

**LOVELAND CLASSICAL SCHOOLS**

**FINANCIAL STATEMENTS**

**June 30, 2016**

**LOVELAND CLASSICAL SCHOOLS**

June 30, 2016

**BOARD OF DIRECTORS**

President and Chair	Daniel Filler
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Treasurer	N. Joshua Dart
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**SCHOOL MANAGEMENT**

Ian Stout, Principal

Rick Boos, Chief Financial Officer

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Board of Directors  
Loveland Classical Schools  
Loveland, Colorado

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of the Loveland Classical Schools, component unit of Thompson School District R2-J, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Loveland Classical Schools, 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 and the major fund of the Loveland Classical Schools as of June 30, 2016, and the respective changes in financial position 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.

*Ernst & Young LLP*

November 11, 2016

**LOVELAND CLASSICAL SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2016**

**Introduction**

As management of Loveland Classical Schools (the School) we offer readers of the School's annual financial report this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

**Financial Highlights**

Fiscal year ended June 30, 2016 is the second year reporting net pension liability and deferred inflows and outflows following Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. As such, the School included the Net Pension Liability per GASB Statement No. 68 in the amount of \$7,716,575 for FY 2016 and \$6,322,366 for FY 2015 as noncurrent liability on the Statement of Net Position. For FY 2016 and FY 2015, the liabilities and deferred inflows of resources of the School exceeded its assets and deferred outflows by \$4,950,384 and \$4,896,961 (net position), respectively.

At the close of the fiscal year the School's general fund reported an ending fund balance of \$1,441,756, an increase of \$461,260. The operations of the School 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 \$4,880,375. The School also received \$259,585 in District Incremental Funding revenue.

The School is located in a rented facility. The rental agreement required monthly payments totaling \$624,812 during the current fiscal year. Beginning September 1, 2014, and each year thereafter, the lease payments were scheduled to increase by 3%. As outlined in Note 7 to the financials, in August, 2016, the School exercised the purchase option and obtained financing to purchase the educational facilities.

**Overview of the Financial Statements**

This discussion and analysis serves as an introduction to the School's basic financial statements. The School's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

**Government-wide Financial Statements**

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

The statement of net position presents information on all of the School's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position.

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).

**LOVELAND CLASSICAL SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2016**

The government-wide statement of activities distinguishes functions/programs of the School supported primarily by per pupil revenue (PPR) or property taxes passed through from the District (Thompson Valley School District). The governmental activities of the School include instruction and supporting services expense. The government-wide financial statements can be found on pages 1-2 of this report.

**Fund Financial Statements**

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

The School maintains one governmental fund. 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 because it is considered to be a major fund.

The School adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund 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 5-15.

**LOVELAND CLASSICAL SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2016**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

The statement of net position presents information on all of the 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 the School is improving or deteriorating.

In the case of the School, liabilities and deferred inflows of resources exceeded the schools assets and deferred outflows of resources by \$4,950,384 at the close of the most recent fiscal year. The negative balance is due primarily to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$7,716,575, representing its proportionate share of the plan's net pension liability.

**Condensed Statement of Net Position**

	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	\$1,649,572	\$1,255,190
Accounts Receivable	2,403	4,634
Grants Receivable	10,446	9,524
Other Receivables	44,935	0
Prepaid Expenses	21,005	0
Capital assets, net accumulated depreciation	<u>26,313</u>	<u>11,951</u>
Total assets	<u>1,754,674</u>	<u>1,281,299</u>
Deferred Outflows of Resources		
Pensions, Net of Accumulated Amortization	<u>1,407,468</u>	<u>433,430</u>
Accounts Payable	44,834	64,186
Accrued Liabilities	68,576	0
Accrued Salaries and Benefits	157,807	194,628
Unearned Revenue	15,388	30,038
Noncurrent Liabilities		
Net Pension Liability	<u>7,716,575</u>	<u>6,322,366</u>
Total liabilities	<u>8,003,180</u>	<u>6,611,218</u>
Deferred Inflows of Resources		
Pensions, Net of Accumulated Amortization	<u>109,346</u>	<u>472</u>
Net position:		
Net investment in capital assets	26,313	11,951
Tabor Emergency Reserve	169,000	144,000
Restricted for School Expansion Project	0	50,000
Unrestricted	<u>(5,145,697)</u>	<u>(5,102,912)</u>
Total net position	<u>\$ (4,950,384)</u>	<u>\$ (4,896,961)</u>



**LOVELAND CLASSICAL SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2016**

A portion of the School's Governmental assets (94%) is in cash and investments and (6%) are other assets. As outlined in Note 4 to the financials the School participates in a Defined Benefit Pension Plan and has recorded a Net Pension Liability as of June 30, 2016 of \$7,716,575. This and the operating income resulted in a negative Net Position of \$4,950,384.

School's Change in Net Position  
For the Years Ended June 30, 2016 and 2015  
Governmental Activities

	<u>2016</u>	<u>2015</u>
Revenues:		
Per Pupil Revenue	\$4,800,375	\$4,319,593
Additional At-Risk Funding	1,785	0
District Mill Levy	259,585	0
Capital Construction	178,850	109,719
Contributions not Restricted to Specific Programs	95,035	55,950
Operating Grants and Contributions	103,461	100,787
Charges for Services	168,215	164,561
Other	<u>2,408</u>	<u>9,368</u>
Total revenues	<u>5,609,714</u>	<u>4,759,978</u>
Expenses:		
Instructional	3,255,976	2,840,015
Supporting Services	<u>2,407,161</u>	<u>1,900,847</u>
Total expenses	<u>5,663,137</u>	<u>4,740,862</u>
Change in net position	(53,423)	19,116
Net position, beginning	<u>(4,896,961)</u>	<u>(4,916,077)</u>
Net position, ending	<u>\$(4,950,384)</u>	<u>\$(4,896,961)</u>

**Financial Analysis of the Government's Funds**

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

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

Overall revenue increased in FY 2016 by \$849,736 primarily due to increase in student count in FY 2016 and equitable funding representing District Incremental Funding in the amount of \$259,585. PPR increased 4.2% due to an increase in per pupil funding from the state and capital construction grant per pupil funding increased to \$255 resulting in \$69,131 in additional revenue.

**LOVELAND CLASSICAL SCHOOLS  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2016**

Expenditures increased \$922,275 from the prior year. This was primarily due to increase in staffing to address the increase in student count and increase in employee retirement benefits. District charges for Special Education services increased by \$204,380 for FY 2016.

As of the end of the current fiscal year, the School’s governmental fund reported an ending fund balance of \$1,441,756, an increase of \$461,260.

**Budgetary Highlights**

The School approves a budget in June based on enrollment projections for the following school year. In October after enrollment stabilizes, adjustments are made to the budget. The School approved supplemental budgets during the year to true up the beginning fund balance and adjustment to the actual student count. Actual expenditures in the general fund were under budget by \$190,151.

**Capital Asset and Debt Administration**

**Capital Assets**

Capital assets include all capital outlays related to the school building and the equipment within. The School’s investment in capital assets, net of accumulated depreciation, for its governmental activities at the end of the year was \$26,313.

- A new gymnasium floor and mats were added to capital assets this year in the amount of \$27,143.

**Debt Administration**

The school currently has no long-term debt.

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

The School’s enrollment continues to increase as some of the larger lower grades graduate and we graduate some of the smaller grades. Below is the historical enrollment numbers:

<b>Fiscal Year</b>	<b>PK – 12 Enrollment</b>	<b>PK – 12 FTE</b>
2011 / 2012	535	509.8
2012 / 2013	643	606.5
2013 / 2014	656	620.0
2014 / 2015	680	648.1
2015 / 2016	728	691.9

The funded pupil count is projected for the 2016-17 school year is expected to be 739.2. This factor was considered in preparing the School’s budget for fiscal year 2016-17. The economic outlook for FY 2017 is improving with the increase of \$103.79 per funded FTE or 1.5% in PPR funding. The Capital Construction funding per pupil allocation increased for FY 2017 to \$276 per funded FTE compared to \$255 per funded FTE in FY 2016.

**LOVELAND CLASSICAL SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED JUNE 30, 2016**

**SUBSEQUENT EVENT**

In August 2016, we issued \$20,820,000 Charter School Revenue Bonds. Bond proceeds will be used to acquire the School's existing educational facility which is currently being leased and to finance the purchase of a second parcel of land and construct a second educational facility thereon. Construction is anticipated to be completed by August 2017. Beginning in FY18 the K-5 program will be housed in the existing facility and the middle and high school programs will be housed in the second facility. This will allow the School to address the anticipated growth of the school and enhance the educational program.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide readers with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Rick Boos, Chief Financial Officer, Loveland Classical Schools, 3835 14<sup>th</sup> Street SW, Loveland, CO 80537.

## **BASIC FINANCIAL STATEMENTS**

LOVELAND CLASSICAL SCHOOLS

STATEMENT OF NET POSITION

June 30, 2016

	<u>GOVERNMENTAL ACTIVITIES</u>
<b>ASSETS</b>	
Cash and Investments	\$ 1,649,572
Accounts Receivable	2,403
Grants Receivable	10,446
Other Receivables	44,935
Prepaid Expenses	21,005
Capital Assets, Net of Accumulated Depreciation	<u>26,313</u>
<b>TOTAL ASSETS</b>	<u>1,754,674</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions, Net of Accumulated Amortization	<u>1,407,468</u>
<b>LIABILITIES</b>	
Accounts Payable	44,834
Accrued Liabilities	68,576
Accrued Salaries and Benefits	157,807
Unearned Revenues	15,388
Noncurrent Liabilities	
Net Pension Liability	<u>7,716,575</u>
<b>TOTAL LIABILITIES</b>	<u>8,003,180</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pensions, Net of Accumulated Amortization	<u>109,346</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	26,313
Restricted for Emergencies	169,000
Unrestricted	<u>(5,145,697)</u>
<b>TOTAL NET POSITION</b>	<u>\$ (4,950,384)</u>

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

LOVELAND CLASSICAL SCHOOLS

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
<b>PRIMARY GOVERNMENT</b>				<b>GOVERNMENTAL ACTIVITIES</b>
<b>Governmental Activities</b>				
Instruction	\$ 3,255,976	\$ 168,215	\$ 89,771	\$ (2,997,990)
Supporting Services	<u>2,407,161</u>	<u>-</u>	<u>13,690</u>	<u>(2,393,471)</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ <u>5,663,137</u></b>	<b>\$ <u>168,215</u></b>	<b>\$ <u>103,461</u></b>	<b>(5,391,461)</b>
<b>GENERAL REVENUES</b>				
				Per Pupil Revenue 4,800,375
				Additional At-Risk Funding 1,785
				District Incremental Funding 259,585
				Capital Construction 178,850
				Contributions not Restricted to Specific Programs 95,035
				Investment Income 2,033
				Other <u>375</u>
				<b>TOTAL GENERAL REVENUES <u>5,338,038</u></b>
				<b>CHANGE IN NET POSITION (53,423)</b>
				<b>NET POSITION, Beginning <u>(4,896,961)</u></b>
				<b>NET POSITION, Ending \$ <u>(4,950,384)</u></b>

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

LOVELAND CLASSICAL SCHOOLS

BALANCE SHEET  
GOVERNMENTAL FUND

June 30, 2016

	<u>GENERAL</u>
ASSETS	
Cash and Investments	\$ 1,649,572
Accounts Receivable	2,403
Grants Receivable	10,446
Other Receivables	44,935
Prepaid Expenditures	<u>21,005</u>
 TOTAL ASSETS	 \$ <u>1,728,361</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 44,834
Accrued Liabilities	68,576
Accrued Salaries and Benefits	157,807
Unearned Revenues	<u>15,388</u>
 TOTAL LIABILITIES	 <u>286,605</u>
FUND BALANCE	
Nonspendable Prepaid Expenditures	21,005
Restricted for Emergencies	169,000
Unrestricted, Unassigned	<u>1,251,751</u>
 TOTAL FUND BALANCE	 <u>1,441,756</u>
 TOTAL LIABILITIES AND FUND BALANCE	 \$ <u>1,728,361</u>
 Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 1,441,756
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	26,313
Long-term liabilities and related items, including net pension liability (\$7,716,575), pension-related deferred outflows of resources \$1,407,468, and pension-related deferred inflows of resources (\$109,346), are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(6,418,453)</u>
Total Net Position of Governmental Activities	\$ <u>(4,950,384)</u>

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

LOVELAND CLASSICAL SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
Year Ended June 30, 2016

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 5,325,618
State Sources	270,406
Federal Sources	13,690
	<u>5,609,714</u>
 TOTAL REVENUES	<u>5,609,714</u>
 EXPENDITURES	
Instruction	2,905,780
Supporting Services	2,242,674
	<u>5,148,454</u>
 TOTAL EXPENDITURES	<u>5,148,454</u>
 NET CHANGE IN FUND BALANCE	461,260
FUND BALANCE, Beginning	<u>980,496</u>
FUND BALANCE, Ending	<u>\$ 1,441,756</u>

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

Net Change in Fund Balance of the Governmental Fund	\$ 461,260
Capital outlays to purchase capital assets are reported in governmental funds as expenditures. However, in the statement of activities the cost of these assets is allocated over the estimated useful lives as annual depreciation expense. This is the amount by which capital outlays \$27,143 exceeded depreciation expense (\$12,781) in the current year.	14,362
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in the net pension liability (\$1,394,209), pension-related deferred outflows of resources \$974,038, and pension-related deferred inflows of resources (\$108,874) in the current year.	<u>(529,045)</u>
Change in Net Position of Governmental Activities	<u>\$ (53,423)</u>

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



LOVELAND CLASSICAL SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Loveland Classical Schools (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Thompson School District R2-J (the “District”). The School began operations in the Fall of 2011.

The accounting policies of the School conform to generally accepted accounting principles 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. Following is a summary of the more significant policies.

**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 has the potential to provide benefits to, or impose financial burdens on, the School. Based on the application of this criteria, the School does not include additional organizations within its reporting entity.

The School is a component unit of the District. The School’s charter was granted by the District and the majority of the School’s funding is provided by the District.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the School. *Governmental activities*, which normally are supported by taxes and 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 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.

Major individual funds are reported as 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.

LOVELAND CLASSICAL SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current year. 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.

When both restricted and unrestricted resources are available for a specific 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 is the general operating fund of the School. It is currently used to account for all financial activities of the School.

**Assets, Liabilities and Net Position/Fund Balance**

*Cash and Investments* - Investments are reported at fair value. Investments in the external investment pool are reported at the net asset value per share, which is measured using amortized cost.

*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.

*Capital Assets* - Capital assets, which consist of building improvements and equipment, are reported in the government-wide financial statements. Capital assets are defined 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 the acquisition value on the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations in the statement of activities, and accumulated depreciation is reported in the statement of net position in the government-wide financial statements. Capital assets are depreciated using the straight-line method over the estimated useful lives, as follows:

Building Improvements	3 years
Equipment	5 years

LOVELAND CLASSICAL SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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

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

*Accrued Salaries and Benefits* - Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period beginning August 13th, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

*Unearned Revenues* - Unearned revenues represent resources received by the School before it has a legal claim to them, including tuition and fees.

*Long-Term Debt* - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. In the fund financial statements, governmental funds recognize the face amount of debt issued as other financing sources. Debt issuance costs, whether or not withheld from the debt proceeds, are reported as current expenses or expenditures.

*Pensions* - The School participates in 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 net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to and deductions from the SDTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the SDTF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

*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 establishes 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 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.

LOVELAND CLASSICAL SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 2: CASH AND INVESTMENTS**

**Deposits**

A summary of cash and investments at June 30, 2016, follows:

Deposits	\$ 259,207
Investments	<u>1,390,365</u>
Total	<u><b>\$ 1,649,572</b></u>

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 financial institution is allowed 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, 2016, the School had bank deposits of \$18,618 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 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

*Interest Rate Risk* - State statutes generally limit the maturity of investment securities to five years from the date of purchase, unless the governing board authorizes the investment for a period in excess of five years.

*Credit Risk* - State statutes limit most investments to those with certain ratings from nationally recognized statistical rating organizations, depending on the type of investments.

*Concentration of Credit Risk* - State statutes do not limit the amount the School may invest in one issuer of investment securities, except for corporate securities.

LOVELAND CLASSICAL SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 2: CASH AND INVESTMENTS (Continued)**

**Investments (Continued)**

*Local Government Investment Pool* - At June 30, 2016, the School had \$1,390,365 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment trust established for local government entities in Colorado to pool surplus funds for investment purposes. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7, with each share valued at \$1. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

**NOTE 3: CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2016, are summarized below.

	<u>Balances</u> 6/30/15	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 6/30/16
<b>Governmental Activities</b>				
Capital Assets, Being Depreciated				
Building Improvements	\$ 136,656	\$ -	\$ -	\$ 136,656
Equipment	<u>36,765</u>	<u>27,143</u>	<u>-</u>	<u>63,908</u>
Total Capital Assets, Being Depreciated	<u>173,421</u>	<u>27,143</u>	<u>-</u>	<u>200,564</u>
Accumulated Depreciation				
Building Improvements	(136,656)	-	-	(136,656)
Equipment	<u>(24,814)</u>	<u>(12,781)</u>	<u>-</u>	<u>(37,595)</u>
Total Accumulated Depreciation	<u>(161,470)</u>	<u>(12,781)</u>	<u>-</u>	<u>(174,251)</u>
Governmental Activities Capital Assets, Net	<u>\$ 11,951</u>	<u>\$ 14,362</u>	<u>\$ -</u>	<u>\$ 26,313</u>

Depreciation expense was charged to the supporting services program of the School.

**NOTE 4: DEFINED BENEFIT PENSION PLAN**

**General Information**

*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). All employees of the School participate in the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the SDTF. That report may be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

LOVELAND CLASSICAL SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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

**General Information** (Continued)

*Benefits Provided* - The SDTF provides retirement, disability, and survivor benefits to plan participants or their beneficiaries. Retirement benefits are determined by the amount of service credit earned or purchased, highest average salary, the benefit structure in place, the benefit option selected at retirement, and age at retirement. The retirement benefit is the greater of the a) highest average salary multiplied by 2.5% and then multiplied by years of service credit, or b) the value of the participant's contribution account plus an equal match on the retirement date, annualized into a monthly amount based on life expectancy and other actuarial factors. In no case can the benefit amount exceed the highest average salary or the amount allowed by applicable federal regulations.

Retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State statutes. Retirees who began employment before January 1, 2007, receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year. Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

Disability benefits are available for plan participants once they reach five years of earned service credit and meet the definition of a disability. The disability benefit amount is based on the retirement benefit formula described previously, considering a minimum of twenty years of service credit.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure in place, and the qualified survivor receiving the benefits.

*Contributions* - The School and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The School's contribution rate for calendar years 2015 and 2016 was 18.35% and 19.15% of covered salaries, respectively. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 5). The School's contributions to the SDTF for the year ended June 30, 2016, were \$434,994, equal to the required contributions.

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

At June 30, 2016, the School reported a net pension liability of \$7,716,575, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Changes in assumptions and other inputs since the prior measurement date did not significantly affect the total pension liability. Standard update procedures were used to roll forward the total pension liability to December 31, 2015.

LOVELAND CLASSICAL SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

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

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

The School's proportion of the net pension liability was based on the School's contributions to the SDTF for the calendar year ended December 31, 2015, relative to the contributions of all participating employers. At December 31, 2015, the School's proportion was 0.0504539494%, which was a decrease of 0.0038059892% from its proportion measured at December 31, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$936,115. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 101,898	\$ 297
Changes of assumptions and other inputs	-	109,049
Net difference between projected and actual earnings on plan investments	647,230	-
Changes in proportion	424,861	-
Contributions subsequent to the measurement date	<u>233,479</u>	<u>-</u>
Total	<b><u>\$ 1,407,468</u></b>	<b><u>\$ 109,346</u></b>

School contributions subsequent to the measurement date of \$233,479 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

2017	\$ 339,569
2018	330,670
2019	259,858
2020	<u>134,546</u>
Total	<b><u>\$ 1,064,643</u></b>

*Actuarial Assumptions* - The actuarial valuation as of December 31, 2014, determined the total pension liability using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

LOVELAND CLASSICAL SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

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

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

Price inflation	2.8%
Real wage growth	1.1%
Wage inflation	3.9%
Salary increases, including wage inflation	3.9% - 10.1%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.5%
Future post-retirement benefit increases:	
Hired prior to 1/1/07	2%
Hired after 12/31/06	ad hoc

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with males set back one year, and females set back two years.

The actuarial assumptions used in the December 31, 2013, valuation were based on the results of an actuarial experience study for the period January 1, 2008, through December 31, 2011, adopted by PERA's governing board on November 13, 2012, and an economic assumption study, adopted by PERA's governing board on November 15, 2013 and January 17, 2014.

The long-term expected rate of return on plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

The most recent analysis of the long-term expected rate of return was presented to the PERA governing board on November 15, 2013, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Geometric Real Rate of Return</u>
U.S. Equity - Large Cap	26.76%	5.00%
U.S. Equity - Small Cap	4.40%	5.19%
Non U.S. Equity - Developed	22.06%	5.29%
Non U.S. Equity - Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Government/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	<u><u>100.00%</u></u>	



LOVELAND CLASSICAL SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

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

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

*Discount Rate* - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the employer contributions will be made at the rates specified in State statutes, which currently require annual increases, to a total of 20.15% of covered salaries for the year ended December 31, 2018. When the actuarially determined funding ratio reaches 103%, the employer contribution rate will decrease 0.5% each year, to a minimum of 10.15%. Based on those assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments to current participants. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In addition, the discount rate did not change from the prior measurement date.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* - The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as the School's proportionate share of the net pension liability if it were calculated using a discount that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate, as follows:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate share of the net pension liability	<b><u>\$ 10,002,937</u></b>	<b><u>\$ 7,716,575</u></b>	<b><u>\$ 5,814,749</u></b>

*Pension Plan Fiduciary Net Position* - Detailed information about the SDTF's fiduciary net position is available in PERA's separately issued financial report, which may be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

**NOTE 5: 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 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 participants. No employee 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 contributions 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, 2016, 2015 and 2014 was \$23,675, \$20,607, and \$19,348, respectively, equal to the required amounts for each year.

LOVELAND CLASSICAL SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 6: COMMITMENTS AND CONTINGENCIES**

**Operating Lease**

In May, 2011, the School entered into a sublease agreement with a division of HighMark School Development, LLC, the developer of the educational facilities used by the School. The agreement requires monthly payments totaling \$593,265 each year, with an initial term of 240 months, beginning September 6, 2011. Beginning September 1, 2014, and each year thereafter, the lease payments will increase by 3%.

The agreement includes a purchase option on July 1 after the fifth, seventh, and tenth anniversaries of the payment commencement date of September 6, 2011. The purchase prices on these anniversary dates are estimated at \$8,921,843, \$8,697,598 and \$8,576,754, respectively.

In August, 2016, the School exercised the purchase option and obtained financing to purchase the educational facilities (See Note 7).

**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, 2016, 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 approved 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 management believes the School is in substantial compliance with the Amendment. In accordance with the Amendment, the School has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2016, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$169,000.

**NOTE 7: SUBSEQUENT EVENT**

In August 2016, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$20,820,000 Charter School Revenue Bonds, Series 2016. Bond proceeds were loaned to the Loveland Classical Schools Building Corporation (the "Corporation") to acquire the School's existing educational facilities and to finance the purchase of a second parcel of land and construct educational facilities thereon. In conjunction, the School entered into a lease agreement with the Corporation to use the facilities. Interest accrues on the outstanding balance of the bonds at rates ranging from 3.75% to 5% per annum, and is payable semi-annually on January 1 and July 1. Principal is payable annually on July 1, from 2019 through 2046.

LOVELAND CLASSICAL SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 7: SUBSEQUENT EVENT (Continued)**

Future debt service requirements for the bonds are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 369,375	\$ 369,375
2018	-	999,812	999,812
2019	-	999,812	999,812
2020	210,000	995,875	1,205,875
2021	280,000	986,688	1,266,688
2022 - 2026	2,295,000	4,698,595	6,993,595
2027 - 2031	2,795,000	4,169,438	6,964,438
2032 - 2036	3,560,000	3,382,500	6,942,500
2037 - 2041	4,545,000	2,373,625	6,918,625
2042 - 2046	5,795,000	1,087,625	6,882,625
2047	<u>1,340,000</u>	<u>33,500</u>	<u>1,373,500</u>
Total	<b><u>\$ 20,820,000</u></b>	<b><u>\$ 20,096,845</u></b>	<b><u>\$ 40,916,845</u></b>

**REQUIRED SUPPLEMENTARY INFORMATION**

LOVELAND CLASSICAL SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
AND CONTRIBUTIONS

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO SCHOOL DIVISION TRUST FUND

June 30, 2016

	<u>12/31/15</u>	<u>12/31/14</u>	<u>12/31/13</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY			
School's Proportion of the Net Pension Liability	0.0504539494%	0.0466479602%	0.0457822304%
School's Proportionate Share of the Net Pension Liability	\$ 7,716,575	\$ 6,322,366	\$ 5,839,511
School's Covered-Employee Payroll	\$ 2,198,770	\$ 1,954,215	\$ 1,845,739
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	351%	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59%	63%	64%
	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
SCHOOL CONTRIBUTIONS			
Statutorily Required Contribution	\$ 411,319	\$ 341,247	\$ 303,298
Contributions in Relation to the Statutorily Required Contribution	<u>(411,319)</u>	<u>(341,247)</u>	<u>(303,298)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
School's Covered-Employee Payroll	\$ 2,321,097	\$ 2,020,301	\$ 1,896,850
Contributions as a Percentage of Covered-Employee Payroll	17.72%	16.89%	15.99%

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

See the accompanying Independent Auditors' Report.

LOVELAND CLASSICAL SCHOOLS

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2016

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE Positive (Negative)
<b>REVENUES</b>				
<b>Local Sources</b>				
Per Pupil Revenue	\$ 4,631,297	\$ 4,793,176	\$ 4,800,375	\$ 7,199
District Incremental Funding	-	259,585	259,585	-
Tuition	83,700	85,330	82,008	(3,322)
Student Fees and Activities	35,291	75,467	86,207	10,740
Contributions and Donations	20,000	71,766	95,035	23,269
Investment Income	-	1,500	2,033	533
Other	-	3,500	375	(3,125)
<b>Total Local Sources</b>	<u>4,770,288</u>	<u>5,290,324</u>	<u>5,325,618</u>	<u>35,294</u>
<b>State Sources</b>				
Additional At-Risk Funding	-	-	1,785	1,785
Capital Construction	168,050	176,754	178,850	2,096
Grants	92,791	89,262	89,771	509
<b>Total State Sources</b>	<u>260,841</u>	<u>266,016</u>	<u>270,406</u>	<u>4,390</u>
<b>Federal Sources</b>				
Grants	-	13,690	13,690	-
<b>TOTAL REVENUES</b>	<u>5,031,129</u>	<u>5,570,030</u>	<u>5,609,714</u>	<u>39,684</u>
<b>EXPENDITURES</b>				
Salaries	2,741,091	2,506,378	2,401,929	104,449
Employee Benefits	543,295	630,598	600,980	29,618
Purchased Services	1,493,652	1,818,315	1,842,671	(24,356)
Supplies and Materials	234,339	290,940	225,640	65,300
Property	39,500	87,374	71,874	15,500
Other	3,345	5,000	5,360	(360)
Contingency	150,934	442,101	-	442,101
<b>TOTAL EXPENDITURES</b>	<u>5,206,156</u>	<u>5,780,706</u>	<u>5,148,454</u>	<u>632,252</u>
<b>NET CHANGE IN FUND BALANCE</b>	(175,027)	(210,676)	461,260	671,936
<b>FUND BALANCE, Beginning</b>	<u>856,840</u>	<u>980,496</u>	<u>980,496</u>	<u>-</u>
<b>FUND BALANCE, Ending</b>	<u>\$ 681,813</u>	<u>\$ 769,820</u>	<u>\$ 1,441,756</u>	<u>\$ 671,936</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

**NOTE 1: SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND CONTRIBUTIONS**

The Public Employees' Retirement Association of Colorado School Division Trust Fund's net pension liability and associated amounts are measured annually at December 31, based on an actuarial valuation as of the previous December 31. The School's contributions and related ratios represent cash contributions and any related accruals that coincide with the School's fiscal year ending on June 30.

**Changes in Assumptions and Other Inputs**

For the year ended June 30, 2016, the total pension liability was determined by an actuarial valuation as of December 31, 2014. The following programming and methodology changes were made since the prior actuarial valuation as of December 31, 2013.

- Valuation of the full survivor benefit without any reduction for possible remarriage.
- Reflection of the employer match on separation benefits for all eligible years.
- Reflection of one year of service eligibility for survivor annuity benefit.
- Refinement of the 18 month annual increase timing.
- Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.
- Recognition of merit salary increases in the first projection year.
- Elimination of the assumption that 35% of future disabled members elect to receive a refund.
- Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
- Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

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

**Budgets and Budgetary Accounting**

A 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 budget appropriations lapse at fiscal year end.