ricardo Flores Magon Academy's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing RFMA's financing requirements. In particular, unassigned fund balance may serve as a useful measure of RFMA's net resources available to spend at the end of the fiscal year.

As of the end of the current fiscal year RFMA's general fund reported an ending fund balance of \$332,131.

General Fund Budgetary Highlights

RFMA budgeted for General Fund expenditures of \$3,202,874 for the year ended June 30, 2014. Actual expenditures were \$2,875,822.

There were budget amendments during the year, which reflected a decrease in per pupil revenue. This was due to a slight decrease in student count over budgeted number of students.

The school has an obligation to the original building it leased. This lease obligation continues until June 30, 2017. Payments for FY15 total \$243,331.

Capital Asset and Debt Administration

Capital assets

The Building Corporation's investment in capital assets net of accumulated depreciation as of June 30, 2014, amounts to \$66,000 in land and \$2,123,719 in building and building improvements. RFMA also had \$53,290 invested in equipment. The detail of capital assets is in Note 3 of the financial statements.

Long-term debt

As of June 30, 2014 RFMA and the Building Corporation had debt due within one year with a balance of \$62,056 and total outstanding long-term debt of \$1,550,000. This is described in Note 5 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for RFMA is student enrollment. Full time enrollment for the 2013-2014 school year was 332.2. The enrollment projected for the 2014-2015 school year is expected to be 324.1. This factor was considered in preparing RFMA's budget for 2014-2015.

BASIC FINANCIAL STATEMENTS

RICARDO FLORES MAGON ACADEMY

STATEMENT OF NET POSITION

June 30, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash	\$ 430,211	\$ -	\$ 430,211
Accounts Receivable	23,210	-	23,210
Grants Receivable	69,642	-	69,642
Prepaid Expenses	12,078	-	12,078
Capital Assets, Not Being Depreciated	-	66,000	66,000
Capital Assets, Net of Accumulated Depreciation	53,290	2,123,719	2,177,009
TOTAL ASSETS	588,431	2,189,719	2,778,150
LIABILITIES			
Accounts Payable	28,768	-	28,768
Accrued Liabilities	57,236	-	57,236
Accrued Salaries and Benefits	117,006	-	117,006
Accrued Interest Payable	-	5,313	5,313
Noncurrent Liabilities			
Due Within One Year	20,000	42,056	62,056
Due in More Than One Year	30,000	1,457,944	1,487,944
TOTAL LIABILITIES	253,010	1,505,313	1,758,323
NET POSITION			
Net Investment in Capital Assets	53,290	684,406	737,696
Restricted for Emergencies	73,000	-	73,000
Unrestricted	209,131	-	209,131
TOTAL NET POSITION	\$ 335,421	\$ 684,406	\$ 1,019,827

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

RICARDO FLORES MAGON ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities			
Instruction	\$ 1,142,426	\$ 20,867	\$ 222,722
Supporting Services	1,590,897	9,744	194,630
Total Governmental Activities	2,733,323	30,611	417,352
Business-Type Activities			
Building Corporation	139,963	-	-
TOTAL PRIMARY GOVERNMENT	\$ 2,873,286	\$ 30,611	\$ 417,352

GENERAL REVENUES

Per Pupil Revenue

Grants and Contributions not Restricted to

Specific Programs

Capital Construction

Investment Income

Miscellaneous

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

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 CHANGE IN NET POSITION

GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
\$ (898,837)	\$ -	\$ (898,837)
<u>(1,386,523)</u>	<u>-</u>	<u>(1,386,523)</u>
<u>(2,285,360)</u>	<u>-</u>	<u>(2,285,360)</u>
<u>-</u>	<u>(139,963)</u>	<u>(139,963)</u>
<u>(2,285,360)</u>	<u>(139,963)</u>	<u>(2,425,323)</u>
2,328,986	-	2,328,986
13,171	-	13,171
31,527	-	31,527
346	-	346
33,279	-	33,279
<u>(92,444)</u>	<u>92,444</u>	<u>-</u>
<u>2,314,865</u>	<u>92,444</u>	<u>2,407,309</u>
29,505	(47,519)	(18,014)
<u>305,916</u>	<u>731,925</u>	<u>1,037,841</u>
\$ <u><u>335,421</u></u>	\$ <u><u>684,406</u></u>	\$ <u><u>1,019,827</u></u>

RICARDO FLORES MAGON ACADEMY

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2014

	<u>GENERAL</u>
ASSETS	
Cash	\$ 430,211
Accounts Receivable	23,210
Grants Receivable	69,642
Prepaid Expenditures	<u>12,078</u>
TOTAL ASSETS	\$ <u>535,141</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 28,768
Accrued Liabilities	57,236
Accrued Salaries and Benefits	<u>117,006</u>
TOTAL LIABILITIES	<u>203,010</u>
FUND BALANCE	
Nonspendable Prepaid Expenditures	12,078
Restricted for Emergencies	73,000
Unrestricted, Unassigned	<u>247,053</u>
TOTAL FUND BALANCE	<u>332,131</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>535,141</u>
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 332,131
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	53,290
Long-term liabilities are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(50,000)</u>
Total Net Position of Governmental Activities	\$ <u>335,421</u>

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

RICARDO FLORES MAGON ACADEMY

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

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 2,406,393
State Sources	101,097
Federal Sources	<u>347,782</u>
TOTAL REVENUES	<u>2,855,272</u>
EXPENDITURES	
Instruction	1,195,716
Supporting Services	<u>1,680,106</u>
TOTAL EXPENDITURES	<u>2,875,822</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(20,550)
OTHER FINANCING SOURCES	
Debt Proceeds	<u>50,000</u>
NET CHANGE IN FUND BALANCE	29,450
FUND BALANCE, Beginning	<u>302,681</u>
FUND BALANCE, Ending	\$ <u><u>332,131</u></u>

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Net Change in Fund Balance of the Governmental Fund	\$ 29,450
Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized in the statement of net position and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlay \$66,613 exceeded depreciation expense (\$16,558) in the current year.	50,055
The issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities.	<u>(50,000)</u>
Change in Net Position of Governmental Activities	\$ <u><u>29,505</u></u>

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

RICARDO FLORES MAGON ACADEMY

STATEMENT OF NET POSITION

PROPRIETARY FUND

June 30, 2014

	<u>BUILDING CORPORATION</u>
NONCURRENT ASSETS	
Capital Assets, Not Being Depreciated	\$ 66,000
Capital Assets, Net of Accumulated Depreciation	<u>2,123,719</u>
TOTAL ASSETS	<u>2,189,719</u>
LIABILITIES	
CURRENT LIABILITIES	
Accrued Interest Payable	5,313
Loan Payable, Current Portion	<u>42,056</u>
TOTAL CURRENT LIABILITIES	47,369
NONCURRENT LIABILITIES	
Loan Payable	<u>1,457,944</u>
TOTAL LIABILITIES	<u>1,505,313</u>
NET POSITION	
Net Investment in Capital Assets	<u>684,406</u>
TOTAL NET POSITION	<u>\$ 684,406</u>

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

RICARDO FLORES MAGON ACADEMY

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

	<u>BUILDING CORPORATION</u>
OPERATING REVENUES	
Rental Income	\$ <u>48,522</u>
OPERATING EXPENSES	
Depreciation	56,663
Debt Service	
Interest and Fiscal Charges	<u>83,300</u>
TOTAL OPERATING EXPENSES	<u>139,963</u>
NET OPERATING INCOME (LOSS)	(91,441)
CAPITAL CONTRIBUTIONS	
Capital Assets	<u>43,922</u>
CHANGE IN NET POSITION	(47,519)
NET POSITION, Beginning	<u>731,925</u>
NET POSITION, Ending	\$ <u><u>684,406</u></u>

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

RICARDO FLORES MAGON ACADEMY

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Year Ended June 30, 2014

Increase (Decrease) in Cash

	<u>BUILDING CORPORATION</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Rental Payments Received	\$ 48,522
Debt Interest and Fiscal Charges Paid	<u>(77,987)</u>
Net Cash Provided (Used) by Operating Activities	<u>(29,465)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Debt Proceeds	1,500,000
Construction of Capital Assets	(1,030,001)
Debt Principal Paid	(242,032)
Payments to Other Funds	<u>(200,000)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>27,967</u>
NET INCREASE IN CASH	(1,498)
CASH, Beginning	<u>1,498</u>
CASH, Ending	<u><u>\$ -</u></u>
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Net Operating Income (Loss)	\$ (91,441)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation	56,663
Changes in Assets and Liabilities	
Accrued Interest Payable	<u>5,313</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (29,465)</u></u>
NONCASH TRANSACTIONS	
Contributed Capital Assets	<u><u>\$ 43,922</u></u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ricardo Flores Magon Academy (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school. On January 20, 2007, the School entered into a contract with the Colorado Charter School Institute (the “Institute”) to establish the School pursuant to the Colorado Charter School Institute Act, for an initial term of five years. The School began operations in August, 2007. The current contract expires on June 30, 2017.

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School’s accounting policies are described below.

Reporting Entity

The financial reporting entity consists of the School, organizations for which the School is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the School. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. 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 BG Building Corporation (the “Corporation”) within its reporting entity. The Corporation is a non-profit entity organized for the exclusive purpose of holding title to property. The Corporation is blended into the School’s financial statements as an enterprise fund, and does not issue separate financial statements.

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 activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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 revenues not properly included among program revenues are reported instead as general revenues. Internally dedicated resources are reported as general revenues rather than as program revenues.

Separate financial statements are provided for the governmental fund and the proprietary fund. Major individual funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**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 as are the proprietary fund financial statements. 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 year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The School reports the following major governmental fund:

General Fund - This fund is the general operating fund of the School. It is currently used to account for all financial activities of the School.

The School reports the following major proprietary fund:

Building Corporation - This fund is used to account for the financial activities of the Corporation, primarily related to capital assets and the related debt service.

Assets, Liabilities and Net Position/Fund Balance

Cash and Investments - Investments are reported at fair value.

Receivables - All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future years and are reported as prepaid expenses.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Assets, Liabilities and Net Position/Fund Balance** (Continued)

Capital Assets - Capital assets, which include land, buildings and equipment, are reported in the government-wide financial statements and the proprietary fund in the fund financial statements. Capital assets are defined by the School as assets with an initial, individual cost of \$5,000 or more 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. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Buildings	30 years
Building Improvements	15 - 30 years
Equipment	3 years

Accrued Salaries and Benefits - Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during the school year of approximately nine months. The accrued salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

Long-Term Debt - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Debt premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. In the governmental fund financial statements, 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 are reported as other financing uses.

Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenses or expenditures.

Net Position/Fund Balance - In the government-wide and fund financial statements, net position and fund balance are restricted when constraints placed on the use of resources are externally imposed. The Board of Directors is authorized to establish a fund balance commitment through passage of a resolution, and may assign fund balances to a specific purpose through an informal action.

The School has not established a formal policy for its use of restricted and unrestricted fund balances. However, if both restricted and unrestricted fund balances are available for a specific purpose, the School uses restricted fund balance first, followed by committed, assigned and unassigned fund balances.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 2: CASH AND INVESTMENTS**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The 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 uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2014, the School had bank deposits of \$81,211 collateralized with securities held by the financial institution's agent but not in the School's name.

Investments

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes generally limit the maturity of investment securities to five years from the date of purchase, unless the governing board authorizes an investment for a period in excess of five years. State statutes do not address custodial risk.

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

The School had no investments at June 30, 2014.

NOTE 3: CAPITAL ASSETS

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

	Balances 6/30/13	Additions	Deletions	Balances 6/30/14
Governmental Activities				
Capital Assets, Being Depreciated				
Equipment	\$ 9,705	\$ 66,613	\$ -	\$ 76,318
Less Accumulated Depreciation				
Equipment	(6,470)	(16,558)	-	(23,028)
Governmental Activities Capital Assets, Net	<u>\$ 3,235</u>	<u>\$ (50,055)</u>	<u>\$ -</u>	<u>\$ 53,290</u>

RICARDO FLORES MAGON ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 3: CAPITAL ASSETS (Continued)

	Balances 6/30/13	Additions	Deletions	Balances 6/30/14
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 66,000	\$ -	\$ -	\$ 66,000
Construction in Progress	203,094	-	(203,094)	-
Total Capital Assets, Not Being Depreciated	269,094	-	(203,094)	66,000
Capital Assets, Being Depreciated				
Buildings	617,100	-	-	617,100
Building Improvements	533,699	1,096,918	-	1,630,617
Total Capital Assets, Being Depreciated	1,150,799	1,096,918	-	2,247,717
Less Accumulated Depreciation				
Buildings	(41,140)	(20,570)	-	(61,710)
Building Improvements	(26,195)	(36,093)	-	(62,288)
Total Accumulated Depreciation	(67,335)	(56,663)	-	(123,998)
Total Capital Assets, Being Depreciated, Net	1,083,464	1,040,255	-	2,123,719
Business-Type Activities Capital Assets, Net	<u>\$ 1,352,558</u>	<u>\$ 1,040,255</u>	<u>\$ (203,094)</u>	<u>\$ 2,189,719</u>

Depreciation expense was charged to programs of the School as follows:

Governmental Activities	
Instruction	\$ 13,323
Supporting Services	3,235
Total	<u>\$ 16,558</u>

NOTE 4: SHORT-TERM DEBT

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

	Balances 6/30/13	Additions	Payments	Balances 6/30/14	Due Within One Year
Business-Type Activities					
Line of Credit	<u>\$ 75,000</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ -</u>	<u>\$ -</u>

In February 2013, the Corporation obtained a \$100,000 line of credit from Solera National Bank. The Corporation borrowed \$75,000 from the line of credit to finance building improvements. The outstanding balance of the line of credit accrued interest at 5.5% per annum. The line of credit was paid in full on July 5, 2013, using loan proceeds (See Note 5).

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 5: LONG-TERM DEBT

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

	Balances 6/30/13	Additions	Payments	Balances 6/30/14	Due Within One Year
Governmental Activities					
2014 Loan	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 20,000</u>
Business-Type Activities					
2011 Loan	\$ 167,032	\$ -	\$ 167,032	\$ -	\$ -
2013 Loan	<u>-</u>	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>	<u>42,056</u>
Total	<u>\$ 167,032</u>	<u>\$ 1,500,000</u>	<u>\$ 167,032</u>	<u>\$ 1,500,000</u>	<u>\$ 42,056</u>

In April, 2014, the School entered into a loan agreement with the Colorado Charter School Institute in the amount of \$50,000. Loan proceeds were held as emergency reserves to comply with the Tabor Amendment (see Note 8). The loan is non-interest bearing. The loan is payable in twenty equal installments of \$2,500 beginning November 1, 2014, through June 1, 2016.

In September, 2011, the Corporation entered into a loan agreement with Colorado Business Bank in the amount of \$245,000. Loan proceeds were used to finance the acquisition of a building and to construct building improvements. Monthly principal and interest payments of \$4,714 were required by the loan agreement, with interest accruing at 5.7% per annum, through September, 2016. The loan was paid in full on July 5, 2013, using loan proceeds.

On July 5, 2013, the Corporation obtained a \$1,500,000 loan from Solera National Bank. Loan proceeds were used to finance building improvements and to pay the outstanding loan and line of credit (See Note 4). Under the loan agreement, monthly interest payments are required beginning August 5, 2013, with interest accruing at the Wall Street Journal Prime Rate plus 1%, except that the rate will not be less than 4.25% per annum, resulting in an initial rate of 4.25%. Beginning August 5, 2014, monthly principal and interest payments of \$10,388 are required, including interest accruing at 5.5% per annum. A balloon payment of \$1,274,891 is due at maturity on July 5, 2019.

NOTE 6: 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). 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. That report may be obtained by writing to Colorado PERA, 1301 Pennsylvania Street, Denver, Colorado 80203, or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy - The contribution requirements of members and the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members was 8% of covered salaries. The School's contribution rate for calendar years 2012, 2013 and 2014 was 15.65%, 16.55% and 17.45% of covered salaries, respectively. A portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 7). The School's contributions to the SDTF for the years ended June 30, 2014, 2013 and 2012 were \$199,130, \$166,927 and \$123,568, respectively, equal to the required contributions for each year.

NOTE 7: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description - The School contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by the 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 by contacting PERA as described previously.

Funding Policy - The School is required to contribute at a rate of 1.02% of covered salaries for all PERA members as set by State statute. No member contributions are required. The apportionment of the contribution to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2014, 2013 and 2012 was \$11,947, \$10,569 and \$8,278, respectively, equal to the required amounts for each year.

NOTE 8: COMMITMENTS AND CONTINGENCIES**Claims and Judgments**

The School participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the other government. At June 30, 2014, significant amounts of related expenditures have not been audited but management 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 taxing powers and imposes spending limitations. The Amendment is subject to interpretation, but the School believes it is in substantial compliance with the requirements of the Amendment. In accordance with the Amendment, the School has established an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2014, the reserve, of \$73,000, was reported as restricted fund balance in the General Fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

NOTE 8: COMMITMENTS AND CONTINGENCIES (Continued)**Operating Lease**

On August 1, 2007, the School entered into an agreement to lease a building. Monthly payments ranging from \$8,333 to \$21,932 are required under the agreement, through June 30, 2017. During the year ended June 30, 2011, the School abandoned the building and initiated litigation against the landlord seeking to cancel the lease agreement. This litigation was unsuccessful and the School continues to pay the required lease payments. During the year ended June 30, 2014, the School paid \$233,972 under this agreement.

Following is a schedule of future minimum lease payments.

Year Ended June 30,

2015	\$ 243,331
2016	253,064
2017	<u>263,186</u>
Total	<u><u>\$ 759,581</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

RICARDO FLORES MAGON ACADEMY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 2,533,199	\$ 2,355,411	\$ 2,328,986	\$ (26,425)
Tuition	1,809	1,661	4,573	2,912
Student Fees and Activities	32,282	19,981	16,294	(3,687)
Food Service Fees	-	29,490	9,744	(19,746)
Contributions and Donations	156,450	150,000	13,171	(136,829)
Investment Income	-	-	346	346
Miscellaneous	13,777	65,144	33,279	(31,865)
State Sources				
Instruction Grants	54,740	50,256	67,791	17,535
Capital Construction	18,090	16,608	31,527	14,919
Food Service Grants	5,996	5,504	1,779	(3,725)
Federal Sources				
Instruction Grants	75,285	120,938	154,931	33,993
Food Service Grants	206,443	192,355	192,851	496
TOTAL REVENUES	3,098,071	3,007,348	2,855,272	(152,076)
EXPENDITURES				
Salaries	1,271,127	1,209,011	1,212,538	(3,527)
Employee Benefits	423,097	402,262	354,671	47,591
Purchased Professional Services	221,780	281,658	311,670	(30,012)
Purchased Property Services	286,500	301,600	344,191	(42,591)
Other Purchased Services	487,633	444,770	340,750	104,020
Supplies and Materials	166,037	188,559	146,633	41,926
Property	21,335	245,495	162,448	83,047
Other	177,584	30,050	2,921	27,129
Debt Service				
Principal	25,000	25,000	-	25,000
Interest	-	74,469	-	74,469
TOTAL EXPENDITURES	3,080,093	3,202,874	2,875,822	327,052
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	17,978	(195,526)	(20,550)	174,976
OTHER FINANCING SOURCES (USES)				
Debt Proceeds	-	-	50,000	50,000
Transfers In	-	46,000	-	(46,000)
TOTAL OTHER FINANCING SOURCES (USES)	-	46,000	50,000	4,000
NET CHANGE IN FUND BALANCE	17,978	(149,526)	29,450	178,976
FUND BALANCE, Beginning	116,512	302,681	302,681	-
FUND BALANCE, Ending	\$ 134,490	\$ 153,155	\$ 332,131	\$ 178,976

See the accompanying Independent Auditors' Report.

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

An annual budget is adopted for the School 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, for their approval. The budget includes proposed expenditures and the means of financing them.

Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

All appropriations lapse at fiscal year end.