

DENVER LANGUAGE SCHOOL
BASIC FINANCIAL STATEMENTS

June 30, 2016



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By Justin L. Smith at 3:49 pm, Jan 03, 2017

TABLE OF CONTENTS

PAGE

INTRODUCTORY SECTION

Title Page

Table of Contents

FINANCIAL SECTION

Independent Auditors' Report

Management's Discussion and Analysis i - v

Basic Financial Statements

Statement of Net Position 1

Statement of Activities 2

Balance Sheet – All Governmental Funds 3

Statement of Revenues, Expenditures and Changes in Fund Balances –
All Governmental Funds 4

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities 5

Notes to the Financial Statements 6 – 24

Required Supplementary Information

Budgetary Comparison Schedule – General Fund 25

Schedule of the School's Proportionate Share 26

Schedule of the School's Contributions 27

FINANCIAL SECTION



JOHN CUTLER & ASSOCIATES

Board of Directors
Denver Language School
Denver, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedule of the school's proportionate share, and schedule of the school's contributions on pages 25-27 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.

John Luttrell & Associates, LLC

September 8, 2016

Management's Discussion and Analysis

As management of Denver Language School (DLS), we offer readers of Denver Language School's financial statements our narrative overview and analysis of the financial activities of DLS for the fiscal year ended June 30, 2016.

Financial Highlights

The year ended June 30, 2016 is the sixth year of operations for DLS. As of June 30, 2016, net position decreased by (\$521,151) to (\$1,201,177). This negative balance is the result of the implementation of regulations under the Governmental Accounting Standards Board Statement (GASB) Number 68. Further information about GASB 68 is provided in Note 6 of the financial statements.

At the close of the fiscal year, Denver Language School's governmental funds reported a combined ending fund balance of \$978,452, a decrease of (\$148,248) from prior year. This decrease is due to a planned expansion and investment into the DLS Middle School program and a second campus housing the Kindergarten through 2nd grade students.

Overview of Financial Statements

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

Government-Wide Financial Statements

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

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

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

The government-wide statement of activities distinguishes functions/programs of Denver Language School supported primarily by Per Pupil Revenue or other revenues passed through from the District (Denver Public Schools). The governmental activities of Denver Language School include instruction and supporting services.

The government-wide financial statements can be found on pages 1-2 of this report.

Fund Financial Statements

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Denver Language School adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided for the fund to demonstrate compliance with the budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 6-24.

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 Denver Language School, liabilities exceeded assets resulting in a Net Position of (\$1,201,177) in FY 2015-2016. Again, this is directly related to the new pension liability reporting requirement under GASB 68.

Denver Language School's Net Position		
Governmental Activities		
	<u>June 30, 2016</u>	<u>June 30, 2015</u>
ASSETS		
Cash and investments	\$1,243,259	\$1,240,424
Cash Held by the District	-	91,610
Accounts Receivable	50,032	33,375
Prepaid Expenses	24,500	3,552
Capital Assets, Net of Accum Depreciation	93,113	47,728
Total Assets	1,410,904	1,416,689
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	1,150,024	222,715
LIABILITIES		
Accounts Payable	6,272	8,697
Unearned Revenue	49,730	25,622
Accrued Salaries & Benefits	283,337	207,942
Compensated Absences	-	-
Noncurrent Liability – Net Pension Liability	3,077,846	2,076,703
Total Liabilities	3,417,185	2,318,964
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	344,920	466
NET POSITION		
Investment in Capital Assets	93,113	47,728
Restricted for Emergencies	125,000	126,000
Unrestricted	(1,419,290)	(853,754)
Total Net Position	(\$1,201,177)	(\$680,026)

The largest portion of Denver Language School’s assets is in cash and investments at 88% in 2016.

Denver Language School’s Change in Net Position		
Governmental Activities		
	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Program Revenue:		
Charges for Services	\$503,645	\$402,722
Operating Grants and Contributions	262,668	287,524
Capital Grants and Contributions	112,908	44,575
Total Program Revenue	879,221	734,821
General Revenue:		
Per Pupil Revenue	4,333,258	3,530,170
Mill Levy Revenue	528,134	392,417
Interest	1,927	1,465
Other Income	-	-
Total General Revenue	4,863,319	3,924,052
 Total Revenue	 5,742,540	 4,658,873
Expenses:		
Current:		
Instruction	4,048,618	2,765,268
Supporting Services	2,215,073	1,791,457
Total Expenses	6,263,691	4,556,725
 Increase/(Decrease) in Net Position	 (521,151)	 102,148
 Net Position, Beginning	 (680,026)	 (782,174)
 Net Position, Ending	 (\$1,201,177)	 (\$680,026)

The largest portion of Denver Language School’s revenues came from per pupil revenue – 75%, respectively in 2016.

Financial Analysis of the Government’s Funds

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

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

As of the end of the current fiscal year, the School’s General Fund reported an ending fund balance of \$978,452, a decrease of (\$148,248) from prior year.

General Fund Budgetary Highlights

The School approves a final budget in May based on enrollment projections for the school year. In October, after enrollment stabilizes, adjustments are made to the budget. At year-end, the school had some variances between its final budgeted and actual activities. Overall, the school recognized \$10,394 less revenue than expected but spent \$38,124 less than planned, when compared to the final budget. One budget amendment was made during the 2015-2016 fiscal year.

Capital Assets & Long-Term Debt

Denver Language School has investments in capital assets based on tenant improvements made to the current school facility and on technology equipment put in place to support the school’s technology infrastructure. DLS has no long-term debt obligations.

Economic Factors and Next Year’s Budget

The primary factor driving the budget for Denver Language School is student enrollment. Enrollment for the 2015-2016 school year was 615.78 funded students. This information was analyzed as part of the 2016-2017 budget which is projecting a 688.26 funded student count.

Requests for Information

This financial report is designed to provide a general overview of Denver Language School’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:

Denver Language School
451 Newport St.
Denver, CO 80220

BASIC FINANCIAL STATEMENTS

DENVER LANGUAGE SCHOOL

STATEMENT OF NET POSITION

As of June 30, 2016

	Governmental Activities	
	2016	2015
ASSETS		
Cash	\$ 1,243,259	\$ 1,240,424
Cash Held by the District	-	91,610
Accounts Receivable	50,032	33,375
Prepaid Expenses	24,500	3,552
Capital Assets, Net of Accumulated Depreciation	93,113	47,728
TOTAL ASSETS	<u>1,410,904</u>	<u>1,416,689</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	<u>1,150,024</u>	<u>222,715</u>
LIABILITIES		
Accounts Payable	6,272	8,697
Unearned Revenues	49,730	25,622
Accrued Salaries and Benefits	283,337	207,942
Noncurrent Liabilities - Net Pension Liability	<u>3,077,846</u>	<u>2,076,703</u>
TOTAL LIABILITIES	<u>3,417,185</u>	<u>2,318,964</u>
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	<u>344,920</u>	<u>466</u>
NET POSITION		
Investment in Capital Assets	93,113	47,728
Restricted for Emergencies	125,000	126,000
Unrestricted	<u>(1,419,290)</u>	<u>(853,754)</u>
TOTAL NET POSITION	<u>\$ (1,201,177)</u>	<u>\$ (680,026)</u>

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

DENVER LANGUAGE SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			Net (Expense) Revenue and Change In Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
PRIMARY GOVERNMENT					2016	2015
Governmental Activities						
Instructional	\$ 4,048,618	\$ 503,645	\$ 153,055	\$ -	\$ (3,391,918)	\$ (2,211,802)
Supporting Services	2,215,073	-	109,613	112,908	(1,992,552)	(1,610,102)
Total Governmental Activities	<u>\$ 6,263,691</u>	<u>\$ 503,645</u>	<u>\$ 262,668</u>	<u>\$ 112,908</u>	(5,384,470)	(3,821,904)
GENERAL REVENUES						
					4,333,258	3,530,170
Per Pupil Revenue					528,134	392,417
Mill Levy Override					1,927	1,465
Interest						
TOTAL GENERAL REVENUES					<u>4,863,319</u>	<u>3,924,052</u>
CHANGE IN NET POSITION					(521,151)	102,148
NET POSITION, Beginning					<u>(680,026)</u>	<u>(782,174)</u>
NET POSITION, Ending					<u>\$ (1,201,177)</u>	<u>\$ (680,026)</u>

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

DENVER LANGUAGE SCHOOL

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	<u>GENERAL FUND</u>	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 1,243,259	\$ 1,240,424
Cash Held by District	-	91,610
Accounts Receivable	50,032	33,375
Prepaid Expenses	<u>24,500</u>	<u>3,552</u>
TOTAL ASSETS	<u><u>\$ 1,317,791</u></u>	<u><u>\$ 1,368,961</u></u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 6,272	\$ 8,697
Unearned Revenues	49,730	25,622
Accrued Salaries and Benefits	<u>283,337</u>	<u>207,942</u>
TOTAL LIABILITIES	<u>339,339</u>	<u>242,261</u>
FUND BALANCES		
Nonspendable	24,500	3,552
Restricted for Emergencies	125,000	126,000
Unassigned	<u>828,952</u>	<u>997,148</u>
TOTAL FUND BALANCES	<u>978,452</u>	<u>1,126,700</u>
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	93,113	47,728
Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This liability includes net pension liability of (\$3,077,846), deferred outflows related to pensions of \$1,150,024, and deferred inflows related to pensions of (\$344,920).	<u>(2,272,742)</u>	<u>(1,854,454)</u>
Net position of governmental activities	<u><u>\$ (1,201,177)</u></u>	<u><u>\$ (680,026)</u></u>

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

DENVER LANGUAGE SCHOOL

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

	GENERAL FUND	
	2016	2015
REVENUES		
Local Sources	\$ 5,476,577	\$ 4,463,554
State and Federal Sources	265,963	195,319
TOTAL REVENUES	<u>5,742,540</u>	<u>4,658,873</u>
EXPENDITURES		
Current		
Instruction	3,792,669	2,581,212
Supporting Services	2,098,119	1,750,717
TOTAL EXPENDITURES	<u>5,890,788</u>	<u>4,331,929</u>
NET CHANGE IN FUND BALANCES	(148,248)	326,944
FUND BALANCES, Beginning	<u>1,126,700</u>	<u>799,756</u>
FUND BALANCES, Ending	<u>\$ 978,452</u>	<u>\$ 1,126,700</u>

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

DENVER LANGUAGE SCHOOL

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

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

Net change in fund balances - total governmental funds	\$ (148,248)
Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net positions and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlay \$56,181 exceeded depreciation expense (\$10,796)	45,385
Deferred Charges related to pensions are not recognized in the governmental funds. However, for the government-wide funds that amount is capitalized and amortized	<u>(418,288)</u>
Change in net position of governmental activities	<u>\$ (521,151)</u>

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

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Denver Language School (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Denver Public School District (the “District”) in the State of Colorado. The School began classes in the fall of 2011.

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

Reporting Entity

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

Based on the application of these criteria, the School does not include additional organizations within its reporting entity. However, the School is a component unit of the Denver Public School 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 of the activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

The School reports the following major governmental fund:

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

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position

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

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

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

Leasehold improvements of the School are depreciated using the straight line method over 20 years.

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

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

Unearned Revenues – Unearned revenues include grant funds that have been collected but the corresponding expense has not been incurred and advance payments of the next fiscal year's tuition and fees.

Long-Term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are recognized in the current period. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures. The School has no long-term debt as of June 30, 2016.

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

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

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

- Nonspendable – This classification includes amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. The School's nonspendable balance at June 30, 2016 are nonspendable in form as prepaid expenses.

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries commercial coverage for these risks of loss. The School has not had any claims that exceeded the insurable limits in the last three years.

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Data

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

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

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

NOTE 3: CASH AND INVESTMENTS

Deposits

Custodial Credit Risk – Deposits

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

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 3: **CASH AND INVESTMENTS** (Continued)

Deposits (Continued)

The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group.

The market value of the collateral must be at least equal to 102% of the uninsured deposits. The School has no policy regarding custodial credit risk for deposits.

At June 30, 2016, the School had deposits with financial institutions with a carrying amount of \$1,243,259. The bank balances with the financial institutions were \$1,253,739. Of these balances, \$250,000 was covered by federal depository insurance and \$1,003,739 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

Investments

Interest Rate Risk

The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Colorado statutes specify in which instruments units of local government may invest, which include:

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

The School has no policy for managing credit risk or interest rate risk.

The School had no investments as of June 30, 2016.

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 4: CAPITAL ASSETS

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

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2016</u>
Governmental Activities				
Capital Assets, Depreciated				
Leasehold Improvements	\$ 49,454	\$ 56,181	\$ -	\$ 105,635
Machinery & Equipment	<u>5,760</u>	<u>-</u>	<u>-</u>	<u>5,760</u>
Total Capital Assets, Depreciated	<u>55,214</u>	<u>-</u>	<u>-</u>	<u>111,395</u>
Accumulated Depreciation				
Leasehold Improvements	7,006	10,076	-	17,082
Machinery & Equipment	<u>480</u>	<u>720</u>	<u>-</u>	<u>1,200</u>
Total Accumulated Depreciation	<u>7,486</u>	<u>10,796</u>	<u>-</u>	<u>18,282</u>
Net Capital Assets	<u>\$ 47,728</u>	<u>\$ 45,385</u>	<u>\$ -</u>	<u>\$ 93,113</u>

Depreciation has been charged to supporting services program of the School.

NOTE 5: ACCRUED SALARIES AND BENEFITS

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve-month period from August to July, but are earned during a school year of nine months. The salaries and benefits earned, but unpaid, as of June 30, 2016, were \$283,337 in the General Fund.

NOTE 6: DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Policies

Pensions. The School participates in the Denver Public Schools Division Trust Fund (DPS Division), a single-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 DPS Division have been determined using the economic resources measurement focus and the accrual basis of accounting.

DENVER LANGUAGE SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 6: **DEFINED BENEFIT PENSION PLAN** (Continued)

Summary of Significant Accounting Policies (Continued)

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 fairvalue.

General Information about the Pension Plan

Plan description. Eligible employees of the School are provided with pensions through the Denver Public Schools Division Trust Fund (DPS Division)—a single-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.

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 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.

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 6: *DEFINED BENEFIT PENSION PLAN* (Continued)

General Information about the Pension Plan (Continued)

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

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

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

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

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year.

Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the DPS Division.

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

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

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

Contributions. Eligible employees and the School are required to contribute to the DPS Division at a rate set by Colorado statute. The contribution requirements are established under C.R.S.

§ 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2016
Employer Contribution Rate	10.15%	10.15%
Amount of Employer Contribution apportioned to the DPS HCTF as specified in C.R.S. § 24-51-208(1)(f)	(1.02%)	(1.02%)
PCOP Offset as specified in C.R.S. § 24-51-412	(15.97%)	(15.54%)
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411	4.20%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411	4.00%	4.50%
Total Employer Contribution Rate to the DPS Division	1.36%	2.59%

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

Employer contributions are recognized by the DPS Division in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the DPS Division. Employer contributions recognized by the DPS Division from the School were \$81,311 for the year ended June 30, 2016.

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

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

At June 30, 2016, The School reported a liability of \$3,077,846 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The School proportion of the net pension liability was based on the School's contributions to the DPS Division for the calendar year 2015 relative to the total contributions of participating employers to the DPS Division.

At December 31, 2015, the School's proportion was 0.37833%, which was an increase of 0.04583% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, The School recognized pension expense of \$499,599. 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	\$ 138,590	\$ 401
Changes of assumptions or other inputs	N/A	\$ 344,519
Net difference between projected and actual earnings on pension plan investments	\$ 694,534	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$ 267,288	N/A
Contributions subsequent to the measurement date	\$ 49,612	N/A
Total	\$ 1,150,024	\$ 344,920

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

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

\$49,612 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 202,206
2018	\$ 202,206
2019	\$ 202,206
2020	\$ 148,814
2021	\$ 60

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

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

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

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.

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 6: *DEFINED BENEFIT PENSION PLAN* (Continued)

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

Changes to assumptions or other inputs since the December 31, 2014 actuarial valuation are as follows:

- The following programming changes were made:
 - Valuation of the full survivor benefit without any reduction for possible remarriage.
 - Reflection of the employer match on separation benefits for all eligible years.
 - Reflection of one year of service eligibility for survivor annuity benefit.
 - Refinement of the 18-month annual increase timing.
 - Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.

- The following methodology changes were made:
 - Recognition of merit salary increases in the first projection year.
 - Elimination of the assumption that 35% of future disabled members elect to receive a refund.
 - Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
 - Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

The DPS Division'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.

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

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

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

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

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 6: **DEFINED BENEFIT PENSION PLAN** (Continued)

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

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

Based on the above actuarial cost method and assumptions, the DPS Division'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.

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$4,817,930	\$3,077,846	\$1,634,170

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

Other Post-Employment Benefits

Denver Public Schools Health Care Trust Fund

Plan Description – The School contributes to the Denver Public Schools Health Care Trust Fund ("DPS HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The DPS 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 DPS 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 DPS HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

Other Post-Employment Benefits (Continued)

Funding Policy – The School is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the DPS HCTF is established under Title 24, Article 51, Section 208(1) (f.5) of the C.R.S., as amended. For the years ending June 30, 2016, 2015 and 2014 the School's contributions to the DPS HCTF were \$27,603, \$20,375, and \$19,426 respectively, equal to their required contributions for each year.

Taxable Pension Certificates of Participation (PCOPs)

The District issued Taxable Pension Certificates of Participation (PCOPs) on July 17, 1997 to fully fund the unfunded actuarial accrued liability (UAAL) of the Plan. Full funding of the UAAL reduced the employer contribution rate from the full funding rate of 15.75% to the normal cost rate of 4.98%. This rate is based upon actuarially determined contribution requirements, the approval and recommendation of the Plan's Board and approval of the District's Board of Education. The School contributed 9.95%, 9.84%, and 10.80% of covered payroll for the fiscal year ended June 30, 2016, 2015, and 2014, respectively, to the District to cover its obligation relating to the PCOPs.

During the fiscal year ended June 30, 2016, 2015, and 2014 the School made contributions totaling \$269,265, \$196,561 and \$205,682, respectively, to the District towards its PCOPs obligation.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Facilities Use Agreement

The School has a facility use agreement with the District for use of a District school building. For the year ended June 30, 2016, the District charged the school \$775 per pupil to cover these costs. The cost per student will be recalculated by the District each year.

Building Lease

The School has also leased a building. The lease calls for monthly payments of \$12,957 and expires June 30, 2020. Future minimum lease payments are as follows:

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 7: COMMITMENTS AND CONTINGENCIES (Continued)

Building Lease (Continued)

Year Ended June 30,

2017	\$ 155,484
2018	155,484
2019	155,484
2020	<u>155,484</u>
Total	<u>\$ 621,936</u>

Total rent expense for the year ended June 30, 2016 for these agreements was \$433,720.

Claims and Judgments

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

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment. As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2016, the reserve of \$125,000 was recorded as a restriction of fund balance in the General Fund.

NOTE 8: DEFICIT NET POSITION

The Net Position of the government type activities is in a deficit position of \$1,201,177 due to the School including the Net Pension Liability per GASB No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

DENVER LANGUAGE SCHOOL

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2016

	2016			VARIANCE	2015 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
REVENUES					
Local Sources					
Per Pupil Revenue	\$ 4,457,452	\$ 4,331,994	\$ 4,333,258	\$ 1,264	\$ 3,530,170
Mill Levy Override	524,232	528,134	528,134	-	392,417
Tuition and Fees	571,943	507,814	503,645	(4,169)	402,722
Grants and Donations	73,825	110,000	109,613	(387)	136,780
Interest	750	1,800	1,927	127	1,465
State and Federal Sources					
Grants and Donations	288,810	273,192	265,963	(7,229)	195,319
TOTAL REVENUES	5,917,012	5,752,934	5,742,540	(10,394)	4,658,873
EXPENDITURES					
Salaries	3,208,338	3,320,767	3,278,571	42,196	2,438,303
Employee Benefits	667,429	610,466	599,504	10,962	400,956
Purchased Services	1,637,230	1,582,179	1,587,243	(5,064)	1,205,004
Supplies and Materials	206,700	216,500	229,052	(12,552)	167,770
Property	63,146	134,000	133,338	662	90,206
Other	134,169	65,000	63,080	1,920	29,690
TOTAL EXPENDITURES	5,917,012	5,928,912	5,890,788	38,124	4,331,929
CHANGE IN FUND BALANCES	-	(175,978)	(148,248)	27,730	326,944
FUND BALANCE, Beginning	-	1,126,701	1,126,700	(1)	799,756
FUND BALANCE, Ending	\$ -	\$ 950,723	\$ 978,452	\$ 27,729	\$ 1,126,700

See the accompanying independent auditors' report.

DENVER LANGUAGE SCHOOL

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
DENVER PUBLIC SCHOOLS DIVISION TRUST FUND

Years Ended December 31,
(School Division Trust Fund Measurement Date)

	<u>2013</u>	<u>2014</u>	<u>2015</u>
School's proportionate share of the Net Pension Liability	0.3204%	0.3325%	0.3783%
School's proportionate share of the Net Pension Liability	\$ 1,666,286	\$ 2,076,703	\$ 3,077,846
School's covered-employee payroll	\$ 1,747,247	\$ 1,959,606	\$ 2,367,355
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	95.4%	106.0%	130.0%
Plan fiduciary net position as a percentage of the total pension liability	86.3%	83.9%	79.3%

See the accompanying independent auditors' report.

DENVER LANGUAGE SCHOOL

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
DENVER PUBLIC SCHOOLS DIVISION TRUST FUND

Years Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Statutorily required contributions	\$ 92,648	\$ 64,667	\$ 81,311
Contributions in relation to the Statutorily required contributions	<u>92,648</u>	<u>64,667</u>	<u>81,311</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 1,904,467	\$ 1,997,567	\$ 2,706,178
Contributions as a percentage of covered-employee payroll	4.86%	3.24%	3.00%

See the accompanying independent auditors' report.