



Financial Statements  
June 30, 2016

Denver School of Science and  
Technology –  
Cole Middle School



**RECEIVED**

*By Justin L. Smith at 3:56 pm, Jan 03, 2017*

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis.....	3
Financial Statements	
Statement of Net Position .....	11
Statement of Activities .....	12
Balance Sheet – Governmental Fund.....	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund .....	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	15
Notes to Financial Statements .....	16
Required Supplementary Information	
Budgetary Comparison Schedule .....	22
Notes to Required Supplementary Information .....	23



## Independent Auditor's Report

The Board of Directors  
Denver School of Science and Technology – Cole Middle School  
Denver, Colorado

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Denver School of Science and Technology – Cole Middle School (the School), a component unit of Denver Public Schools, as of and for the year ended June 30, 2016, 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 an opinion 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 its major fund of the Denver School of Science and Technology – Cole Middle School, as of June 30, 2016, and the respective changes in financial position for the year then ended in conformity 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 budgetary comparison information on pages 3–10 and 22-23 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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Golden, Colorado  
September 6, 2016

## Management's Discussion and Analysis

Our discussion and analysis of the Denver School of Science and Technology – Cole Middle School's (the School) financial performance provides an overview of the School's financial activities for the twelve months ended June 30, 2016. It should be read in conjunction with the financial statements.

### Financial Highlights

As stated in the Government-wide Financial Statements, the assets of the School exceeded liabilities at June 30, 2016 by \$826,716. The \$826,716 of the School's total net position represents an increase of \$86,677 from \$740,039 in fiscal year 2015. Total revenues increased \$400,873 to \$4,457,395 in fiscal year 2016.

The School's Governmental Fund Financial Statements reported an ending fund balance in fiscal year 2016 of \$736,466. The total fund balance is in the General Fund and is 17.29% of the total General Fund expenditures of \$4,259,968.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's Basic Financial Statements. The Basic Financial Statements are comprised of three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements. This report also contains required supplementary information in addition to the Basic Financial Statements themselves.

### Government-wide Financial Statements

All of the School's services are reported in the Government-wide Financial Statements, including instruction, instructional supporting services, school administration, business services, and operation and maintenance of plant services. Per pupil revenue, mill levy override, federal aid and private contributions finance most of the activities. Additionally, all capital and debt financing activities are reported here.

**Government-wide Financial Statements** are designed to provide readers a broad overview of the School's finances in a manner similar to a private-sector business.

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

**Statement of Activities** presents information showing changes in the School's net position during the most recent fiscal year. All changes in net position are reported as soon as the underlying event causing the change occurs, regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., unconditional contributions receivable).

The Government-wide Financial Statements distinguish functions of the School that are principally supported by taxes and revenues from other functions intended to recover all or a significant portion of their costs through user fees and charges.

Government-wide Financial Statements can be found on pages 11-12.

### **Fund Financial Statements**

The School uses fund accounting to track specific sources of funding for particular purposes. A fund is an accounting device used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds** are used to account for essentially the same functions reported as government activities in the Government-wide Financial Statements. All of the School's activities are included in a governmental fund which focuses on 1) how cash and other financial assets, that can readily be converted to cash, flow in and out and 2) the balances that are available for spending at year-end. Consequently, the Governmental Fund Statements provide a detailed short-term view that helps determine whether more or fewer financial resources can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the Government-wide Statements, additional information is provided in Figure A-I to explain the relationship between them.

The School maintains one governmental fund, a General Fund. Information is presented in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund. The School adopted an annual budget for the General Fund and a budgetary comparison schedule has been provided to demonstrate compliance with this budget.

The basic Governmental Fund Financial Statements can be found on pages 13-15 of this report.

### **Notes to the Financial Statements**

The notes provide additional information essential to a complete understanding of the data provided in the Government-wide and Fund Financial Statements. The notes can be found on pages 16-21 of this report.

### **Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparisons of the original adopted budget, the final amended budget, and the actual expenditures for the fiscal year. Required supplementary information can be found on pages 22-23 of this report.

The remainder of this overview section of Management's Discussion and Analysis explains the structure and contents of each of the statements. Figure A-1 summarizes the major features of the School's financial statements, including the portion of the operations covered and the types of information presented.

**Figure A-1. Major Features of the School’s Government-wide and Fund Financial Statements**

		<b>Fund Statement</b>
<b>Types of Statements</b>	<b>Government-wide</b>	<b>Governmental Fund</b>
Scope	Entire organization	The activities of the School that are not proprietary or fiduciary
Required Financial Statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used and liabilities that come due during the year, or soon thereafter; no capital assets included
Types of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

**Government-wide Financial Analysis**

As noted earlier, net position can serve as a useful indicator of the School’s financial position. The School’s total net position was \$826,716 at June 30, 2016.

At the end of the fiscal year, \$638,407, or 77.22% of the net position is unrestricted and are resources available to fund the School’s programs in the following year.

\$90,250 or 10.92% of the School’s net position reflects its investment in capital assets (e.g. furniture and equipment) less any related debt used to acquire those assets still outstanding. These assets are not available for future spending.

The remaining balance of net position represents resources subject to external restrictions on how they may be used. The changes in net position are illustrated in Table I.

<b>Net Position Summary</b>			
Table I			
	Governmental Activities		Change
	2016	2015	
Current and Other Assets	\$ 1,054,990	\$ 765,818	\$ 289,172
Capital Assets	90,250	201,000	(110,750)
Total Assets	<u>1,145,240</u>	<u>966,818</u>	<u>178,422</u>
Current Liabilities	<u>318,524</u>	<u>226,779</u>	<u>91,745</u>
Total Liabilities	<u>318,524</u>	<u>226,779</u>	<u>91,745</u>
Net Position:			
Net Investment in			
Capital Assets	90,250	201,000	(110,750)
Restricted	98,059	92,383	5,676
Unrestricted	<u>638,407</u>	<u>446,656</u>	<u>191,751</u>
Total Net Position	<u>\$ 826,716</u>	<u>\$ 740,039</u>	<u>\$ 86,677</u>

**Governmental Activities**

The net position of the School’s Governmental Activities increased to \$826,716. The total cost of all Governmental Activities for the fiscal year ended June 30, 2016 was \$4,370,718. Funding for these Governmental Activities is by specific program revenue or through general revenues such as per pupil revenues and mill levy overrides. The following is a summary of the governmental activities:

- The total revenues of all governmental activities were \$4,457,395. The amount paid through Per Pupil Revenue (PPR) which is based on 440 students and a rate set by the Colorado State Legislature and Denver Public Schools was \$3,420,060 and represents 76.73% of the total.
- An additional \$390,688 or 8.76% was received through mill levy overrides which are property taxes approved by the voters in Denver Public Schools.
- Substantially all of the remaining revenue was received from state sources and from families of students for clubs, activities, and to help cover a portion of the one-to-one laptop program.
- Revenues from all sources increased \$400,873 or 9.88% from fiscal year 2015. The increase is due to an increased enrollment.
- The cost of all governmental activities was \$4,368,471, an increase of \$381,534 from fiscal year 2015. The increase is due to an increases in salaries, stipend, and benefits and increased DPS and CMO fees.
- The largest expense is personnel, including teachers, administrators, coaches and substitute teachers totaling \$2,680,462 or 61.33% of total expense. Salaries, stipends, and related payroll taxes and benefits are all included in the personnel category.
- Payments to Denver Public Schools for rent, special education services, administrative services, accounting and general operations total \$708,513 or 16.21%.
- The remaining \$981,743 or 22.46% of expenses are for instructional and non-instructional supplies, student activities, printing, copying and miscellaneous expenses.

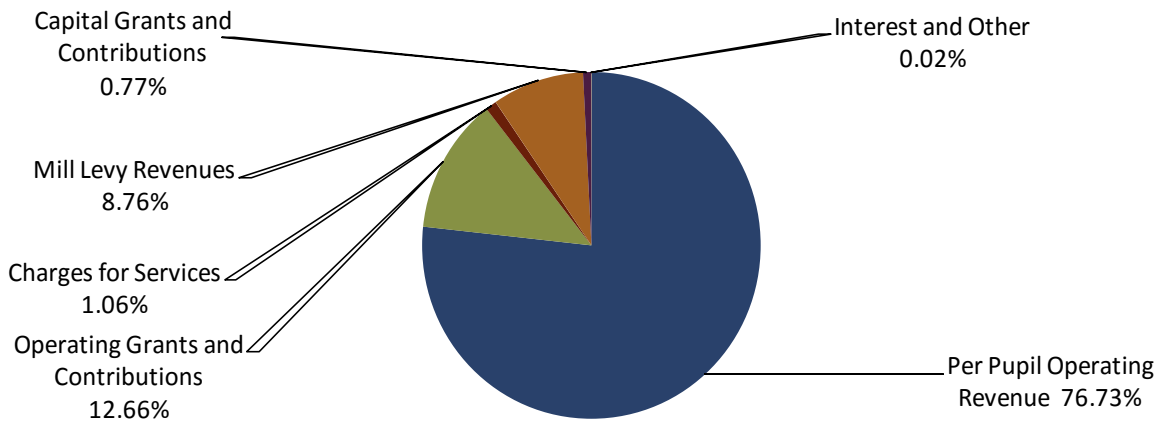
Changes in Net Position are shown by revenue categories and function expenses in Table II.

**Changes in Net Position**

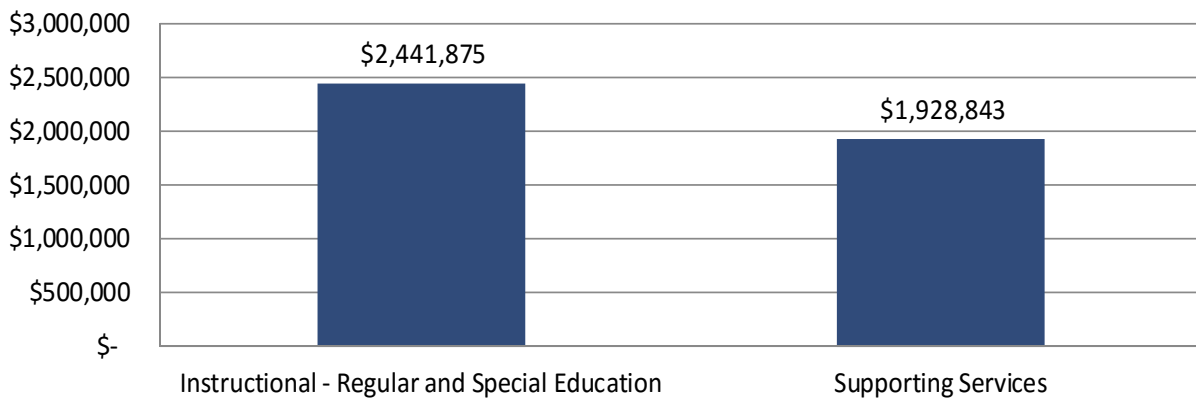
Table II

	Governmental Activities		Change	Change %
	2016	2015		
<b>Revenues:</b>				
Program Revenues:				
Charges for Services	\$ 47,020	\$ 52,090	\$ (5,070)	-9.73 %
Operating Grants and Contributions	564,303	615,314	(51,011)	(8.29)
Capital Grants and Contributions	34,536	34,536	-	-
General Revenues:				
Per Pupil Operating Revenue	3,420,060	3,042,098	377,962	12.42
Mill Levy Override	390,688	311,017	79,671	25.62
Interest	788	94	694	738.30
Other	-	1,373	(1,373)	-
Total Revenues	<u>4,457,395</u>	<u>4,056,522</u>	<u>400,873</u>	<u>9.88</u>
<b>Expenses:</b>				
Instructional:				
Regular education	2,262,592	2,273,601	(11,009)	(0.48)
Special education	179,283	147,810	31,473	21.29
Supporting Services:				
Pupil supporting services	308,445	405,980	(97,535)	(24.02)
Instructional support	222,559	103,414	119,145	115.21
General administration	42,631	34,935	7,696	22.03
School administration	518,358	425,338	93,020	21.87
Business services	361,268	326,722	34,546	10.57
Operations and maintenance	361,469	156,966	204,503	130.28
Pupil transportation	50,287	53,040	(2,753)	(5.19)
Central services	61,579	59,131	2,448	4.14
Other support services	2,247	-	2,247	100.00
Total Expenses	<u>4,370,718</u>	<u>3,986,937</u>	<u>383,781</u>	<u>9.63</u>
Increase (Decrease) in Net Position	86,677	69,585	17,092	24.56
Beginning Net Position	<u>740,039</u>	<u>670,454</u>	<u>69,585</u>	<u>10.38</u>
Ending Net Position	<u>\$ 826,716</u>	<u>\$ 740,039</u>	<u>\$ 86,677</u>	<u>11.71 %</u>

**Figure A-2 Revenues by Source - Governmental Activities**



**Figure A-3  
Program Expenses by Major Function - Governmental Activities**



## **Financial Analysis of The School's Funds**

### **Governmental Funds**

The School's accounting records for general governmental operations are maintained on a modified accrual basis with the revenues being recorded when available and measurable to finance expenditures of the fiscal period. Expenditures are recorded when services or goods are received and the fund liabilities are incurred. The general governmental operations include a General Fund.

Revenues from the Governmental Fund totaled \$4,457,395 for the fiscal year ended June 30, 2016, an increase of 9.88% from the prior fiscal year. State revenues, including per pupil revenue, continued to be the largest source of revenue received by the School and equaled \$3,420,060. Mill Levy revenues totaled \$390,688 in fiscal year 2016.

Expenditures for governmental operations totaled \$4,259,968 during fiscal year 2016, an increase of 9.26% from fiscal year 2015.

The Governmental Fund reported a fund balance of \$736,466, an increase of \$197,427. Out of the total fund balance, \$423,859 constitutes unassigned fund balances. Of the remainder of the fund balance, \$98,059 is restricted by outside sources, and \$214,548 is internally assigned for future compensation needs.

The General Fund is the operating fund of the School.

### **General Fund Budgetary Highlights**

Over the course of the year, the School revised its budget once. Revisions to revenue were necessary due to changes in estimates for local revenue based on updated information relating to enrollment numbers and funding rates. Revisions to the expenditure budget were necessary due to updated salary and staffing information in the instructional program.

The School's General Fund amounts differed from the amounts reported in the budgetary comparison on pages 22-23 of this report.

- Final revenues realized were over budgeted levels by \$13,912.
- Expenditures in total were \$132,772 less than budgeted amounts. The total variance represents only 3.02% of the expenditure budget and is the result of position vacancies and general under spending in various budget categories.

## VeriCapital Assets

The School has invested \$90,250, net of depreciation, in leasehold improvements, equipment and vehicles. This amount represents a net decrease (including additions, deductions and depreciation) of \$110,750 from the prior year.

<b>Capital Assets</b> (net of Depreciation)				
Governmental Activities				
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>Percentage</u>
Leasehold Improvements	\$ 56,770	\$ 124,469	\$ (67,699)	(54.39) %
Equipment	19,800	58,291	(38,491)	(66.03)
Vehicles	13,680	18,240	(4,560)	100.00
	<u>\$ 90,250</u>	<u>\$ 201,000</u>	<u>\$ (110,750)</u>	<u>(55.10) %</u>

## Economic Factors and Next Year's Budget

As part of the budget development process, the School's management has taken into consideration all the factors that drive a charter school's budget: enrollment, per pupil funding rates, mill levy overrides, personnel costs, facility costs and the local economy.

All of these factors were considered when adopting the 2016-17 budget. There are no major initiatives or new programs included in the 2016-17 budget.

## Contacting The School's Financial Management

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Operating Officer, Denver School of Science and Technology, Inc. 3401 Quebec Street, Suite 7200, Denver, CO 80207.

Denver School of Science and Technology –  
Cole Middle School  
Statement of Net Position  
June 30, 2016

---

Assets	
Cash and cash equivalents	\$ 927,898
Cash restricted for TABOR reserve	98,059
Accounts receivable	29,033
Capital assets, net of accumulated depreciation	90,250
Total assets	<u>\$ 1,145,240</u>
Liabilities and Net Position	
Accounts payable and accrued expenses	\$ 25,535
Liability for PCOPS assessment	40,932
Accrued salaries & benefits	252,057
Total liabilities	<u>318,524</u>
Net Position	
Invested in capital assets	90,250
Restricted for emergencies	98,059
Unrestricted	638,407
Total net position	<u>826,716</u>
Total liabilities and net position	<u>\$ 1,145,240</u>



Denver School of Science and Technology –  
Cole Middle School  
Balance Sheet – Governmental Fund  
June 30, 2016

	General Fund
<b>Assets</b>	
Cash and cash equivalents	\$ 927,898
Cash restricted for TABOR reserve	98,059
Accounts receivable from other governments	29,033
Total assets	\$ 1,054,990
<b>Liabilities and Fund Balance</b>	
Accounts payable	25,535
Liability for PCOPS assessment	40,932
Accrued salaries & benefits	252,057
Total liabilities	318,524
<b>Fund Balance</b>	
Restricted for emergencies	98,059
Assigned	214,548
Unassigned	423,859
Total fund balance	736,466
Total liabilities and fund balance	\$ 1,054,990
 <b>Reconciliation of total fund balance to amounts reported for governmental activities in the statement of net position:</b>	
Total fund balance	\$ 736,466
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the fund. This amount is net of accumulated depreciation of \$463,502	90,250
Net position of governmental activities	\$ 826,716

Denver School of Science and Technology –  
Cole Middle School  
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund  
Year Ended June 30, 2016

---

	General Fund
Revenues	
Local sources	\$ 928,461
State sources	3,528,934
Total revenues	4,457,395
 Expenditures	
Current	
Instructional	
Regular education	2,151,842
Special education	179,283
Supporting services	
Pupil supporting services	308,445
Instructional support	222,559
General administration	42,631
School administration	518,358
Business services	361,268
Operations and maintenance	361,469
Pupil transportation	50,287
Central services	61,579
Other support services	2,247
Total expenditures	4,259,968
Net change in fund balances	197,427
Fund balances, beginning of year	539,039
Fund balances, end of year	\$ 736,466

Denver School of Science and Technology –  
Cole Middle 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 balance - total governmental fund	\$ 197,427
Capital outlays to purchase or build capital assets are reported in the governmental fund as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the depreciation expense of (\$110,750) in excess of the capital outlay (\$0) for the year.	(110,750)
Change in net position of governmental activities	<u>\$ 86,677</u>

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Denver School of Science and Technology – Cole Middle School (the School) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. Following is a summary of the more significant accounting policies.

**Reporting Entity**

The School was opened in July, 2011, for the purpose of entering into a charter school contract with School District No. 1 in the City and County of Denver (Denver Public Schools). The focus of the School is science, math and technology. The School is a component unit of Denver Public Schools. It is the administrative position of the Colorado Department of Education that a charter school has the same relationship to a public school district as does any other school program or school building within a district. A charter school is part of a local school district that is a political subdivision of the State of Colorado. In accordance with Colorado state statute, Denver Public Schools has approved the charter of the School for a three-year period, ending June 30, 2017. At the end of the charter period, the School intends to seek renewal of its charter in accordance with procedures set forth in the state law and school district policy/regulations.

The School is operated and managed by Denver School of Science and Technology, Inc. (DSST Public Schools), a Colorado nonprofit corporation. The financial statements presented herein include only the assets, liabilities, net position and activities of the School and are not intended to be a complete presentation of DSST Public Schools' financial statements.

Under current GASB pronouncements, the School has been determined to be a component unit of Denver Public Schools – the primary government. As such, the School's financial results are included in the Denver Public Schools' Comprehensive Annual Financial Report. The School is economically dependent on funding received from Denver Public Schools.

**Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the School's financial activities. Governmental activities, 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 a given function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. 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 properly not included among program revenues are reported instead as general revenues.

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

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

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

The School reports the General Fund as a major Governmental Fund. This fund is the general operating fund of the School. It is used to account for all financial resources.

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

Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Management has determined all accounts to be fully collectible.

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 cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: leasehold improvements, vehicles and equipment and software, 5 years. Purchases of computers provided to students are expensed as incurred.

Net position/fund equity – In the government-wide financial statements, net position is restricted when constraints placed on the net position are externally imposed. 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.

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* – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted* – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.

*Committed* – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2016.

*Assigned* – This classification includes spendable fund balance amounts that are intended to be used for specific purposes that are considered neither restricted nor committed. Undesignated excess Fund Balances may be assigned by the Board of Directors, or for specific purposes through the budget process. The assigned designation may be reversed by the Board of Directors.

*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 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 resources.

### **Use of Estimates**

The preparation of financial statement in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates, and those differences could be material.

## 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 purchases commercial insurance for these risks of loss.

## Note 2 - Cash and cash equivalents

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

Deposits	\$ 927,898
Cash restricted for TABOR reserve	<u>98,059</u>
	<u>\$ 1,025,957</u>

## Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2016, State regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The School has no policy regarding custodial credit risk for deposits. Cash deposits are held by DSST Public Schools in a pooled account, the first \$250,000 of which is covered by federal deposit insurance. The amounts in excess of federally insured limits are collateralized with securities held by the financial institution's agent, but not in the School's name.

## 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 did not have any investments requiring categorization of credit risk as of June 30, 2016 and had no policy for managing credit risk or interest rate risk.

**Note 3 - Capital Assets**

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

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
<b>Governmental Activities</b>				
Capital assets being depreciated				
Leasehold improvements	\$ 338,492	\$ -	\$ -	\$ 338,492
Equipment	192,460	-	-	192,460
Vehicles	22,800	-	-	22,800
Total capital assets being depreciated	<u>553,752</u>	<u>-</u>	<u>-</u>	<u>553,752</u>
Accumulated depreciation				
Leasehold improvements	(214,023)	(67,699)		(281,722)
Equipment	(134,169)	(38,491)	-	(172,660)
Vehicles	(4,560)	(4,560)		(9,120)
Total accumulated depreciation	<u>(352,752)</u>	<u>(110,750)</u>	<u>-</u>	<u>(463,502)</u>
Total capital assets being depreciated, net	<u>\$ 201,000</u>	<u>\$ (110,750)</u>	<u>\$ -</u>	<u>\$ 90,250</u>

Depreciation expense of \$110,750 has been charged to the Instructional expense category of the schools operations.

**Note 4 - Related Parties**

**Charter Management Organization**

The School is operated and managed by DSST Public Schools. DSST Public Schools also provides certain legal, management, accounting, technology and advertising services to the School. Pursuant to the operating agreement, the School pays management fees to DSST Public Schools computed at 10.0% of per-pupil revenue. During the year ended June 30, 2016, the School paid \$\$671,648 to DSST for the services provided.

During the year ended June 30, 2016, DSST Public Schools contributed \$257,688 to the School.

## **Note 5 - Commitments and Contingencies**

### **Pension Certificates of Participation**

Denver Public Schools issued Taxable Pension Certificates of Participation (the PCOPs) in order to fully fund, over time, the unfunded actuarial accrued liability of its pension plan. None of the employees of the School participate in the Denver Public Schools pension plan. As part of the Charter agreement, the School has agreed to pay fees to Denver Public Schools. The payment is calculated based upon a percentage of covered salary. The School was charged \$148,814 related to 2016 salaries at June 30, 2016, which represents approximately 9.95% of salaries, for its obligation relating to the PCOPs.

### **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**

Colorado voters approved an amendment to the State Constitution, Article X, Section 20 (commonly known as “TABOR”), which limits state and local government taxing authority 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, representing 3% of qualifying expenditures.

### **Facility Use Fees**

The School annually enters into a facility use agreement with Denver Public Schools. The Facility use fee is based on a per-student use fee schedule and anticipated costs of operating the facility. There are no future minimum commitments under this arrangement.



Required Supplementary Information  
June 30, 2016

# Denver School of Science and Technology – Cole Middle School

Denver School of Science and Technology –  
Cole Middle School  
Budgetary Comparison Schedule  
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance Positive(Negative)
<b>Revenues</b>				
Local sources	\$ 755,357	\$ 919,085	\$ 928,461	\$ 9,376
State sources	3,569,200	3,524,398	3,528,934	4,536
Total revenues	<u>4,324,557</u>	<u>4,443,483</u>	<u>4,457,395</u>	<u>13,912</u>
<b>Expenditures</b>				
Instructional				
Regular education	2,151,383	2,355,372	2,151,842	203,530
Special education	299,691	174,025	179,283	(5,258)
Supporting services				
Pupil supporting services	173,126	259,184	308,445	(49,261)
Instructional support	216,829	208,815	222,559	(13,744)
General administration	43,408	42,631	42,631	-
School administration	484,370	494,879	518,358	(23,479)
Business services	361,346	361,062	361,268	(206)
Operations and maintenance	368,359	360,647	361,469	(822)
Pupil transportation	58,598	57,609	50,287	7,322
Central services	62,701	61,579	61,579	-
Other support services	66,030	16,937	2,247	14,690
Total expenditures	<u>4,285,841</u>	<u>4,392,740</u>	<u>4,259,968</u>	<u>132,772</u>
Net change in fund balances	38,716	50,743	197,427	(118,860)
Fund balances, beginning of year	<u>539,039</u>	<u>539,039</u>	<u>539,039</u>	<u>-</u>
Fund balances, end of year	<u>\$ 577,755</u>	<u>\$ 589,782</u>	<u>\$ 736,466</u>	<u>\$ (118,860)</u>

**Note 1 - Stewardship, Compliance and Accountability**

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 year-end.