

LOTUS SCHOOL FOR EXCELLENCE

BASIC FINANCIAL STATEMENTS

June 30, 2016

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JOHN CUTLER & ASSOCIATES

Board of Directors
Lotus School for Excellence
Aurora, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements governmental activities, each major fund, and the aggregate remaining fund information of Lotus School for Excellence (the "School"), a component unit of the Joint School District No. 28 J of the Counties of Adams and Arapahoe, Colorado, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lotus School for Excellence as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedule of the school's proportionate share, and schedule of the school's contributions on pages 30-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lotus School for Excellence's basic financial statements. The individual fund financial schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2016, on our consideration of the Lotus School for Excellence's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lotus School for Excellence's internal control over financial reporting and compliance.

John Cutler & Associates, LLC

September 26, 2016

Lotus School for Excellence
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2016

As management of the Lotus School for Excellence (the School), we offer readers of the Lotus School for Excellence financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016.

Financial Highlights

The liabilities of the School exceeded its assets at the close of the most recent fiscal year by \$4,599,746. The negative net position is the result of implementing GASB 68, and reflecting the proportionate share of the Public Employees Retirement Association unfunded pension liability.

At the close of the fiscal year the School's governmental fund reported an ending fund balance of \$1,170,263. This represents an increase of \$199,177 or 20.5%. The operations of the School are funded primarily by tax revenue received under the State School Finance Act (the Act). State categorical revenue (PPR) for the year was \$6,186,926.

Overview of Financial Statements

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

Government-wide Financial Statements

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

The statement of net position presents information on all the School's assets, deferred outflows, liabilities, and deferred inflows, with the difference between the assets/deferred outflows and liabilities/deferred inflows being reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial condition of the School is improving or deteriorating.

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

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The government-wide financial statement of activities distinguish functions/programs of the School supported primarily by per pupil revenue (PPR) passed through from the District (Aurora Public Schools - Arapahoe). The governmental activities of the School include instruction and supporting expenses.

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 can be divided into three categories: governmental funds, proprietary funds and fiduciary 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 the General 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 and is considered to be a major fund.

Proprietary Funds - Services for which the School charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The School's internal service fund (one type of proprietary fund) is the same as its business-type activities but provides more detail and additional information such as cash flow analysis. The School reports one proprietary fund the Foundation.

Lotus School for Excellence
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Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2016

The School adopts an annual appropriations budget for its General Fund and Foundation. A budgetary comparison statement has been provided for the General Fund and the

Foundation to demonstrate compliance with the budget. Budgetary comparison statements are provided on pages 30 and 33.

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 9-29.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial condition. In the case of the School, liabilities exceeded assets by \$4,599,746 for all government funds and business type activities at the close of the most recent fiscal year.

Lotus's Net Position
For the Year Ended June 30, 2016

	Governmental and Business Type Activities <u>30-Jun-16</u>
Cash and Investments	\$1,533,230
Restricted Investments	284,187
Receivables and Prepaid Items	76,870
Capital and Other Assets, Net	6,651,841
Total Assets	8,546,128
Deferred Outflows - Pensions	2,017,230
Accounts Payable, Deposits, Deferred Revenue	195,285
Accrued Salaries and Benefits	241,269
Debt due within one year	147,404
Debt due in more than one year	4,229,205
Net Pension Liability	10,205,297
Total Liabilities	15,018,460
Deferred Inflows - Pensions	144,644
Net Position	
Investment in Capital Assets, Net	2,559,419
Restricted for Emergencies	224,000
Unrestricted	(7,383,165)
Total Net Position	\$ (4,599,746)

Lotus School for Excellence
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As of and for the Year Ended June 30, 2016

The majority of the School's assets (77.8%) are in net capital assets. 21.3% percent of total assets represent cash and investments. The School's net position is negative due to the implementation of GASB 68 and the significant unfunded net pension liability.

Lotus's Change in Net Position
For the Years Ended June 30, 2016

	<u>June 30, 2016</u>
Program Revenue:	
Charges for Services	\$ 394,895
Grants and Contributions	540,514
Total Program Revenue	<u>935,409</u>
General Revenue:	
Per Pupil Operating Revenue	6,186,926
Mill Levy Revenue	412,370
Investment Earnings	5,397
Other	76,810
Total General Revenue	<u>6,681,503</u>
Total Revenue	<u>7,616,912</u>
Expenses:	
Current:	
Instruction	3,989,635
Supporting Services	3,442,443
Interest and Fiscal Charges	242,925
Total Expenses	<u>7,675,003</u>
Increase (Decrease) in Net Position	(58,091)
Beginning Net Position, June 30	<u>(4,541,655)</u>
Ending Net Position, June 30	<u>\$ (4,599,746)</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.

Lotus School for Excellence
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Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2016

Governmental Funds - The focus of Lotus'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, unreserved fund balance may serve as a useful measure of the School's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, June 30, 2016, the School's General Fund reported an ending fund balance of \$1,170,263, an increase of \$199,177 or 20.5%.

General Fund Budgetary Highlights

The School approves a budget prior to June 30th based on enrollment projections or Full Time Equivalents (FTE) for the following school year. In October after enrollment stabilizes, adjustments are made to the budget. For FY11, the State continued to reduce per pupil funding. Fortunately the school was able to increase enrollment to mitigate the funding cuts to a great degree. The FTEs for the last seven years were 304, 597, 723, 766, 774, 747, and 820.9 for FY10, FY11, FY12, FY13, FY14, FY15 and FY16 respectively. Enrollment is expected to grow in FY17. We anticipate the FTEs to exceed the budget estimate of 840.

Capital Asset and Debt Administration

Capital Assets The School's investment in capital assets is anticipated to improve over the coming years as asset additions are made and contributed to the internal service fund (Building Corporation/Lotus School for Excellence Foundation). Total depreciation for FY16 was \$223,760 resulting in net capital assets of \$6,651,841. This amount includes capital additions of \$579,786.

Long-Term Lease Agreement

The School entered into a lease agreement with the Foundation in June, 2008. The lease was renewed and extended beginning July 1, 2013. The lease calls for a monthly lease payment, intercepted by the District, which includes a daily interest calculation. The monthly lease payment is approximately \$31,875 and carries an interest rate of 5.38%. The Foundation loan, which is secured by the building, is with Self Help Credit Union and has a balloon payment due on 7/1/18 in the amount of \$4,059,849.

The School has agreed to maintain Capital and Debt Service reserve accounts with Self Help. They had a combined balance of \$284,187 at 6/30/16. New contributions to the account were waived beginning 11/1/2016.

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Economic Factors and Next Year's Budget

In November of 2000 voters in Colorado approved a provision to the Colorado constitution providing that K-12 funding would increase at pupil growth, plus inflation, plus 1% for 10 years and thereafter, growth plus inflation. This provision expired in FY 11 and continues without the 1% increase. The FY17 budget currently projects the School's General Fund equity will increase by approximately \$84K by year end. With the Colorado economy improving, the State continues to chip away at the unfunded negative factor. The PPR increase for FY17 is projected at 1.8%. With the added enrollment and small increase in PPR, the School is expected to meet its reserve and capital goals for the coming year.

Requests for Information

This financial report is designed to provide a general overview of the Lotus's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Lotus School for Excellence, Attn: Business Office, 11001 E. Alameda Ave., Aurora, CO 80012.

BASIC FINANCIAL STATEMENTS

LOTUS SCHOOL FOR EXCELLENCE

STATEMENT OF NET POSITION

June 30, 2016

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Investments	\$ 1,533,230	\$ 1,238,475
Restricted Cash and Investments	284,187	265,940
Accounts Receivable	47,480	49,802
Grants Receivable	8,940	3,405
Due from District	19,850	33,837
Prepaid Items	600	10,194
Capital Assets, Not Being Depreciated	765,461	590,820
Capital Assets, Depreciated, Net of Accumulated Depreciation	<u>5,886,380</u>	<u>5,704,995</u>
TOTAL ASSETS	<u>8,546,128</u>	<u>7,897,468</u>
DEFERRED OUTFLOW OF RESOURCES		
Related to Pensions	<u>2,017,230</u>	<u>878,710</u>
LIABILITIES		
Accounts Payable	182,983	93,365
Accrued Salaries and Benefits	241,269	226,148
Unearned Revenue	10,102	29,561
Deposits	2,200	12,268
Noncurrent Liabilities		
Due Within One Year	147,404	139,670
Due in More Than One Year	4,229,205	4,376,513
Net Pension Liability	<u>10,205,297</u>	<u>8,439,678</u>
TOTAL LIABILITIES	<u>15,018,460</u>	<u>13,317,203</u>
DEFERRED INFLOW OF RESOURCES		
Related to Pensions	<u>144,644</u>	<u>630</u>
NET POSITION		
Investment in Capital Assets	2,559,419	1,779,632
Restricted for Emergencies	224,000	193,000
Unrestricted	<u>(7,383,165)</u>	<u>(6,514,287)</u>
TOTAL NET POSITION	<u>\$ (4,599,746)</u>	<u>\$ (4,541,655)</u>

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

LOTUS SCHOOL FOR EXCELLENCE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	PROGRAM REVENUES			Net Expense (Revenue) and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2016	2015
PRIMARY GOVERNMENT						
Governmental Activities						
Instruction	\$ 3,989,635	\$ 85,465	\$ 323,663	\$ -	\$ (3,580,507)	\$ (3,556,818)
Supporting Services	3,442,443	309,430	4,655	212,196	(2,916,162)	(1,906,925)
Interest and Fiscal Charges	242,925	-	-	-	(242,925)	(249,589)
 Total Governmental Activities	<u>\$ 7,675,003</u>	<u>\$ 394,895</u>	<u>\$ 328,318</u>	<u>\$ 212,196</u>	<u>(6,739,594)</u>	<u>(5,713,332)</u>
 GENERAL REVENUES						
Per Pupil Revenue					6,186,926	5,468,742
Mill Levy Override					412,370	321,149
Investment Earnings					5,397	2,213
Other					76,810	76,914
					<u>6,681,503</u>	<u>5,869,018</u>
					(58,091)	155,686
					<u>(4,541,655)</u>	<u>(4,697,341)</u>
					<u>\$ (4,599,746)</u>	<u>\$ (4,541,655)</u>

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

LOTUS SCHOOL FOR EXCELLENCE

BALANCE SHEET
ALL GOVERNMENTAL FUNDS
June 30, 2016

	<u>GENERAL FUND</u>	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Investments	\$ 1,529,947	\$ 1,235,190
Accounts Receivable	47,480	49,802
Grants Receivable	8,940	3,405
Due from District	19,850	33,837
Prepaid Expenses	600	10,194
	<u>600</u>	<u>10,194</u>
TOTAL ASSETS	<u>\$ 1,606,817</u>	<u>\$ 1,332,428</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 182,983	\$ 93,365
Accrued Salaries and Benefits	241,269	226,148
Unearned Revenues	10,102	29,561
Deposits	2,200	12,268
	<u>2,200</u>	<u>12,268</u>
TOTAL LIABILITIES	<u>436,554</u>	<u>361,342</u>
FUND BALANCES		
Nonspendable for Prepaid Expenses	600	10,194
Restricted for Emergencies	224,000	193,000
Unassigned	945,663	767,892
	<u>945,663</u>	<u>767,892</u>
TOTAL FUND BALANCES	1,170,263	971,086
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	1,380,195	912,497
Long-term liabilities and related assets are not due and payable in the current period and therefore, are not reported in the funds. This liability includes net pension liability (\$10,205,297), deferred outflows related to pensions \$2,017,230, and deferred inflows related to pensions (\$144,644).	(8,332,711)	(7,561,598)
Internal service funds are used by management to charge the lease costs to governmental funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.	<u>1,182,507</u>	<u>1,136,360</u>
Net position of governmental activities	<u>\$ (4,599,746)</u>	<u>\$ (4,541,655)</u>

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

LOTUS SCHOOL FOR EXCELLENCE

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
Year Ended June 30, 2016

	<u>GENERAL FUND</u>	
	<u>2016</u>	<u>2015</u>
REVENUES		
Local Sources	\$ 7,079,447	\$ 6,005,444
State Sources	389,474	654,361
Federal Sources	<u>146,385</u>	<u>194,730</u>
TOTAL REVENUES	<u>7,615,306</u>	<u>6,854,535</u>
EXPENDITURES		
Instruction	3,991,477	3,758,839
Supporting Services	<u>3,424,652</u>	<u>2,920,028</u>
TOTAL EXPENDITURES	<u>7,416,129</u>	<u>6,678,867</u>
NET CHANGE IN FUND BALANCES	199,177	175,668
FUND BALANCES, Beginning	<u>971,086</u>	<u>795,418</u>
FUND BALANCES, Ending	<u><u>\$ 1,170,263</u></u>	<u><u>\$ 971,086</u></u>

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

LOTUS SCHOOL FOR EXCELLENCE

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

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

Net change in fund balances - total governmental funds	\$	199,177
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlay \$579,786 exceeded depreciation expense (\$112,088) for the year.		467,698
Deferred Charges related to pensions are not recognized in the governmental funds. However, in the government-wide statements these amounts are capitalized and amortized.		(771,113)
The Internal Service fund is used by management to charge the cost of lease payments to the governmental funds. The net revenue of the internal service fund is reported with the governmental activities.		<u>46,147</u>
Change in net position of governmental activities	\$	<u><u>(58,091)</u></u>

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

LOTUS SCHOOL FOR EXCELLENCE

STATEMENT OF NET POSITION
 PROPRIETARY FUND TYPES
 June 30, 2016

	GOVERNMENTAL ACTIVITIES	
	Internal Service Fund	
	2016	2015
ASSETS		
Current Assets		
Cash and Investments	\$ 3,283	\$ 3,285
Restricted Cash and Investments	284,187	265,940
Total Current Assets	287,470	269,225
Long-term Assets		
Capital Assets, Net of Accumulated Depreciation	5,271,646	5,383,318
Total Long-term Assets	5,271,646	5,383,318
TOTAL ASSETS	5,559,116	5,652,543
LIABILITIES		
Current Liabilities		
Mortgage Payable - Current Portion	147,404	139,670
Total Current Liabilities	147,404	139,670
Long-Term Liabilities		
Mortgage Payable	4,229,205	4,376,513
TOTAL LIABILITIES	4,376,609	4,516,183
NET POSITION		
Net Investment in Capital Assets	895,037	867,135
Unrestricted	287,470	269,225
TOTAL NET POSITION	\$ 1,182,507	\$ 1,136,360

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

LOTUS SCHOOL FOR EXCELLENCE

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND TYPES
Year Ended June 30, 2016

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>Internal Service Fund</u>	
	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Rent	\$ 399,138	\$ 432,418
Investment Income	1,606	1,007
TOTAL OPERATING REVENUES	<u>400,744</u>	<u>433,425</u>
OPERATING EXPENSES		
Depreciation	<u>111,672</u>	<u>111,672</u>
TOTAL OPERATING EXPENSES	<u>111,672</u>	<u>111,672</u>
OPERATING INCOME	<u>289,072</u>	<u>321,753</u>
NON-OPERATING EXPENSES		
Interest Expense	<u>(242,925)</u>	<u>(249,589)</u>
NET INCOME (LOSS)	46,147	72,164
NET POSITION, Beginning	<u>1,136,360</u>	<u>1,064,196</u>
NET POSITION, Ending	<u>\$ 1,182,507</u>	<u>\$ 1,136,360</u>

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

LOTUS SCHOOL FOR EXCELLENCE

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPES
 Year Ended June 30, 2016
 Increase (Decrease) in Cash

	GOVERNMENTAL ACTIVITIES	
	Internal Service Fund	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Rental Operations	\$ 399,138	\$ 432,418
Investment Income	1,606	1,007
Net Cash Provided by Operating Activities	<u>400,744</u>	<u>433,425</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest Expense	(242,925)	(249,589)
Principal Payments on Loan	(139,574)	(132,909)
Net Cash Used by Financing Activities	<u>(382,499)</u>	<u>(382,498)</u>
NET INCREASE (DECREASE) IN CASH	18,245	50,927
CASH, Beginning	<u>269,225</u>	<u>218,298</u>
CASH, Ending	<u>\$ 287,470</u>	<u>\$ 269,225</u>
RECONCILIATION OF OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 289,072	\$ 321,753
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation Expense	111,672	111,672
Total Adjustments	<u>111,672</u>	<u>111,672</u>
Net Cash Provided by Operating Activities	<u>\$ 400,744</u>	<u>\$ 433,425</u>

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

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lotus School for Excellence (the “School”) was formed in 2003 pursuant to the Colorado Charter Schools Act to form and operate a charter school which opened in 2006. The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental units. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of the School and organizations for which the School is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. In addition, any legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the School.

Based upon the application of these criteria, the following organization is included in the School’s reporting entity.

Lotus School for Excellence Foundation

The purpose of the Foundation is to provide a mechanism to issue and pay debt on behalf of the School. The Foundation is considered to be part of the School for financial reporting purposes because its resources are entirely for the direct benefit of the School and is blended into the School’s financial statements as an internal service fund called the Building Fund. As part of its ongoing responsibilities, the Foundation provides the School with monthly financial statements. Separate financial statements are not available.

The School is a component unit of the Joint School District No. 28 J of the Counties of Adams and Arapahoe, Colorado.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

LOTUS SCHOOL FOR EXCELLENCE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The School reports the following major governmental funds:

General Fund – This fund is the general operating fund of the School. It is used to account for all financial resources except those required to be accounted for in another fund.

Additionally, the School reports the following fund types:

The *Internal Service Fund* is used to account for activity of the Building Fund.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and balance sheets will sometimes report a separate section for deferred outflows or resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position and fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources expense/expenditure) until then.

In addition to liabilities, the statement of financial position and balance sheets will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position and fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position

Investments – Investments are recorded at fair value.

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

Prepaid Expenses - Payments for goods and services to be received in the near future. An expenditure is reported in the year in which the goods or services are received.

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: buildings 50 years, furniture and equipment 5 to 10 years.

Unearned Revenues – The unearned revenues include amounts received but not yet available for expenditure.

Long Term Obligations - In the government-wide financial statements, and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Compensated Absences – Full time employees earn 8 days and part time employees earn 4 days of paid time off (“PTO”) per year. The School’s policy allows employees to carry over up to 30 unused PTO days. Unused compensated absences are paid upon resignation or termination at a rate of \$25 per day. For the year ended June 30, 2016, the School’s compensated absences liability was immaterial and was not recorded in the government-wide financial statements.

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

- Investment in Capital Assets is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.
- Restricted Net Position are liquid assets, which have third party limitations on their use.
- Unrestricted Net Position represents assets that do not have any third party limitation on their use. While School management may have categorized and segmented portion for various purposes, the School Board has the unrestricted right to revisit or alter these managerial decisions.

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

- Nonspendable – This classification includes amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The School has reported its prepaid items as nonspendable as of June 30, 2016.

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2016.
- Assigned – This classification includes amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The School did not have any assigned resources as of June 30, 2016.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

Risk Management

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

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Data

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

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

A budget is adopted for all funds on a basis consistent with generally accepted accounting principles.

Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget is adopted by the Board of Directors prior to June 30. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year-end.

NOTE 3: CASH AND INVESTMENTS

Cash and Investments at June 30, 2016 consisted of the following:

Petty Cash	\$	500
Deposits		830,602
Investments		<u>986,315</u>
Total	\$	<u>1,817,417</u>

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 3: CASH AND INVESTMENTS (Continued)

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2016, State regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held.

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

At June 30, 2016, the School had deposits with financial institutions with a carrying amount of \$830,602. The bank balances with the financial institutions were \$835,966. Of these balances \$250,000 was covered by federal depository insurance, \$500,000 was covered by National Credit Union Association depository insurance, and was covered by federal depository insurance and \$335,966 was covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

Investments

The School had invested \$986,315 in the Colorado Government Liquid Asset Trust (COLOTRUST) which has a credit rating of AAAM by Standard and Poor's. COLOTRUST is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities.

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 3: CASH AND INVESTMENTS (Continued)

Fair Value (Continued)

The School categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

COLOTRUST – The School holds a position in an external investment pool that is not a 2a7-like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool’s share price multiplied by the number of shares held. The government-investor does not “look through” the pool to report a pro rata share of the pool’s investments, receivables, and payables. Therefore, this investment is categorized as Level 2.

Restricted Cash

Cash in the amount of \$284,187 is restricted for debt service in the Building Fund.

NOTE 4: CAPITAL ASSETS

Capital Assets activity for the year ended June 30, 2016 is summarized below.

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2016</u>
Governmental Activities				
Capital Assets, Not Depreciated				
Land	\$ 590,820	\$ -	\$ -	\$ 590,820
Construction in Progress	-	<u>174,641</u>	-	<u>174,641</u>
Total Capital Assets, Not Depreciated	<u>590,820</u>	<u>174,641</u>	-	<u>765,461</u>
Capital Assets, Depreciated				
Building	5,583,508	-	-	5,583,508
Leasehold Improvements	475,339	265,539	-	740,878
Equipment	<u>699,147</u>	<u>139,606</u>	-	<u>838,753</u>
Total Capital Assets, Depreciated	<u>6,757,994</u>	<u>405,145</u>	-	<u>7,163,139</u>

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 4: CAPITAL ASSETS (Continued)

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2016</u>
Accumulated Depreciation				
Building	791,010	111,672	-	902,682
Leasehold Improvements	25,702	20,043	-	45,745
Equipment	<u>236,287</u>	<u>92,045</u>	-	<u>328,332</u>
Total Accumulated Depreciation	<u>1,052,999</u>	<u>223,760</u>	-	<u>1,276,759</u>
Net Capital Assets, Depreciated	<u>5,704,995</u>	<u>181,385</u>	-	<u>5,886,380</u>
Net Capital Assets	<u>\$ 6,295,815</u>	<u>\$ 356,026</u>	<u>\$ -</u>	<u>\$ 6,651,841</u>

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

NOTE 5: ACCRUED SALARIES AND BENEFITS

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during a School year of nine months. The salaries and benefits earned, but unpaid, as of June 30, 2016, were \$241,269 in the General Fund.

NOTE 6: LONG-TERM DEBT

Following is a summary of the School's long-term debt transactions for the year ended June 30, 2016:

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2016</u>	Due In <u>One Year</u>
Mortgage Payable	<u>\$ 4,516,183</u>	<u>\$ -</u>	<u>\$ 139,574</u>	<u>\$ 4,376,609</u>	<u>\$ 147,404</u>

Mortgage Payable

In October 2008, the Foundation obtained a mortgage payable from Self-Help Credit Union in the amount of \$4,901,110. The mortgage was obtained for the acquisition of the land educational facility. The original mortgage was due on July 1, 2013. The School refinanced the existing mortgage in July of 2013. The School increased its outstanding mortgage debt to Self-Help Credit Union by \$419,123 to provide additional funding to pay off the note payable.

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 6: LONG-TERM DEBT (Continued)

The School is obligated to make monthly lease payments to the Foundation for use of the building. The Foundation is required to make monthly debt service payments in the amount of \$31,875 for payment of the mortgage debt through July 1, 2018. A balloon payment is due on July 1, 2018. The mortgage carries an interest rate of 5.38%.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 147,404	\$ 235,094	\$ 382,498
2018	155,744	226,754	382,498
2019	<u>4,073,461</u>	<u>18,262</u>	<u>4,091,723</u>
Total	<u>\$ 4,376,609</u>	<u>\$ 480,110</u>	<u>\$ 4,856,719</u>

NOTE 7: DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Policies

Pensions. The School participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees’ Retirement Association of Colorado (“PERA”). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SCHDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description. Eligible employees of the School are provided with pensions through the School Division Trust Fund (SCHDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN(Continued)

General Information about the Pension Plan (Continued)

Benefits provided. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the SCHDTF.

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN(Continued)

General Information about the Pension Plan (Continued)

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions. Eligible employees and the School are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2016
Employer Contribution Rate ¹	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF ¹	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	4.20%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	4.00%	4.50%
Total Employer Contribution Rate to the SCHDTF ¹	17.33%	18.13%

¹Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF School were \$583,117 for the year ended June 30, 2016.

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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 liability of \$10,205,297 for its proportionate share of the net pension liability. The net pension liability was measured as of 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. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The School proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2014 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2015, the School proportion was 0.0667%, which was an increase of 0.00446% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016 the School recognized pension expense of \$1,354,229. 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>
Difference between expected and actual experience	\$ 134,762	\$ 425
Net difference between projected and actual earnings on pension plan investments	\$ 867,736	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$ 705,528	N/A
Changes in assumptions and other inputs	N/A	\$ 144,219
Contributions subsequent to the measurement date	\$ 309,204	N/A
Totals	\$ 2,017,230	\$ 144,644

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN(Continued)

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

\$309,204 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30, 2016	
2017	\$ 549,370
2018	\$ 502,242
2019	\$ 333,830
2020	\$ 177,940

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.10 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN(Continued)

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

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

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

The following programming changes were made:

- 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.

The following methodology changes were made:

- 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.

The SCHDTF's long-term expected rate of return on pension 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.

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

As of the November 15, 2013 adoption of the long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
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 Gov't/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	100.00%	

* In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.90%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN(Continued)

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

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above actuarial cost method and assumptions, the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$13,229,047	\$10,205,297	\$7,690,100

Pension plan fiduciary net position. Detailed information about the SCHDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

Other Post-Employment Benefits

Health Care Trust Fund

Plan Description – The School contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy – The School is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2016, 2015, and 2014, the School contributions to the HCTF were \$31,666, \$28,149, and \$24,730, respectively, equal to their required contributions for each year.

LOTUS SCHOOL FOR EXCELLENCE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 8: COMMITMENTS AND CONTINGENCIES

Modular Lease

On February 19, 2016 the School entered into a lease agreement for modular classrooms. The lease required a one-time set up fee in the amount of \$16,300. Monthly lease payments in the amount of \$2,393 are due beginning in May 2016 through April 2019.

Future minimum lease payments are as follows:

Year Ended	
<u>June 30</u>	
2017	\$ 28,716
2018	28,716
2019	<u>23,930</u>
Total	<u>\$ 81,362</u>

Total rent expense for the year ended June 30, 2016 for this lease was \$4,786.

Claims and Judgments

The School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor government. As of June 30, 2016, significant amounts of grant expenditures have not been audited, but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment. As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2016, the reserve of \$224,000 was recorded as a reservation of fund balance in the General Fund.

LOTUS SCHOOL FOR EXCELLENCE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 9: DEFICIT NET POSITION

The net position of the governmental activities is in a deficit position of \$4,599,746 due to the School including its Net Pension Liability per the requirements of GASB Statement No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

LOTUS SCHOOL FOR EXCELLENCE

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2016

	2016			VARIANCE	2015 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
REVENUES					
Local Sources					
Per Pupil Operating Revenue	\$ 5,966,196	\$ 6,237,506	\$ 6,186,926	\$ (50,580)	\$ 5,468,742
Mill Levy Override	330,517	330,517	412,370	81,853	321,149
Pupil Activities	62,500	63,200	85,465	22,265	36,883
Charges for Services	270,400	270,400	309,430	39,030	100,550
Grants and Donations	20,000	15,000	4,655	(10,345)	1,164
Earnings on Investments	500	1,000	3,791	2,791	1,206
Other Revenue	61,500	81,750	76,810	(4,940)	75,750
Federal and State Sources				-	
Grants and Donations	370,964	503,728	535,859	32,131	849,091
TOTAL REVENUES	7,082,577	7,503,101	7,615,306	112,205	6,854,535
EXPENDITURES					
Instruction					
Salaries	2,438,264	2,337,845	2,485,777	(147,932)	2,267,510
Employee Benefits	748,555	793,598	726,770	66,828	698,370
Purchased Services	705,486	427,286	431,424	(4,138)	598,582
Supplies and Materials	296,500	304,700	325,381	(20,681)	194,377
Property	24,500	9,950	22,125	(12,175)	-
Total Instruction	4,213,305	3,873,379	3,991,477	(118,098)	3,758,839
Supporting Services					
Salaries	777,000	835,828	830,832	4,996	675,075
Employee Benefits	234,272	248,694	230,837	17,857	204,612
Purchased Services	1,569,051	1,615,821	1,505,021	110,800	1,457,302
Supplies and Materials	98,640	99,140	153,480	(54,340)	132,931
Property	95,000	556,466	675,403	(118,937)	418,917
Other	95,309	273,773	29,079	244,694	31,191
Total Supporting Services	2,869,272	3,629,722	3,424,652	205,070	2,920,028
TOTAL EXPENDITURES	7,082,577	7,503,101	7,416,129	86,972	6,678,867
NET CHANGE IN FUND BALANCES	-	-	199,177	199,177	175,668
FUND BALANCE, Beginning	800,203	971,086	971,086	-	795,418
FUND BALANCE, Ending	\$ 800,203	\$ 971,086	\$ 1,170,263	\$ 199,177	\$ 971,086

See the accompanying independent auditors' report.

LOTUS SCHOOL FOR EXCELLENCE

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
SCHOOL DISTRICT TRUST FUND

Years Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>
School's proportionate share of the Net Pension Liability	0.058%	0.062%	0.067%
School's proportionate share of the Net Pension Liability	\$ 7,360,337	\$ 8,439,678	\$ 10,205,297
School's covered-employee payroll	\$ 2,303,755	\$ 2,588,785	\$ 2,907,914
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	319.5%	326.0%	350.9%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%

Note: Information above is presented as of the measurement date.

See the accompanying independent auditors' report.

LOTUS SCHOOL FOR EXCELLENCE

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DISTRICT TRUST FUND

Years Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Statutorily required contributions	\$ 412,443	\$ 497,976	\$ 583,117
Contributions in relation to the Statutorily required contributions	<u>412,443</u>	<u>497,976</u>	<u>583,117</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,400,701	\$ 2,759,665	\$ 3,104,519
Contributions as a percentage of covered-employee payroll	17.18%	18.04%	18.78%

See the accompanying independent auditors' report.

INDIVIDUAL FUND SCHEDULE

LOTUS SCHOOL FOR EXCELLENCE

BUDGETARY COMPARISON SCHEDULE
 BUILDING FUND
 Year Ended June 30, 2016

	2016			VARIANCE Positive (Negative)	2015 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
REVENUES					
Local Sources					
Lease Revenue	\$ 444,695	\$ 444,695	\$ 399,138	\$ (45,557)	\$ 432,418
Earnings on Investments	3,000	3,000	1,606	(1,394)	1,007
TOTAL REVENUES	<u>447,695</u>	<u>447,695</u>	<u>400,744</u>	<u>(46,951)</u>	<u>433,425</u>
EXPENDITURES					
Purchased Services	17,478	17,478	-	17,478	-
Depreciation	131,028	131,028	111,672	19,356	111,672
Debt Service					
Principal	135,000	135,000	139,574	(4,574)	132,909
Interest and Other Fiscal Charges	220,432	220,432	242,925	(22,493)	249,589
Contingency	22,250	22,250	-	22,250	-
TOTAL EXPENDITURES	<u>526,188</u>	<u>526,188</u>	<u>494,171</u>	<u>32,017</u>	<u>494,170</u>
NET INCOME, Budget Basis	<u>\$ (78,493)</u>	<u>\$ (78,493)</u>	<u>(93,427)</u>	<u>\$ (14,934)</u>	<u>(60,745)</u>
GAAP BASIS ADJUSTMENTS					
Loan Principal Payments			<u>139,574</u>		<u>132,909</u>
NET INCOME, GAAP Basis			<u>46,147</u>		<u>72,164</u>
NET POSITION, Beginning			<u>1,136,360</u>		<u>1,064,196</u>
NET POSITION, Ending			<u>\$ 1,182,507</u>		<u>\$ 1,136,360</u>

See the accompanying independent auditors' report.

COMPLIANCE



JOHN CUTLER & ASSOCIATES

Board of Directors
Lotus School for Excellence
Aurora, Colorado

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Lotus School for Excellence as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Lotus School for Excellence's basic financial statements, and have issued our report thereon dated September 26, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lotus School for Excellence's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lotus School for Excellence's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lotus School for Excellence's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a *material weakness*, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lotus School for Excellence's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

John Luthr & Associates, LLC

September 26, 2016