

COMPASS ACADEMY
Denver, Colorado

FINANCIAL STATEMENTS

June 30, 2016



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COMPASS ACADEMY

June 30, 2016

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TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	
Management's Discussion and Analysis	i - v
Basic Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Balance Sheet - Governmental Fund	3
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	4
Notes to Financial Statements	5 - 14
Required Supplementary Information	
Schedule of Proportionate Share of the Net Pension Liability and Contributions	15
Budgetary Comparison Schedule - General Fund	16
Notes to Required Supplementary Information	17



Board of Directors
Compass Academy
Denver, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of Compass Academy, component unit of Denver School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of Compass Academy, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Compass Academy as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters (Required Supplementary Information)

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

Ernst & Young LLP

September 14, 2016

Compass Academy

Management's Discussion and Analysis

Fiscal Year Ending June 30, 2016

As management of Compass Academy (CA), we offer readers of CA's basic financial statements this narrative and analysis of the financial activities of CA for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

Financial Highlights

The year ended June 30, 2016 was the first year of operations for CA. The general fund balance for fiscal year ending June 30, 2016 is \$217,193.

The operations of CA are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year ended June 30, 2016 from Per Pupil Revenue was \$973,986.

CA entered into an agreement to lease a portion of the Abraham Lincoln High School from Denver Public Schools which owns the building.

Overview of Financial Statements

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

Government-Wide Financial Statements

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

The statement of net position presents information on all CA's assets and liabilities, and deferred inflows and outflows, with the difference being reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial position of CA is improving or deteriorating. The statement of activities presents information showing how CA's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end).

The government-wide statement of activities distinguishes functions/programs of CA that will be primarily supported by the per-pupil operating revenue passed from the Denver Public Schools. These activities include instruction and supporting services.

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. CA keeps track of these monies to ensure and

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

Notes to Financial Statements

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

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of CA’s financial position. For the year ended June 30, 2016, CA’s net position was a \$179,390. This reflects to the net pension liability in the amount of \$887,053 representing its proportionate share of the Denver Public Schools Division Trust Fund (DPSD) pension liability, administered by the Public Employees’ Retirement Association of Colorado (PERA). (The deferred outflows related to pensions amounts to \$924,351.) This amount was determined by an independent actuarial valuation of PERA’s financial position at December 31, 2015. Of CA’s total net position \$107,199 is unrestricted and \$48,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

Mill Levy revenue approved by Denver voters brought in revenue to the school in the amount of \$108,650.

Net Position	2015-2016	2014-2015
Assets		
Cash	\$ 230,809	14,018
Accounts Receivable		
Grants Receivable	28,783	79,495
Prepaid Expenses	10,151	
Capital Assets, Net of Accumulated Depreciation	24,191	
	293,934	93,513
Deferred Outflows of Resources		
Pensions, Net of Accumulated Amortization	924,351	0
Liabilities		
Accounts Payable	16,474	798
Accrued Salaries and Benefits	24,697	
Accrued Liabilities	11,379	

Noncurrent Liabilities		
Line of Credit		94,823
Net Pension Liability	887,053	
	<hr/>	<hr/>
Total Liabilities	939,603	95,621
	<hr/>	<hr/>
Deferred Inflows of Resources		
Pensions, Net of Accumulated Amortization	99,292	
	<hr/>	<hr/>
Net Position		
Net Investment in Capital Assets	24,191	
Restricted for Emergencies	48,000	
Unrestricted	107,199	(2,108)
	<hr/>	<hr/>
Total Net Position	\$ 179,390	(2,108)
	<hr/>	<hr/>
Changes in Net Position	2015-2016	2014-2015
Revenues		
Per Pupil Revenue	973,986	0
Additional At-Risk Revenue	1,850	
District Mill Levy	108,650	
Grants and Contributions Not Restricted to Specific Programs	543,151	215,000
Charges for Services	1,122	
Operating Grants and Contributions	212,897	0
Capital Grants and Contributions	15,768	0
Investment Earnings	31	0
Miscellaneous	236	50
	<hr/>	<hr/>
Total Revenue	1,857,691	215,050
	<hr/>	<hr/>
Expenses		
Instruction	764,932	216,851
Support Services	908,451	
Interest on Long Term Debt	2,810	307
	<hr/>	<hr/>
Total Expenses	1,676,193	217,158
	<hr/>	<hr/>
Increase/(Decrease) in Net Position	181,498	(2,108)
	<hr/>	<hr/>
Net Position, Beginning	(2,108)	0
	<hr/>	<hr/>
Net Position, Ending	\$ 179,390	(2,108)
	<hr/>	<hr/>

CA has adopted GASB 68

CA's Net Position is a \$179,390. This includes a deferred outflow of resources in the amount of \$924,351, which will be expensed in future years. CA has adopted GASB Statement No. 68, resulting in a net pension liability of \$887,053 representing its proportionate share of DPSD's pension liability.

Financial Analysis of CA's Funds

Governmental Fund

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

As of the end of the current fiscal year CA's general fund reported an ending fund balance \$217,193.

General Fund Budgetary Highlights

CA budgeted for General Fund expenditures of \$1,750,707 for the year ended June 30, 2016. Actual expenditures were \$1,733,213.

There was a budget adjustment during the year, which reflected increases in revenues and expenditures resulting from additional student funding and grant income.

Capital Asset and Debt Administration

Capital assets

The School's investment in capital assets net of accumulated depreciation as of June 30, 2016, amounts to \$24,191, which is equipment. The detail of capital assets is in Note 3 to the financial statements.

Long-term debt

As of June 30, 2016, CA had no long term debt. CA had a line of credit during the year that was paid in full. Additional information is provided in Note 4 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for CA is student enrollment. The enrollment projected for the 2016-2017 school year is expected to be 230. Compass is adding 7th grade in FY17 and 8th grade in FY18. This factor was considered in preparing CA's budget for 2016-2017.

Requests for Information

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

Compass Academy
2285 South Federal Boulevard
Denver, CO 80219

BASIC FINANCIAL STATEMENTS

COMPASS ACADEMY

STATEMENT OF NET POSITION

June 30, 2016

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash and Investments	\$ 230,809
Grants Receivable	28,783
Prepaid Expenses	10,151
Capital Assets, Net of Accumulated Depreciation	<u>24,191</u>
TOTAL ASSETS	<u>293,934</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions, Net of Accumulated Amortization	<u>924,351</u>
LIABILITIES	
Accounts Payable	16,474
Accrued Salaries and Benefits	24,697
Accrued Liabilities	11,379
Noncurrent Liabilities	
Net Pension Liability	<u>887,053</u>
TOTAL LIABILITIES	<u>939,603</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions, Net of Accumulated Amortization	<u>99,292</u>
NET POSITION	
Net Investment in Capital Assets	24,191
Restricted for Emergencies	48,000
Unrestricted	<u>107,199</u>
TOTAL NET POSITION	<u>\$ 179,390</u>

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

COMPASS ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION GOVERNMENTAL ACTIVITIES</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	\$ 764,932	\$ 1,122	\$ 207,163	\$ (556,647)
Supporting Services	908,451	-	5,734	(902,717)
Interest	<u>2,810</u>	<u>-</u>	<u>-</u>	<u>(2,810)</u>
Total Governmental Activities	<u>\$ 1,676,193</u>	<u>\$ 1,122</u>	<u>\$ 212,897</u>	<u>(1,462,174)</u>
GENERAL REVENUES				
Per Pupil Revenue				973,986
Additional At-Risk Funding				1,850
District Mill Levy				108,650
Capital Construction				15,768
Grants and Contributions not Restricted to Specific Programs				543,151
Investment Income				31
Other				<u>236</u>
				<u>TOTAL GENERAL REVENUES</u>
				1,643,672
				CHANGE IN NET POSITION
				181,498
				NET POSITION, Beginning
				<u>(2,108)</u>
				NET POSITION, Ending
				<u>\$ 179,390</u>

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

COMPASS ACADEMY

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2016

	<u>GENERAL</u>
ASSETS	
Cash and Investments	\$ 230,809
Grants Receivable	28,783
Prepaid Expenditures	<u>10,151</u>
TOTAL ASSETS	<u>\$ 269,743</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 16,474
Accrued Salaries and Benefits	24,697
Accrued Liabilities	<u>11,379</u>
TOTAL LIABILITIES	<u>52,550</u>
FUND BALANCE	
Nonspendable Prepaid Expenditures	10,151
Restricted for Emergencies	48,000
Unrestricted, Unassigned	<u>159,042</u>
TOTAL FUND BALANCE	<u>217,193</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 269,743</u>
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 217,193
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	24,191
Long-term liabilities and related items, including net pension liability (\$887,053), pension-related deferred outflows of resources \$924,351, and pension-related deferred inflows of resources (\$99,292), are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(61,994)</u>
Total Net Position of Governmental Activities	<u>\$ 179,390</u>

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

COMPASS ACADEMY

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

	GENERAL
REVENUES	
Local Sources	\$ 1,551,676
State Sources	17,618
Federal Sources	288,397
 TOTAL REVENUES	 1,857,691
EXPENDITURES	
Instruction	725,995
Supporting Services	909,585
Debt Service	
Principal	94,823
Interest	2,810
 TOTAL EXPENDITURES	 1,733,213
 NET CHANGE IN FUND BALANCE	 124,478
FUND BALANCE, Beginning	92,715
FUND BALANCE, Ending	\$ 217,193

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

Net Change in Fund Balance of the Governmental Fund	\$ 124,478
Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized in the statement of net position and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlay \$30,239 exceeded depreciation expense (\$6,048) in the current year.	24,191
Repayments of debt principal are expenditures in governmental funds, but they reduce long-term liabilities in the statement of net position and do not affect the statement of activities.	94,823
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in net pension liability (\$887,053), pension-related deferred outflows of resources \$924,351, and pension-related deferred inflows of resources (\$99,292) in the current year.	(61,994)
Change in Net Position of Governmental Activities	\$ 181,498

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

COMPASS ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Compass Academy (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within Denver School District (the “District”). The School began classes in the Fall of 2015.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of the School, organizations for which the School is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the School. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. Legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization has the potential to provide benefits to, or impose financial burdens on, the School. Based on the application of this criteria, the School does not include additional organizations within its reporting entity.

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the School. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported in a single column.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current year. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

In the fund financial statements, the School reports the following major governmental fund:

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

Assets, Liabilities and Net Position/Fund Balance

Cash and Investments - Investments are reported at fair value.

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

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

Capital Assets - Capital assets are reported in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the acquisition value on the date of donation.

Capital assets are depreciated using the straight-line method over the estimated useful lives, as follows:

Equipment	5 years
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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 approximately nine months. The salaries and benefits earned but unpaid are reported as a liability of the General Fund.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Compensated Absences - Employees of the School are allowed to accumulate unused personal leave to a maximum of 10 days. The School does not reimburse or otherwise compensate terminated employees for any unused personal leave. Therefore, no liability is reported in the financial statements for these compensated absences.

Long-Term Debt - In the government-wide financial statements, long-term debt is reported as a liability. In the fund financial statements, governmental funds recognize the face amount of debt issued as other financing sources.

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

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

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

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries commercial insurance for these risks of loss.

NOTE 2: CASH AND INVESTMENTS

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local governments to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

COMPASS ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 2: CASH AND INVESTMENTS (Continued)

Investments

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

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

The School had no investments at June 30, 2016.

NOTE 3: CAPITAL ASSETS

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

	<u>Balances</u> <u>6/30/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>6/30/16</u>
Governmental Activities				
Capital Assets, Being Depreciated				
Equipment	\$ -	\$ 30,239	\$ -	\$ 30,239
Accumulated Depreciation	-	(6,048)	-	(6,048)
Total Capital Assets, Net	<u>\$ -</u>	<u>\$ 24,191</u>	<u>\$ -</u>	<u>\$ 24,191</u>

Depreciation expense was charged to the supporting services program.

NOTE 4: LONG-TERM DEBT

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

	<u>Balance</u> <u>6/30/15</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/16</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities					
Line of Credit	<u>\$ 94,823</u>	<u>\$ -</u>	<u>\$ 94,823</u>	<u>\$ -</u>	<u>\$ -</u>

COMPASS ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 4: LONG-TERM DEBT (Continued)

In May, 2015, the School obtained a \$100,000 line of credit from FirstBank for cash flow purposes. The outstanding balance of the line of credit accrued interest at the Wall Street Journal Prime Rate plus 2%. The line of credit was paid in full on December 11, 2015.

NOTE 5: DEFINED BENEFIT PENSION PLAN

General Information

Plan Description - The School contributes to the Denver Public Schools Division Trust Fund (DPSD), a single-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). All employees of the School participate in the DPSD. Title 24, Article 51 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the DPSD. That report may be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided - The DPSD provides retirement, disability, and survivor benefits to plan participants or their beneficiaries. Retirement benefits are determined by the amount of service credit earned or purchased, highest average salary, the benefit structure in place, the benefit option selected at retirement, and age at retirement. The retirement benefit is the greater of the a) highest average salary multiplied by 2.5% and then multiplied by years of service credit, or b) \$15 times the first ten years of service credit plus \$20 times the service credit over ten years, plus a monthly amount equal to the annuitized participant contribution account balance based on life expectancy and other actuarial factors. In no case can the benefit amount exceed the highest average salary or the amount allowed by applicable federal regulations.

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

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

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

COMPASS ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

General Information (Continued)

Contributions - The School and eligible employees are required to contribute to the DPSD at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The School's contribution rate for calendar years 2015 and 2016 was 18.35% and 19.15% of covered salaries, respectively. However, the State Legislature allowed the School to offset its contribution rates by an amount equal to the obligations of the District with respect to its outstanding PCOPs (See Note 6). As a result, the School's contribution rates for calendar years 2015 and 2016 were 2.38% and 3.61%, respectively. In addition, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 7). The School's contributions to the DPSD for the year ended June 30, 2016, were \$21,993, equal to the required contributions. Employer contributions are recognized by the DPSD when the related compensation is payable to the employees.

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

At June 30, 2016, the School reported a net pension liability of \$887,053, representing its proportionate share of the net pension liability of the DPSD. The net pension liability was measured at December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Certain changes in assumptions and other inputs since the prior measurement date affected the total pension liability and are more fully described in the notes to required supplementary information. 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 DPSD for the calendar year ended December 31, 2015, relative to the contributions of all participating employers. At December 31, 2015, the School's proportion was 0.1090368165%. The School began participating in the DPSD on July 1, 2015, and therefore, had no measurable proportion of the net pension liability at December 31, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$77,141. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 39,942	\$ -
Changes of assumptions and other inputs	-	99,292
Net difference between projected and actual earnings on plan investments	163,905	-
Change in proportion	709,997	-
Contributions subsequent to the measurement date	<u>10,507</u>	<u>-</u>
Total	<u><u>\$ 924,351</u></u>	<u><u>\$ 99,292</u></u>

COMPASS ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

School contributions subsequent to the measurement date of \$10,507 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

2017	\$ 203,232
2018	203,232
2019	203,232
2020	203,232
2021	<u>1,624</u>
Total	<u>\$ 814,552</u>

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

Price inflation	2.8%
Real wage growth	1.1%
Wage inflation	3.9%
Salary increases, including wage inflation	3.9% - 10.1%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.5%
Future post-retirement benefit increases	2%

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

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

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

COMPASS ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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 Government/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate share of the net pension liability	\$ 1,388,554	\$ 887,053	\$ 470,977

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

NOTE 6: PENSION CERTIFICATES OF PARTICIPATION

Beginning in 2008, the District issued Taxable Pension Certificates of Participation (PCOPs) to fund the liabilities of the DPSD (See Note 5). For the year ended June 30, 2016, the School contributed 9.95% of covered salaries, totaling \$71,288, to the District to cover its obligation relating to the PCOPs.

NOTE 7: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description - The School contributes to the Denver Public Schools Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by PERA. The HCTF provides a health care premium subsidy to DPSD benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained as described previously.

Funding Policy - The School is required to contribute at a rate of 1.02% of covered salaries for all DPSD participants. No employee contributions are required. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the year ended June 30, 2016, was \$7,401, equal to the required amounts.

NOTE 8: COMMITMENTS AND CONTINGENCIES

Claims and Judgements

The School participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the other government. At June 30, 2016, significant amounts of related expenditures have not been audited but 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.

COMPASS ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 8: COMMITMENTS AND CONTINGENCIES (Continued)

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to many interpretations, but the School believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the School has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2016, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$48,000.

Facility Use Agreement

The School approved a facility use agreement with the District to utilize educational facilities owned by the District, through June 30, 2016. For the year ended June 30, 2016, the School paid facility use fees of \$775 per student, which totaled \$94,554. The agreement requires facility use fees of \$777 per student for the year ended June 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

COMPASS ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND CONTRIBUTIONS
PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO
DENVER PUBLIC SCHOOLS DIVISION TRUST FUND

June 30, 2016

	12/31/15
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	
School's Proportion of the Net Pension Liability	0.1090368165%
School's Proportionate Share of the Net Pension Liability	\$ 887,053
School's Covered-Employee Payroll	\$ 341,143
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	260%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79%
	6/30/16
SCHOOL CONTRIBUTIONS	
Statutorily Required Contribution	\$ 14,592
Contributions in Relation to the Statutorily Required Contribution	(14,592)
Contribution Deficiency (Excess)	\$ -
School's Covered-Employee Payroll	\$ 725,438
Contributions as a Percentage of Covered-Employee Payroll	2.01%

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

See the accompanying Independent Auditors' Report.

COMPASS ACADEMY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2016

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 953,153	\$ 967,744	\$ 973,986	\$ 6,242
District Mill Levy	105,792	107,554	108,650	1,096
Tuition and Fees	1,000	-	1,122	1,122
Grants	360,650	447,000	451,500	4,500
Contributions	25,000	13,000	16,151	3,151
Investment Income	-	-	31	31
Other	-	-	236	236
Total Local Sources	<u>1,445,595</u>	<u>1,535,298</u>	<u>1,551,676</u>	<u>16,378</u>
State Sources				
Additional At-Risk Funding	-	-	1,850	1,850
Capital Construction	12,660	12,871	15,768	2,897
Grants	3,446	-	-	-
Total State Sources	<u>16,106</u>	<u>12,871</u>	<u>17,618</u>	<u>4,747</u>
Federal Sources				
Grants	259,896	290,782	288,397	(2,385)
TOTAL REVENUES	<u>1,721,597</u>	<u>1,838,951</u>	<u>1,857,691</u>	<u>18,740</u>
EXPENDITURES				
Salaries	725,000	707,000	767,479	(60,479)
Employee Benefits	164,850	167,856	126,811	41,045
Purchased Services	388,117	438,086	447,617	(9,531)
Supplies and Materials	97,175	140,578	144,748	(4,170)
Property	205,515	168,054	145,437	22,617
Other	979	1,879	3,488	(1,609)
Debt Service	-	98,223	97,633	590
Contingency	79,591	29,031	-	29,031
TOTAL EXPENDITURES	<u>1,661,227</u>	<u>1,750,707</u>	<u>1,733,213</u>	<u>17,494</u>
NET CHANGE IN FUND BALANCE	60,370	88,244	124,478	36,234
FUND BALANCE, Beginning	<u>-</u>	<u>-</u>	<u>92,715</u>	<u>92,715</u>
FUND BALANCE, Ending	<u>\$ 60,370</u>	<u>\$ 88,244</u>	<u>\$ 217,193</u>	<u>\$ 128,949</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

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

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

Changes in Assumptions and Other Inputs

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

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

A budget is adopted for the School on a basis consistent with generally accepted accounting principles.

Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1, for their approval. The budget includes proposed expenditures and the means of financing them.

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

All appropriations lapse at fiscal year end.