

**HIGHLINE ACADEMY CHARTER SCHOOL**

**BASIC FINANCIAL STATEMENTS**

**June 30, 2016**



**RECEIVED**

*By Justin L. Smith at 4:20 pm, Jan 03, 2017*

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## **FINANCIAL SECTION**



## JOHN CUTLER & ASSOCIATES

Board of Directors  
Highline Academy Charter School  
Denver, Colorado

### **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of the governmental activities and each major fund of Highline Academy Charter School (the "Academy"), 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 basic financial statements of the Academy, as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

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

#### **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 Highline Academy Charter School as of 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 27-30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*John Luttrell & Associates, LLC*

September 9, 2016

## **Highline Academy Charter School-Southeast Campus Management's Discussion and Analysis**

As management of Highline Academy Charter School-Southeast Campus (HASE or the School), we offer readers of Highline Academy Charter School-Southeast Campus's financial statements our narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016.

### **Financial Highlights**

The year ended June 30, 2016 is the twelfth year of operations for HASE. As of June 30, 2016, net position decreased by \$(305,428) to \$(1,902,596). 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 7 of the financial statements.

The operations of the School are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue. Such revenue for the year was \$3,688,523. At the close of the fiscal year, Highline Academy Charter School-Southeast Campus's governmental funds reported a combined ending fund balance of \$2,188,916, an increase of \$140,972 from prior year. This increase is due to an increase in student count and closely monitored spending throughout the year.

### **Overview of Financial Statements**

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

#### ***Government-Wide Financial Statements***

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

The statement of net position presents information on all of the School's assets 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 the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected grant expenses and earned but unpaid salary and benefits).

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

### ***Fund Financial Statements***

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

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

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

The school adopts annually appropriated budgets for any governmental funds. A budgetary comparison schedule for each governmental fund has been provided herein.

### ***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 6-26.

## **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 Highline Academy Charter School-Southeast Campus, liabilities exceeded assets resulting in a Net Position of \$(1,902,596) in FY 2015-2016. Again, this is directly related to the new pension liability reporting requirement under GASB 68. Of the School's total Net Position, \$132,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. Accordingly, these funds are not available to satisfy the school's general operating expenses.

**Highline Academy Charter School-Southeast Campus's Net Position  
Governmental Activities**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>ASSETS</b>		
Cash and investments	\$ 1,285,003	\$ 996,638
Restricted Cash and Investments	930,550	907,784
Cash Held by the District	-	110,733
Grants Receivable	-	17,145
Accounts Receivable	-	30,031
Prepaid Expenses	4,839	16,834
Deposits	2,645	4,985
Capital Assets, Not Depreciated	2,300,000	2,300,000
Capital Assets, Net of Accum Depreciation	4,042,553	4,213,018
<b>Total Assets</b>	<b>8,565,590</b>	<b>8,597,168</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Related to Pensions	825,847	270,162
<b>LIABILITIES</b>		
Accounts Payable	488	5,140
Due to HANE	15,848	17,513
Deferred Revenue	9,768	4,566
Unearned Revenue	6,437	7,862
Accrued Expenses	1,580	1,125
Noncurrent Liabilities		
Bonds Payable		
Due in One Year	115,000	110,000
Due in More than One Year	7,860,000	7,975,000
Net Pension Liability	2,898,309	2,342,767
<b>Total Liabilities</b>	<b>10,907,430</b>	<b>10,463,973</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Related to Pensions	386,603	525
<b>NET POSITION</b>		
Investment in Capital Assets	(701,897)	(664,198)
Restricted for Emergencies	132,000	129,000
Unrestricted	(1,332,699)	(1,061,970)
<b>Total Net Position</b>	<b>\$ (1,902,596)</b>	<b>\$ (1,597,168)</b>

The largest portion of the School's assets is in capital assets at 74% of assets in 2016.

**Highline Academy Charter School-Southeast Campus's Change in Net Position  
Governmental Activities**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Program Revenue:		
Charges for Services	\$ 148,078	\$ 149,405
Operating Grants and Contributions	226,797	207,076
Capital Grants and Contributions	125,187	82,225
Total Program Revenue	500,062	438,706
General Revenue:		
Per Pupil Revenue	3,688,523	3,572,220
Mill Levy Revenue	431,281	384,429
Interest	2,085	1,602
Other Income	126,356	191,732
Total General Revenue	4,248,245	4,149,983
<b>Total Revenue</b>	<b>4,748,307</b>	<b>4,588,689</b>
Expenses:		
Current:		
Instruction	2,964,116	2,601,037
Supporting Services	1,511,138	1,623,990
Interest in Long-term Debt	578,481	585,194
<b>Total Expenses</b>	<b>5,053,735</b>	<b>4,810,221</b>
<b>Increase/(Decrease) in Net Position</b>	<b>(305,428)</b>	<b>(221,532)</b>
<b>Net Position, Beginning</b>	<b>(1,597,168)</b>	<b>(1,375,636)</b>
<b>Net Position, Ending</b>	<b>\$ (1,902,596)</b>	<b>\$ (1,597,168)</b>

The largest portion of the School's revenues came from per pupil revenue – 87%, respectively in 2016.

**Financial Analysis of the Government's Funds**

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

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

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$1,258,366, an increase of \$118,206 from prior year. As of the end of the current fiscal year, the School's Capital Projects Fund reported an ending fund balance of \$930,550, an increase of \$22,766 from prior year. This fund records the activity of the Highline Academy Building Corporation (HABC), a Colorado non-profit corporation established as a separate legal entity designed to assist the School with leasehold and facility improvements. The fund balance consists of remaining funds allocated for the construction of a new facility that opened in August 2011.

### **General Fund Budgetary Highlights**

The School approves a final general fund 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 \$39,988 more revenue than expected and spent \$(310,437) less than planned, when compared to the final budget. Two budget amendments were made during FY 2015-2016.

### **Capital Assets & Long-Term Debt**

The School has investments in capital assets based on the construction and improvements related to the new facility, as well as technology implemented to support the educational program. Depreciation expenses for capital assets are booked under the Supporting expenses of the School's operations. See Note 4 for more information.

The School has long-term revenue bonds totaling \$7,975,000 as part of the facility. The school enters into a one-year lease with the Highline Academy Building Corporation at the beginning of each year. See Note 5 for more information.

### **Economic Factors and Next Year's Budget**

The primary factor driving the budget for Highline Academy Charter School-Southeast Campus is student enrollment. Enrollment for the 2015-2016 school year was 484.26 funded students. This information was analyzed as part of the 2016-2017 budget which is projecting a 505.84 funded student count.

## **Requests for Information**

This financial report is designed to provide a general overview of Highline Academy Charter School-Southeast Campus'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:

Highline Academy Charter School-Southeast Campus  
2170 South Dahlia St.  
Denver, CO 80222

## **BASIC FINANCIAL STATEMENTS**

HIGHLINE ACADEMY CHARTER SCHOOL

STATEMENT OF NET POSITION

As of June 30, 2016

	Governmental Activities	
	2016	2015
<b>ASSETS</b>		
Cash and Investments	\$ 1,285,003	\$ 996,638
Restricted Cash and Investments	930,550	907,784
Cash with District	-	110,733
Grants Receivable	-	17,145
Accounts Receivable	-	30,031
Prepaid Expenses	4,839	16,834
Inventory	2,645	4,985
Capital Assets, Not Depreciated	2,300,000	2,300,000
Capital Assets, Depreciated, Net of Accumulated Depreciation	4,042,553	4,213,018
<b>TOTAL ASSETS</b>	<b>8,565,590</b>	<b>8,597,168</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Related to Pensions	825,847	270,162
<b>LIABILITIES</b>		
Accounts Payable	488	5,140
Due to HANE	15,848	17,513
Deferred Revenue	9,768	4,566
Accrued Expenses	6,437	7,862
Deposits	1,580	1,125
Noncurrent Liabilities		
Bonds Payable		
Due in One Year	115,000	110,000
Due in More than One Year	7,860,000	7,975,000
Net Pension Liability	2,898,309	2,342,767
<b>TOTAL LIABILITIES</b>	<b>10,907,430</b>	<b>10,463,973</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Related to Pensions	386,603	525
<b>NET POSITION</b>		
Net Investment in Capital Assets	(701,897)	(664,198)
Restricted for Emergencies	132,000	129,000
Unrestricted	(1,332,699)	(1,061,970)
<b>TOTAL NET POSITION</b>	<b>\$ (1,902,596)</b>	<b>\$ (1,597,168)</b>

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

HIGHLINE ACADEMY CHARTER 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	
					2016	2015
<b>PRIMARY GOVERNMENT</b>						
<b>Governmental Activities</b>						
Instructional	\$ 2,964,116	\$ 148,078	\$ 92,510	\$ -	\$ (2,723,528)	\$ (2,359,003)
Supporting Services	1,511,138	-	134,287	125,187	(1,251,664)	(1,427,318)
Interest on Long-term Debt	578,481	-	-	-	(578,481)	(585,194)
Total Governmental Activities	<u>\$ 5,053,735</u>	<u>\$ 148,078</u>	<u>\$ 226,797</u>	<u>\$ 125,187</u>	<u>(4,553,673)</u>	<u>(4,371,515)</u>
GENERAL REVENUES						
					3,688,523	3,572,220
					431,281	384,429
					2,085	1,602
					126,356	191,732
					<u>4,248,245</u>	<u>4,149,983</u>
					<u>(305,428)</u>	<u>(221,532)</u>
					<u>(1,597,168)</u>	<u>(1,375,636)</u>
					<u>\$ (1,902,596)</u>	<u>\$ (1,597,168)</u>

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

HIGHLINE ACADEMY CHARTER SCHOOL

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2016

	GENERAL FUND	BUILDING CORPORATION	TOTAL GOVERNMENTAL FUNDS	
			2016	2015
<b>ASSETS</b>				
Cash and Investments	\$ 1,285,003	\$ -	\$ 1,285,003	\$ 996,638
Restricted Cash and Investments	-	930,550	930,550	907,784
Cash Held by District	-	-	-	110,733
Accounts Receivable	-	-	-	30,031
Grants Receivable	-	-	-	17,145
Prepaid Expenses	4,839	-	4,839	16,834
Inventory	2,645	-	2,645	4,985
<b>TOTAL ASSETS</b>	<b>\$ 1,292,487</b>	<b>\$ 930,550</b>	<b>\$ 2,223,037</b>	<b>\$ 2,084,150</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 488	\$ -	\$ 488	\$ 5,140
Due to HANE	15,848	-	15,848	17,513
Accrued Expenses	6,437	-	6,437	7,862
Unearned Revenue	9,768	-	9,768	4,566
Deposits	1,580	-	1,580	1,125
<b>TOTAL LIABILITIES</b>	<b>34,121</b>	<b>-</b>	<b>34,121</b>	<b>36,206</b>
<b>FUND BALANCES</b>				
Nonspendable	7,484	-	7,484	4,985
Restricted for Emergencies	132,000	-	132,000	129,000
Restricted for Capital Outlay	-	930,550	930,550	907,784
Unassigned	1,118,882	-	1,118,882	1,006,175
<b>TOTAL FUND BALANCES</b>	<b>1,258,366</b>	<b>930,550</b>	<b>2,188,916</b>	<b>2,047,944</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,292,487</b>	<b>\$ 930,550</b>		

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.

6,342,553      6,513,018

Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This includes bonds payable of (\$7,975,000) net pension liability of (\$2,898,309), deferred outflows related to pensions of \$825,847 and and deferred inflows related to pensions of (\$386,603).

(10,434,065)      (10,158,130)

Net position of governmental activities

\$ (1,902,596)      \$ (1,597,168)

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

HIGHLINE ACADEMY CHARTER SCHOOL

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

	GENERAL FUND	BUILDING CORPORATION	TOTAL GOVERNMENTAL FUNDS	
			2016	2015
REVENUES				
Local Sources	\$ 4,530,189	\$ 421	\$ 4,530,610	\$ 4,413,835
State Sources	188,143	-	188,143	157,429
Federal Sources	29,554	-	29,554	17,425
TOTAL REVENUES	<u>4,747,886</u>	<u>421</u>	<u>4,748,307</u>	<u>4,588,689</u>
EXPENDITURES				
Current				
Instruction	2,747,421	-	2,747,421	2,434,095
Supporting Services	1,171,433	-	1,171,433	1,398,508
Debt Service				
Principal	-	110,000	110,000	105,000
Interest	-	578,481	578,481	585,194
TOTAL EXPENDITURES	<u>3,918,854</u>	<u>688,481</u>	<u>4,607,335</u>	<u>4,522,797</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>829,032</u>	<u>(688,060)</u>	<u>140,972</u>	<u>65,892</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	710,826	710,826	712,570
Transfers Out	<u>(710,826)</u>	<u>-</u>	<u>(710,826)</u>	<u>(712,570)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(710,826)</u>	<u>710,826</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	118,206	22,766	140,972	65,892
FUND BALANCES, Beginning	<u>1,140,160</u>	<u>907,784</u>	<u>2,047,944</u>	<u>1,982,052</u>
FUND BALANCES, Ending	<u>\$ 1,258,366</u>	<u>\$ 930,550</u>	<u>\$ 2,188,916</u>	<u>\$ 2,047,944</u>

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

HIGHLINE ACADEMY CHARTER SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - 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 Changes in Fund Balances - Total Governmental Funds	\$ 140,972
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense for the current period.	(170,465)
Deferred Charges related to pensions are not recognized in the governmental funds. However, for the government-wide funds that amounts are capitalized and amortized.	(385,935)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. These are the note payments for the year.	<u>110,000</u>
Change in Net Position of Governmental Activities	<u>\$ (305,428)</u>

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

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Highline Academy Charter School (the “Academy”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Denver Public School District of the State of Colorado. The Academy operates two campuses. These are named the Northeast Campus and the Southeast Campus.

The accounting policies of the Academy 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 Academy and organizations for which the Academy is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the Academy. In addition, any legally separate organizations for which the Academy is financially accountable are considered part of the reporting entity. Financial accountability exists if the Academy 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 Academy.

The Academy includes the Highline Academy Building Corporation (the “Building Corporation”) within its reporting entity. The Building Corporation was formed to support and assist the Academy to perform its function and to carry out its purpose, specifically to assist in the financing of the Academy’s facilities. The Building Corporation is blended into the Academy’s financial statements as a special revenue fund. Separate financial statements are not available for this entity. The Academy 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 Academy. 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.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Government-Wide and Fund Financial Statements** (Continued)

Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

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

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

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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 Academy's policy to use restricted resources first and the unrestricted resources as they are needed.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

The Academy reports the following major governmental funds:

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

*Building Corporation* – This fund is used to account for the activities of the Building Corporation.

**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 the 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 futures period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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

*Investments* – Investments are stated at fair value.

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

*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 Academy 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.

HIGHLINE ACADEMY CHARTER 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)

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: Building and improvements 30 years, Other improvements 10 years.

*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. 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.

*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 is 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 is liquid assets, which have third party limitations on their use. Unrestricted net position represents assets that do not have any third party limitations on their use.

*Fund Balance Classification* – In the government-wide financial statements, net position is restricted when constraints placed on the net position are externally imposed. 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 Academy is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Academy classifies Deposits and Prepaid Expenses as nonspendable as these items are not expected to be converted to cash be converted to cash within the next year.

HIGHLINE ACADEMY CHARTER 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 Academy has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies, and the fund balance in the Building Corporation is restricted for capital outlay.
- 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 Academy 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 Academy 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.

**Compensated Absences**

The Academy's policy allows employees to accumulate sick and vacation leave. Upon termination of employment, no financial compensation is paid for these unused compensated absences. Therefore, no liability for accumulated sick leave is reported in the financial statements.

**Risk Management**

The Academy 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 Academy carries commercial coverage for these risks of loss. The Academy has not sustained any losses that exceeded the insurable amounts in the last three years.

HIGHLINE ACADEMY CHARTER 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 Academy's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

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

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

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

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

**NOTE 3: CASH AND INVESTMENTS**

A reconciliation of the cash and investment components on the balance sheet to the cash and investments categories in this footnote are as follows:

Deposits	\$ 1,247,017
Investments	<u>968,536</u>
Total Cash and Investments	<u><b>\$ 2,215,553</b></u>

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

The above amounts are classified in the statement of net position as follows:

Cash and Investments	\$ 1,285,003
Restricted Cash and Investments	<u>930,550</u>
Total	<u>\$ 2,215,553</u>

**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 Academy 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 Academy has no policy regarding custodial credit risk for deposits.

At June 30, 2016, the Academy had deposits with financial institutions with a carrying amount of \$1,247,017. The bank balances with the financial institutions were \$1,274,346. Of this amount, \$250,000 was covered by federal depository insurance and \$1,024,346 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

**Investments**

Interest Rate Risk

The Academy 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
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

At June 30, 2016, the Academy had \$930,550 invested in a money market fund. The fund invests only in U.S. Treasury obligations and is rated AAAM by Standard and Poor's.

The Academy had invested \$37,986 in the Colorado Government Liquid Asset Trust (COLOTRUST), an investment vehicle established for local government entities in Colorado to pool surplus funds and is registered with the State Securities Commissioner. The Fund operates similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities. The Fund is rated AAAM by Standard and Poor's.

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

**Restricted Cash and Investments**

Cash and investments in the amount of \$930,550 are restricted in the Building Corporation Fund for construction expenses and debt service payments.

HIGHLINE ACADEMY CHARTER 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>
<b>Governmental Activities</b>				
Capital Assets, Not Depreciated				
Land	\$ 2,300,000	\$ -	\$ -	\$ 2,300,000
Capital Assets, Depreciated				
Building and Improvements	4,748,857	-	-	4,748,857
Leasehold Improvements	110,789	-	-	110,789
Equipment	<u>18,755</u>	<u>-</u>	<u>-</u>	<u>18,755</u>
Total Capital Assets, Depreciated	<u>4,878,401</u>	<u>-</u>	<u>-</u>	<u>4,878,401</u>
Accumulated Depreciation				
Building and Improvements	632,980	158,363	-	791,343
Leasehold Improvements	30,058	10,227	-	40,285
Equipment	<u>2,345</u>	<u>1,875</u>	<u>-</u>	<u>4,220</u>
Total Accumulated Depreciation	<u>665,383</u>	<u>170,465</u>	<u>-</u>	<u>835,848</u>
Total Capital Assets, Depreciated, Net	<u>4,213,018</u>	<u>(170,463)</u>	<u>-</u>	<u>4,042,553</u>
Total Capital Assets, Net	<u>\$ 6,513,018</u>	<u>\$ (170,463)</u>	<u>\$ -</u>	<u>\$ 6,342,553</u>

Depreciation expense is charged to the Supporting Services Activity.

**NOTE 5: LONG-TERM DEBT**

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

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2016</u>	Due In <u>One Year</u>
2011A Revenue Bonds	<u>\$ 8,085,000</u>	<u>\$ -</u>	<u>\$ 110,000</u>	<u>\$ 7,975,000</u>	<u>\$ 115,000</u>

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 5: LONG-TERM DEBT**(Continued)

**Series 2011A Charter School Revenue Bonds**

In January 2011, the Public Finance Authority issued \$8,260,000 Charter School Revenue Bonds, Series 2011A. Proceeds from the bonds were used to purchase the Academy's building and provide funding for improvements. The Academy is required to make equal lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at rates ranging from 6.25% to 7.375% per year. The bond matures in December, 2040.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 115,000	\$ 575,044	\$ 690,044
2018	125,000	567,856	692,856
2019	130,000	560,044	690,044
2020	140,000	551,919	691,919
2021	150,000	543,169	693,169
2022-2026	910,000	2,610,845	3,465,845
2027-2031	1,280,000	2,273,538	3,463,538
2032-2036	1,825,000	1,639,832	3,464,832
2037-2041	<u>3,300,000</u>	<u>860,295</u>	<u>4,160,295</u>
<b>Totals</b>	<b><u>\$ 7,975,000</u></b>	<b><u>\$ 10,182,542</u></b>	<b><u>\$ 18,012,542</u></b>

**NOTE 6: INTERFUND TRANSFERS**

Interfund transfers at June 30, 2016 were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Building Corporation	General Fund	<b><u>\$ 710,826</u></b>

The General Fund transferred funds the Building Corporation for rent payments on the School building.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: 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. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**General Information about the Pension Plan**

*Plan description.* Eligible employees of the School are provided with pensions through the 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](http://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.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: 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.

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.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN** (Continued)

**General Information about the Pension Plan** (Continued)

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%

<sup>1</sup>Rates 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 Academy were \$67,535 for the year ended June 30, 2016.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN** (Continued)

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

At June 30, 2016, the Academy reported a liability of \$2,898,309 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 Academy proportion of the net pension liability was based on the Academy'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 Academy's proportion was 0.35626%, which was a decrease of 0.01884% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the Academy recognized pension expense of \$453,471. At June 30, 2016, the Academy 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	\$ 130,506	\$ 378
Changes of assumptions or other inputs	N/A	\$ 324,422
Net difference between projected and actual earnings on pension plan investments	\$ 654,021	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	N/A	\$ 61,803
Contributions subsequent to the measurement date	\$ 41,320	N/A
Total	\$ 825,847	\$ 386,603

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN** (Continued)

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

\$41,320 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	
2017	\$ 111,958
2018	\$ 111,958
2019	\$ 112,697
2020	\$ 62,027
2021	(\$716)

*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.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN**(Continued)

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

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

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

The 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.

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:

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN** (Continued)

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>10 Year Expected Geometric Real Rate of Return</b>
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.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN**(Continued)

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

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

Based on the above actuarial cost method and assumptions, the 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.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN** (Continued)

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

*Sensitivity of the Academy'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	\$4,536,890	\$2,898,309	\$1,538,845

*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](http://www.copera.org/investments/pera-financial-reports).

**Other Post-Employment Benefits**

Denver Public Schools Health Care Trust Fund

*Plan Description* – The Academy 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](http://www.copera.org/investments/pera-financial-reports).

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN**(Continued)

**Other Post-Employment Benefits (Continued)**

*Funding Policy* – The Academy 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 \$22,910, \$22,706, and \$21,669 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 UALL 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 \$223,482, \$219,047 and \$229,763, respectively, to the District towards its PCOPs obligation.

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgments**

The Academy 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 Academy may be required to reimburse the grantor government. As of June 30, 2016, significant amounts of grant expenditures have not been audited, but the Academy believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Academy.

HIGHLINE ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8:**     **COMMITMENTS AND CONTINGENCIES** (Continued)

**Tabor Amendment**

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government 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 Academy believes it has complied with the Amendment. As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2016, the reserve of \$132,000 was recorded as a reservation of fund balance in the General Fund.

**NOTE 9:**     **DEFICIT NET POSITION**

The Net Position of the government type activities is in a deficit position of \$1,902,596 due to the School including the Net Pension Liability per GASB No. 68.

**REQUIRED SUPPLEMENTARY INFORMATION**

HIGHLINE ACADEMY CHARTER SCHOOL

GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2016

	2016			VARIANCE Positive (Negative)	2015 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
<b>REVENUES</b>					
Local Sources					
Per Pupil Revenue	\$ 3,681,301	\$ 3,688,523	\$ 3,688,523	\$ -	\$ 3,572,220
Mill Levy Override	381,010	431,282	431,281	(1)	384,429
Tuition and Fees	126,149	138,000	148,078	10,078	149,405
Grants and Donations	-	-	134,287	134,287	114,447
Interest	1,600	1,600	1,664	64	1,501
Other	142,000	234,918	126,356	(108,562)	191,732
State Sources					
Grants and Donations	113,400	184,021	188,143	4,122	157,429
Federal Sources					
Grants and Donations	15,713	29,554	29,554	-	17,425
<b>TOTAL REVENUES</b>	<b>4,461,173</b>	<b>4,707,898</b>	<b>4,747,886</b>	<b>39,988</b>	<b>4,588,588</b>
<b>EXPENDITURES</b>					
Salaries	2,305,885	2,365,201	2,344,015	21,186	2,316,999
Employee Benefits	562,657	502,247	499,775	2,472	499,200
Purchased Services	597,578	642,656	766,223	(123,567)	704,767
Supplies and Materials	171,724	196,101	173,226	22,875	185,293
Property	18,723	57,000	59,391	(2,391)	51,036
Other	75,030	466,086	76,224	389,862	75,308
<b>TOTAL EXPENDITURES</b>	<b>3,731,597</b>	<b>4,229,291</b>	<b>3,918,854</b>	<b>310,437</b>	<b>3,832,603</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>729,576</b>	<b>478,607</b>	<b>829,032</b>	<b>350,425</b>	<b>755,985</b>
<b>OTHER FINANCING USES</b>					
Transfers Out	(779,246)	(848,607)	(710,826)	137,781	(712,570)
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>(779,246)</b>	<b>(848,607)</b>	<b>(710,826)</b>	<b>137,781</b>	<b>(712,570)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(49,670)</b>	<b>(370,000)</b>	<b>118,206</b>	<b>488,206</b>	<b>43,415</b>
FUND BALANCE, Beginning	1,027,721	1,140,160	1,140,160	-	1,096,745
FUND BALANCE, Ending	\$ 978,051	\$ 770,160	\$ 1,258,366	\$ 488,206	\$ 1,140,160

See the accompanying independent auditors' report.

HIGHLINE ACADEMY CHARTER SCHOOL

BUILDING CORPORATION  
 BUDGETARY COMPARISON SCHEDULE  
 Year Ended June 30, 2016

	2016		VARIANCE Positive (Negative)	2015 ACTUAL
	ORIGINAL AND FINAL BUDGET	ACTUAL		
REVENUES				
Local Services				
Interest	\$ 500	\$ 421	\$ (79)	\$ 101
TOTAL REVENUES	500	421	(79)	101
EXPENDITURES				
Debt Service				
Principal	110,000	110,000	-	105,000
Interest	580,000	578,481	1,519	585,194
TOTAL EXPENDITURES	690,000	688,481	1,519	690,194
EXCESS OF EXPENDITURES OVER REVENUES	(689,500)	(688,060)	(1,440)	(690,093)
OTHER FINANCING SOURCES				
Transfers In	710,826	710,826	-	712,570
Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES	710,826	710,826	-	712,570
NET CHANGE IN FUND BALANCE	21,326	22,766	1,440	22,477
FUND BALANCE, Beginning	907,784	907,784	-	885,307
FUND BALANCE, Ending	\$ 929,110	\$ 930,550	\$ 1,440	\$ 907,784

See the accompanying independent auditors' report.

HIGHLINE ACADEMY CHARTER 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	0.3648%	0.3751%	0.3563%
School's proportionate share of the Net Pension Liability	\$ 1,897,445	\$ 2,342,767	\$ 2,898,300
School's covered-employee payroll	\$ 1,988,937	\$ 2,209,168	\$ 2,246,050
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	95.4%	106.0%	129.0%
Plan fiduciary net position as a percentage of the total pension liability	86.3%	83.9%	79.3%

See the accompanying independent auditors' report.

HIGHLINE ACADEMY CHARTER 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	\$ 103,377	\$ 106,593	\$ 67,535
Contributions in relation to the Statutorily required contributions	<u>103,377</u>	<u>106,593</u>	<u>67,535</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,124,442	\$ 2,226,085	\$ 2,246,050
Contributions as a percentage of covered-employee payroll	4.87%	4.79%	3.01%

See the accompanying independent auditors' report.