

VANGUARD CLASSICAL SCHOOL

**(A Component Unit of Joint School District No. 28-J
of the Counties of Adams and Arapahoe, Colorado)**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2016



RECEIVED

By Justin L. Smith at 2:14 pm, Nov 21, 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Vanguard Classical School
Denver, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Vanguard Classical School, 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.

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 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 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 School'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 School'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 and the General Fund of the Vanguard Classical School as of June 30, 2016, and the respective changes in financial position and budgetary comparison for the General Fund 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 on pages 3 through 7 and the pension schedules on pages 29 through 30 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2016, on our consideration of the Vanguard Classical School'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 result 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 Vanguard Classical School's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Broomfield, Colorado
September 21, 2016

**VANGUARD CLASSICAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

History and Nature of Operation

Vanguard Classical School (formerly known as CP Charter School) was started by Ability Connection of Colorado Inc., (formerly known as Cerebral Palsy of Colorado Inc.), a nonprofit Corporation. Ability Connection of Colorado was incorporated in 1952 to provide educational, social and therapeutic programs and related activities for persons with cerebral palsy and other disabilities. Ability Connection of Colorado is currently providing community based education services for children of all abilities, birth to five years of age, family support services, a full range of employment services, a statewide information referral service, and statewide education/training for people with disabilities and their families.

Vanguard Classical School (the School) received its charter from Aurora Public Schools in December 2006 and opened in July 2007. The charter was amended in January 2014 to include a high school located on the School's east campus at 17101 East Ohio Drive, Aurora, Colorado. Activities of the high school are included in the accompanying financial statements. The School is a separate Colorado nonprofit organization with its own 501(c)(3) corporation (received July 2009), governed by its own board of directors. The School's west campus is co-located with the corporate offices of Ability Connection of Colorado at 801 Yosemite Street, Denver, Colorado.

As management of Vanguard Classical School, we offer readers of the School's basic financial statements this narrative and analysis of the financial activities of the School as of and for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information provided in the basic financial statements.

Financial Highlights

The School's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$8,367,643 at June 30, 2016. This is largely related to the second year implementation of the Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, the School's net pension liability of \$(12,958,549) is recorded in liabilities. See Note 7 beginning on page 20 for further information.

The School's unrestricted net position for the year ended June 30, 2016 is \$(8,719,231). The total unrestricted net position is made up of \$(8,769,660) that is attributable to the unfunded net pension liability and \$50,429 that is a result of operational revenues exceeding operational expenses.

The School's General Fund reported an ending fund balance of \$402,308, an increase of \$402,308. The total General Fund balance is 4% of the fiscal year 2016 General Fund operating expenditures.

Overview of Basic Financial Statements

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

**VANGUARD CLASSICAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

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 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.

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

In the government-wide financial statements, the School's activities are part of one distinct kind of activity.

- Governmental activities – Most of the School's programs and services are reported here including instruction and support services.

The School has no business-type activities.

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 local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

The School operates one governmental fund, the General Fund:

- General fund – The School's activities are reported in its General fund, which has a focus on how money flows into and out of that fund. The balance left at year-end is available for spending in future periods. The governmental fund statement provides a detailed short-term view that helps determine whether there are more or less financial resources that can be spent in the near future in financing the School's programs. Because there are differences between governmental activities (shown in the statement of net position and the statement of activities previously discussed) and its governmental fund, a reconciliation is provided in the financial statements.

Notes to Financial Statements

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

**VANGUARD CLASSICAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of Vanguard Classical School, as of June 30, 2016, combined net position is \$(8,367,352) for its ninth year of operations.

The following tables summarize the School's statement of net position and activities as of and for the years ended June 30, 2016 and 2015.

COMPARATIVE STATEMENT OF NET POSITION

	2016	2015
ASSETS		
Cash	\$ 746,568	\$ 429,738
Restricted Cash	50,000	50,000
Accounts Receivable	101,965	100,519
Grants Receivable	169,204	139,543
Prepaid Expenses	2,150	-
Total Assets	1,069,887	719,800
DEFERRED OUTFLOWS OF RESOURCES		
Change in Proportionate Share	2,727,119	3,700,660
Change in Experience Loss	171,119	-
Change in Investment Earnings	1,092,397	251,493
Contributions Subsequent to Measurement Date	381,896	327,951
Total Deferred Outflows of Resources	4,372,531	4,280,104
LIABILITIES		
Accounts Payable	159,397	325,175
Due to Aurora Public Schools	70,535	-
Accrued Salaries and Benefits	437,647	394,625
Net Pension Liability	12,958,549	10,936,010
Total Liabilities	13,626,128	11,655,810
DEFERRED INFLOWS OF RESOURCES		
Change in Actuarial Assumptions	183,127	-
Change in Experience Gain	515	817
Total Deferred Inflows of Resources	183,642	817
NET POSITION		
Restricted for TABOR	301,879	246,728
Restricted for Legal Contingency	50,000	50,000
Unrestricted	(8,719,231)	(6,953,451)
Total Net Position	\$ (8,367,352)	\$ (6,656,723)

**VANGUARD CLASSICAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

Government-Wide Financial Analysis (Continued)

As of June 30, 2016, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$8,367,352. Per Article X, Section 20 of the Colorado constitution, also known as the 1992 Taxpayer Bill of Rights or the TABOR Amendment, the School is required to establish a separate emergency reserve equaling 3% of applicable expenditures. The School's emergency reserve requirement under TABOR as of June 30, 2016 was \$301,879.

The following tables summarize the School's statement of revenues, expenses and changes in net position for the years ended June 30, 2016 and 2015.

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Governmental Activities	
	2016	2015
REVENUE		
Program Revenues:		
Charges for Services	\$ 490,083	\$ 416,021
Operating Grants and Contributions	438,898	465,566
Capital Grants and Contributions	289,330	167,515
General Revenue:		
State Categorical Revenue	8,273,166	7,067,595
Revenue from Local Sources	582,737	444,939
Other	186	1,049
Transfer	-	-
Total Revenue	10,074,400	8,562,685
EXPENSES		
Instruction	6,629,212	6,212,254
Supporting Services	5,155,817	4,446,411
Total Expenses	11,785,029	10,658,665
CHANGE IN NET POSITION	(1,710,629)	(2,095,980)
Net Position - Beginning of Year	(6,656,723)	(4,560,743)
NET POSITION - END OF YEAR	<u>\$ (8,367,352)</u>	<u>\$ (6,656,723)</u>

The Schedule of Revenues, Expenses and Changes in Net Position reflect growth in several areas. State Categorical Revenue increased due to increased enrollment (FTE) at both the East and West campuses. Instruction and support services expenses primarily increased due to an increase in staffing to respond to the growth in enrollment and because staff received an increase in pay for the year.

Financial Analysis of the School's Funds

The School has one governmental fund, the General Fund. The General Fund is considered a major fund and is used to account for the School's general operations. Changes related to the General Fund are very similar to those noted in Governmental Activities.

**VANGUARD CLASSICAL SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

Budgetary Highlights

A budgetary comparison for the General Fund has been provided in the basic financial statements to demonstrate compliance with the budget. The School budgeted expenditures of \$10,017,266 for the year ended June 30, 2016. Actual expenditures were \$9,672,092 for the same period.

Facilities

The School leases its office and School facilities under an operating lease with Ability Connection of Colorado that expires on June 30, 2018.

Annual rent payments under the lease were \$2,414,242 (included in Supporting Services) for the year ended June 30, 2016.

Capital Assets and Long-Term Liabilities

The School has no capital assets as of June 30, 2016. The School has a long-term liability of \$12,958,549 for the School's pension liability.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the School is student enrollment. Funded Pupil Count (FPC) for the 2016 School year was 463 for the west campus and 646 for the east campus. The FPC projected for the 2017 School year is 501 for the west campus and 736 for the east campus. This is a major factor used in preparing the School's budget for the fiscal year 2017.

Request for Information

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

Board President
Vanguard Classical School
801 Yosemite Street
Aurora, CO 80230

**VANGUARD CLASSICAL SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities
ASSETS	
Cash	\$ 746,568
Restricted Cash	50,000
Accounts Receivable	101,965
Grants Receivable	169,204
Prepaid Expenses	2,150
Total Assets	1,069,887
DEFERRED OUTFLOWS OF RESOURCES	
Change in Proportionate Share	2,727,119
Change in Experience Loss	171,119
Change in Investment Earnings	1,092,397
Contributions Subsequent to Measurement Date	381,896
Total Deferred Outflows of Resources	4,372,531
LIABILITIES	
Accounts Payable	159,397
Due to Aurora Public Schools	70,535
Accrued Salaries and Benefits	437,647
Net Pension Liability	12,958,549
Total Liabilities	13,626,128
DEFERRED INFLOWS OF RESOURCES	
Change in Actuarial Assumptions	183,127
Change in Experience Gain	515
Total Deferred Inflows of Resources	183,642
NET POSITION	
Restricted for TABOR	301,879
Restricted for Legal Contingency	50,000
Unrestricted	(8,719,231)
Total Net Position	\$ (8,367,352)

See accompanying Notes to Financial Statements.

**VANGUARD CLASSICAL SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Governmental Activities:					
Instruction	\$ 6,629,212	\$ 114,679	\$ 438,898	\$ 289,330	\$ (5,786,305)
Supporting Services	<u>5,155,817</u>	<u>375,404</u>	<u>-</u>	<u>-</u>	<u>(4,780,413)</u>
Total Governmental Activities	<u>\$ 11,785,029</u>	<u>\$ 490,083</u>	<u>\$ 438,898</u>	<u>\$ 289,330</u>	(10,566,718)
General Revenues:					
State Categorical Revenue					8,273,166
Revenue from Local Sources					582,737
Interest Income					<u>186</u>
Total General Revenues					<u>8,856,089</u>
Change in Net Position					(1,710,629)
Net Position - Beginning of Year					<u>(6,656,723)</u>
Net Position - End of Year					<u>\$ (8,367,352)</u>

**VANGUARD CLASSICAL SCHOOL
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2016**

	<u>General Fund</u>
ASSETS	
Cash	\$ 746,568
Restricted Cash	50,000
Accounts Receivable	101,965
Grants Receivable	169,204
Prepaid Expenses	2,150
Total Assets	<u>\$ 1,069,887</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 159,397
Due to Aurora Public Schools	70,535
Accrued Salaries and Benefits	437,647
Total Liabilities	<u>667,579</u>
FUND BALANCE	
Restricted for TABOR	301,879
Restricted for Legal Contingency	50,000
Unassigned	50,429
Total Fund Balance	<u>402,308</u>
Total Liabilities and Fund Balance	<u>\$ 1,069,887</u>

See accompanying Notes to Financial Statements.

**VANGUARD CLASSICAL SCHOOL
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2016**

Amounts reported to governmental activities in the Statement of Net Position are different because:

Total Fund Balances of Governmental Fund	\$ 402,308
Long-term liabilities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the current period, and therefore, are not reported in the governmental fund.	
Net Pension Liability	(12,958,549)
Deferred outflows of resources used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	
Change in Proportionate Share	2,727,119
Change in Experience Loss	171,119
Change in Investment Earnings	1,092,397
Contributions Subsequent to Measurement Date	381,896
Deferred inflows of resources used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	
Change in Actuarial Assumptions	(183,127)
Change in Experience Gain	(515)
	(8,367,352)
Total Net Position of Governmental Activities	\$ (8,367,352)

See accompanying Notes to Financial Statements.

**VANGUARD CLASSICAL SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2016**

	General Fund
REVENUE	
State of Colorado - Per Pupil Funding	\$ 8,273,166
State of Colorado - Other	289,330
Charges for Services	490,083
Revenue from Local Sources	582,737
Grant and Contribution Revenue	438,898
Earnings on Investments	186
Total Revenue	10,074,400
EXPENDITURES	
Current:	
Instruction	4,700,101
Supporting Services	4,971,991
Total Expenditures	9,672,092
NET CHANGE IN FUND BALANCE	402,308
Fund Balance - Beginning of Year	-
FUND BALANCES - END OF YEAR	\$ 402,308

See accompanying Notes to Financial Statements.

**VANGUARD CLASSICAL SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND
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 of Governmental Fund	\$ 402,308
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Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund. The (increases) decreases in these activities consist of:

Change in Contributions Subsequent to Measurement Date	53,945
Pension Expense	(2,806,780)
Employer Contribution Expense	<u>639,898</u>

Change in Net Position of Governmental Activities	<u><u>\$ (1,710,629)</u></u>
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**VANGUARD CLASSICAL SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUE				
State of Colorado - Per Pupil Funding	\$ 8,191,242	\$ 8,495,485	\$ 8,273,166	\$ (222,319)
Capital Construction	167,515	290,296	289,330	(966)
Other Income	1,176,620	673,540	1,073,006	399,466
Nutrition Services Total Revenue	-	342,945	-	(342,945)
Grants	215,000	215,000	438,898	223,898
Total Revenue	<u>9,750,377</u>	<u>10,017,266</u>	<u>10,074,400</u>	<u>57,134</u>
EXPENDITURES				
Salaries	3,851,960	4,114,000	4,022,463	91,537
Benefits	956,000	1,037,000	1,069,927	(32,927)
Purchased Services	4,112,389	4,114,338	4,486,184	(371,846)
Purchased Services/Nutrition	-	126,000	-	126,000
Supplies	630,028	129,200	93,518	35,682
Supplies Services/Nutrition	-	200,000	-	200,000
Other	200,000	-	-	-
Reserves	296,004	296,728	-	296,728
Total Expenditures	<u>10,046,381</u>	<u>10,017,266</u>	<u>9,672,092</u>	<u>345,174</u>
EXCESS OF REVENUES OVER EXPENDITURES	(296,004)	-	402,308	402,308
Fund Balance - Beginning of Year	<u>296,004</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 402,308</u></u>	<u><u>\$ 402,308</u></u>

See accompanying Notes to Financial Statements.

**VANGUARD CLASSICAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Vanguard Classical School (the School) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. Following is a summary of the more significant accounting policies:

Nature of Operations

The School was formed by Ability Connection Colorado, a nonprofit corporation, with the approval of its governing board of directors and, as such, has an obligation to ensure its success to include financial well being, in addition to providing high quality education for children of all abilities. The School was organized in December 2006 for the purpose of entering into one or more charter school contracts with Colorado school districts and commenced operations July 1, 2007. The School is a component unit of the Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado (the Aurora School District or ASD). It is the administrative position of the Colorado Department of Education that a charter school has the same relationship to a public school district as does any other school program or school building within a District. A charter school is part of a local school district that is a political subdivision of the State of Colorado. In accordance with Colorado state statute, the Aurora School District has approved the charter of the School for a five-year period ending June 30, 2018.

As required by accounting principles generally accepted in the United States of America, these basic financial statements present the financial activities of the School. The School follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining the governmental activities, organizations, and functions that should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, and a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The School is not financially accountable for any other organization. Under current GASB pronouncements, the School has been determined to be a component unit of the Aurora School District – the primary government. As such, the School's financial results are included in the Aurora School District's Comprehensive Annual Financial Report.

In January 2014, the School's existing charter was amended and approved by ASD to include a second school (Vanguard East) whose first year of operations was in the 2015 fiscal year after construction of the new school was complete. Activities of Vanguard East are included in the accompanying financial statements. The new facility is owned by Ability Connection of Colorado, which is leased to Vanguard East.

**VANGUARD CLASSICAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the School's financial activities. Governmental activities are normally supported by taxes and intergovernmental revenue. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. State per pupil funding under the School Finance Act is reported as a general revenue as state categorical revenue.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, the operating statement presents increases and decreases in net current assets and unreserved fund balance is a measure of available spendable resources. This means that generally only current liabilities are included on the governmental fund balance sheet.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Measurable means the amount of the transaction can be determined; available means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, and expected to be paid with current available resources.

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

Fund Accounting

The accounts of the School are organized on the basis of funds. The operations of the General Fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures/expenses. Resources are allocated to and accounted for in the General Fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The School has one governmental fund, the General Fund. The General Fund is considered a major fund and is presented separately in the fund financial statements.

**VANGUARD CLASSICAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balances – Governmental Funds

In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as nonspendable at June 30, 2016, by the School are nonspendable in form.
- Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to the School's highest level of decision making authority. Commitments may be modified or rescinded only through formal action in the form of a resolution approved by the School's board of directors.
- Assigned – includes amounts that the School intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the School's policy, amounts may be assigned by the Executive Director.
- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Vanguard Board has provided otherwise in its commitment or assignment actions.

Compliance

Budget

An annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America, including accrued salaries and benefits. For financial reporting purposes, salaries and benefits earned but unpaid at year-end are reflected as a liability.

The School prepares the annual budget and presents it to its Board and to the Board of Education of the Aurora School District for approval. During the year ended June 30, 2016, one budget was presented and revised and approved by both Boards for the General Fund. Budgets are required by State statutes for all funds. Total expenditures for each fund may not legally exceed the amount appropriated.

TABOR Reserve

To comply with Article X, Section 20 of the Colorado Constitution (TABOR Amendment), the School reports an emergency reserve equal to 3% of the General Fund's applicable operating revenues less transfers, federal funding and donations. The required reserve was \$301,879 as of June 30, 2016 and is shown as "restricted for TABOR" in the general fund balance sheet.

**VANGUARD CLASSICAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities and Equity

Cash

Cash is held in checking accounts. The balances in the cash accounts are available to meet current operating needs except for cash set aside or restricted for TABOR and contingency reserves. For purposes of the statement of cash flows, the School considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Capital Assets

Capital assets are utilized for general operations and are capitalized at cost or estimated historical cost if purchased or fair market value if donated, at the time of purchase or donation. Capital assets are reported in the government-wide financial statements.

The monetary threshold for capital equipment and vehicles are those items having a useful life greater than one year and having an original item value greater than \$5,000. The School considers capital renovations to be those items that significantly enhance the value of previously existing assets and have a project value greater than \$25,000. In addition, the School considers capital improvements to be those items that add new functionality to existing assets and have a project value greater than \$10,000. Expenditures that significantly enhance the value of an asset whether land, building, or equipment are capitalized according to the School's policies. However, expenditures for repairs, maintenance, and expendable supplies are not capitalized. The School has no capital assets meeting capitalization requirements as of June 30, 2016.

Compensated Absences

School policy requires eligible employees to be paid out remaining personal time at the rate of replacement cost at the end of the School year.

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. See Note 7 for additional information.

Net Position Restrictions

Restrictions of net assets represent amounts that are not appropriable or are legally segregated for a specific purpose.

**VANGUARD CLASSICAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues and Expenditures

Revenues for the governmental fund are recorded when they are determined to be both measurable and available. Generally, State of Colorado per-pupil funding, donations and other income are recognized when received. Grants are recognized when qualifying expenditures are incurred. Expenditures for the governmental fund are recorded when the related fund liability is incurred and expected to be paid with current available resources. The School does not utilize encumbrance accounting.

NOTE 2 CASH

Investment Policy and Compliance

The School's investment policy conforms with State statute for governmental entities. All accounts established at financial institutions should, in the aggregate, total less than \$250,000 so as to provide maximum insurance coverage provided by the FDIC. If, however, deposits exceed the \$250,000 insurance coverage level, the excess must be (1) fully collateralized at face value with government securities, (2) separately segregated in the School's name, and (3) held at a Federal Reserve Bank or another depository.

Colorado State statutes govern the School's deposit of cash. The Colorado Public Deposit Protection Act (PDPA) requires the School to make deposits only in eligible public depositories as defined by the regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The PDPA requires the eligible depository with public deposits in excess of the federal insurance levels to create single institution collateral pools for all public funds. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group.

Up to \$250,000 of daily deposit balances on hand at banking institutions is covered by federal depository insurance. Under the provisions of *GASB 40, Deposit and Investment Risk Disclosures - an amendment of GASB Statement No 3*, deposits are not deemed exposed to custodial credit risk if they are collateralized with securities held by the pledging financial institutions under PDPA, as discussed below. Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned. As of June 30, 2016, the School had \$441,307 not covered by federal depository insurance. The School believes it is not exposed to any significant risk on its cash deposits.

NOTE 3 ACCRUED SALARIES AND BENEFITS

Salaries and retirement benefits of certain contractually employed personnel are paid over a 12-month period from August through July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid as of June 30, 2016, total \$437,647. Accordingly, the accrued salaries and benefits are reflected as a liability in the accompanying basic financial statements.

**VANGUARD CLASSICAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 COMMITMENTS

The School leases its offices and School buildings under an operating lease with Ability Connection of Colorado, a related party, which expires on June 30, 2018. Total lease expenditures were \$2,414,242 for the year ended June 30, 2016.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 2,414,242
2018	2,414,242
Total	<u>\$ 4,828,484</u>

NOTE 5 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 risks of loss, including liability, property, errors and omissions, and workers' compensation. Settled claims resulting from these risks have not exceeded School insurance coverage in any of the past three years.

NOTE 6 CONTINGENT LIABILITIES

Article X, Section 20 of the Colorado Constitution (TABOR Amendment) requires state and local governments to establish an emergency reserve, limits spending to a predefined benchmark and places restrictions on multiple fiscal year debt. The TABOR Amendment is subject to judicial interpretation; however, the School believes it is currently in compliance with the requirements of the Amendment.

NOTE 7 DEFINED BENEFIT 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.

**VANGUARD CLASSICAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT 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.

The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit.
- \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance 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% or 100% 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, 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%, 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 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% or the average CPI-W for the prior calendar year, not to exceed 10% of PERA's Annual Increase Reserve (AIR) for the SCHDTF.

**VANGUARD CLASSICAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Benefits Provided (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 of 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, 2016	For the Year Ended December 31, 2015
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	(1.020%)	(1.020%)
Amount Apportioned to the SCHDTF ¹	9.13%	9.13%
Amortization Equalization Disbursement (AED) as Specified in C.R.S. § 24-51-411 ¹	4.50%	4.20%
Supplemental Amortization Equalization Disbursement (SAED) as Specified in C.R.S. § 24-51-411 ¹	4.50%	4.00%
Total Employer Contribution Rate to the SCHDTF ¹	18.13%	17.33%

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 for the School for the years ended June 30, 2016, 2015 and 2014 were \$669,371, \$468,427, and \$274,872, respectively.

**VANGUARD CLASSICAL SCHOOL
NOTES TO 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

At June 30, 2016, the School reported a liability of \$12,958,549 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's proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2015, the School's proportion was 0.0847279975%, which was an increase of 0.0040394381% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$2,806,780. 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	\$ 171,119	\$ 515
Changes of Assumptions or Other Inputs	-	183,127
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1,092,397	-
Changes in Proportion and Differences Between Contributions Recognized and Proportionate Share of Contributions	2,727,119	-
Contributions Subsequent to the Measurement Date	381,896	-
Total	<u>\$ 4,372,531</u>	<u>\$ 183,642</u>

A reduction of the net pension liability of \$381,896 will be recognized in the year ended June 30, 2017, reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2017	\$ 1,804,988
2018	1,393,894
2019	382,167
2020	225,944
2021	-
Thereafter	-
Total	<u>\$ 3,806,993</u>

**VANGUARD CLASSICAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions

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

Actuarial cost method	Entry age
Price inflation	2.80%
Real wage growth	1.10%
Wage inflation	3.90%
Salary increases, including wage inflation	3.90 – 10.10%
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50%
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00%
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 one year, and Females set back two years.

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.

**VANGUARD CLASSICAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

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.

As of the November 15, 2013 adoption of the long-term expected rate of return, presented 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:	<u>Target Allocation</u>	<u>10 Yr 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 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	<u>100.00%</u>	

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%. 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%.

**VANGUARD CLASSICAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount Rate (Continued)

- 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.
- 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.

**VANGUARD CLASSICAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLAN (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%, 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%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate Share of the Net Pension Liability	\$ 16,798,067	\$ 12,958,549	\$ 9,764,786

Pension Plan Fiduciary Net Position.

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

NOTE 8 POSTEMPLOYMENT HEALTH CARE BENEFITS

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 (see note 7) 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's employer contributions to the HCTF were \$38,458, \$27,570, and \$17,065, respectively, equal to their required contribution.

**VANGUARD CLASSICAL SCHOOL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 RELATED PARTY TRANSACTIONS

The School's west campus is co-located with Ability Connection of Colorado (ACCO) offices and ACCO owns the building at the School's east campus. The School has a contract with ACCO in order to gain economies of scale and share space and services under a contract negotiated at arm's length. ACCO charged \$2,764,242 in rent, professional and administrative services for the year ended June 30, 2016. As of June 30, 2016, the School had no accounts payable related to ACCO for services provided.

The School has an agreement with the District for services relating to the charter school liaison, student database costs and administration costs. The total expenses to the District for these services was \$224,233 during the year ended June 30, 2016. As of June 30, 2016, the school had accounts payable of \$70,535 the District for services provided. The School's accounts receivable and grants receivable of \$270,878 at June 30, 2016 is all due from the District.

The School has an agreement with ACCO, a related party, for management services. The School's commitment under this agreement is \$350,000 per year through June 30, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

**VANGUARD CLASSICAL SCHOOL
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST TEN FISCAL YEARS*
(SEE INDEPENDENT AUDITORS' REPORT)**

	Measurement Date		
	June 30, 2015	June 30, 2014	June 30, 2013
School's Proportion (Percentage) of the Collective Net Pension Liability	0.0847279975%	0.0806885584%	0.0409293599%
School's Proportionate Share of the Collective Pension Liability	\$ 12,958,549	\$ 10,936,010	\$ 5,220,529
Covered-Employee Payroll	\$ 3,563,270	\$ 2,495,710	\$ 1,695,487
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	363.67%	438.19%	307.91%
Plan Fiduciary Net Pension as a Percentage of the Total Pension Liability	59.16%	62.80%	64.06%

*The amounts presented for each fiscal year were determined as of December 31 based on the measurement date of the Plan. Information earlier than 2013 was not available.

**VANGUARD CLASSICAL SCHOOL
SCHEDULE OF CONTRIBUTIONS AND RELATED RATIOS
LAST TEN FISCAL YEARS*
(SEE INDEPENDENT AUDITORS' REPORT)**

As of June 30,	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily Required Contributions	\$ 669,371	\$ 468,427	\$ 274,872	\$ 252,157	\$ 245,288
Contributions in Relation to the Statutorily Required Contribution	<u>669,371</u>	<u>468,427</u>	<u>274,872</u>	<u>252,157</u>	<u>245,288</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 3,770,434	\$ 2,775,041	\$ 1,725,088	\$ 1,697,311	\$ 1,743,228
Contribution as a Percentage of Covered-Employee Payroll	17.75%	16.88%	15.93%	14.86%	14.07%

*The amounts presented for each fiscal year were determined as of June 30.
Information earlier than 2012 was not available.

SUPPLEMENTARY INFORMATION

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

Board of Directors
Vanguard Classical School
and Board of Education
Joint School District 28-J of the Counties
of Adams and Arapahoe, Colorado
Denver, Colorado

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 the General Fund of Vanguard Classical School (the School) (a component unit of 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, and have issued our report thereon dated September 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School'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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 School'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 School’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 result of that testing, and not to provide an opinion on the effectiveness of the School’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 School’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Broomfield, Colorado
September 21, 2016

**VANGUARD CLASSICAL SCHOOL
SUMMARY SCHEDULE OF CURRENT AND PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016**

Financial Statement Findings – Current Year

There were no findings required to be reported under *Governmental Auditing Standards* for the fiscal year ended June 30, 2016.

Financial Statement Findings – Prior Year

There were no findings required to be reported under *Government Auditing Standards* for the fiscal year ended June 30, 2015.