

HOPE Online Learning Academy Co-Op

**(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)**

Financial Statements and Independent Auditor's Reports

June 30, 2016

HOPE Online Learning Academy Co-Op
(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)
June 30, 2016

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Independent Auditor's Report

Board of Directors
HOPE Online Learning Academy Co-Op
Englewood, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of HOPE Online Learning Academy Co-Op (HOPE) (a component unit of Douglas County School District RE. 1 of Douglas County, Colorado (DCSD)), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise HOPE's basic financial statements 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

Board of Directors
HOPE Online Learning Academy Co-Op

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of HOPE Online Learning Academy Co-Op 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 and budgetary and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise HOPE's basic financial statements. The accompanying supplementary information including budgetary information for the nutrition services fund and the schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Board of Directors
HOPE Online Learning Academy Co-Op

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016, on our consideration of HOPE's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HOPE's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
October 17, 2016



Management's Discussion and Analysis (Unaudited) As of and for the Fiscal Year Ended June 30, 2016

In this Management's Discussion and Analysis (MD&A) section of the Financial Statements for HOPE Online Learning Academy Co-Op (HOPE), a component unit of the Douglas County School District RE. 1, Douglas County, Colorado (DCSD), we provide a narrative overview and analysis of the financial activities for the year ended June 30, 2016. This discussion and analysis is also intended to serve as an introduction to HOPE's basic financial statements. The information presented here should be considered in conjunction with the information presented in the basic financial statements to enhance understanding of HOPE's financial activity and performance.

Financial Highlights

The year ended June 30, 2016 was HOPE's eleventh year of operation as a blended online charter school. Before consideration of the impact of GASB 68, revenue exceeded expenses. However, the effect of GASB 68, *Accounting and Financial Reporting for Pensions*, implemented in the fiscal year ended June 30, 2015, continues to impact the government-wide financial statements of HOPE and all Colorado PERA participants. Specifically, HOPE's government-wide financial statements show a negative change in net position as a result of changes to the net pension liability as well as deferred inflows, deferred outflows, and expenses related to the pension plan. Though the impact is material and creates an overall deficit in the financial presentation, the GASB 68 standard only impacts the accounting presentation of these pension-related items, and the change does not represent an actual funding obligation of HOPE. For further information on GASB 68, see the attached financial statements and Note 5 in the Notes to the Financial Statements.

Overview of the Financial Statements

The basic financial statements are composed of three components:

- Government-wide financial statements
- Fund financial statements
- Notes to financial statements

Government-wide Financial Statements

The government-wide financial statements are designed to provide a long-term and broad overview of HOPE's finances as a whole in a manner similar to a private sector business.

The statement of net position presents the financial position of HOPE as a whole at the end of the fiscal year by presenting information on all of HOPE's assets and liabilities. The difference between assets and liabilities is reported as net position. Over time, increases or decreases in net position serve as a useful indicator of whether HOPE's financial position is improving or deteriorating.



Management's Discussion and Analysis (Unaudited) As of and for the Fiscal Year Ended June 30, 2016

The statement of activities shows how the financial position of HOPE as a whole has changed since the beginning of the fiscal year by presenting information showing how HOPE's net position has changed during the year. In the statement of activities, all changes in net position are reported as soon as the underlying economic event has occurred, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement even though the resulting cash flows may be recorded in a future period.

Fund Financial Statements

A fund is a fiscal and accounting entity with a self-balancing set of accounts used to record cash and other financial resources and related liabilities and residual equities segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. HOPE, like other charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related regulations, requirements, restrictions or limitations.

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 financial (spendable/appropriable) resources, as well as on balances of financial (spendable) resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing and appropriation related requirements.

Because the focus of fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds in fund financial statements with similar information presented for governmental activities in the government-wide financial statements. By doing so, the long-term impact of the government's near-term financing decisions may be better understood. Because there are differences between governmental activities (shown in the statement of net assets and the statement of activities previously discussed) and governmental funds, a reconciliation is provided in the financial statements.

In this annual report, HOPE reports on two governmental funds. Information is presented separately in the governmental fund balance sheets and statements of revenues, expenditures and changes in fund balance for both the General Fund and for the Nutrition Services Fund.

Notes to the Financial Statements

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



**Management’s Discussion and Analysis (Unaudited)
As of and for the Fiscal Year Ended June 30, 2016**

Condensed Statement of Net Assets

The following table provides a condensed presentation of HOPE’s government-wide statement of net position as of June 30, 2016 and 2015, the eleventh and tenth year-end of operations for the organization.

| | <u>2016</u> | <u>2015</u> |
|---------------------------------------|------------------------|------------------------|
| Assets | | |
| Current (noncapital) | \$ 1,919,860 | \$ 2,286,462 |
| Noncurrent (capital) | <u>462,063</u> | <u>956,515</u> |
| Total assets | <u>2,381,923</u> | <u>3,242,977</u> |
| Deferred Outflows of Resources | <u>1,818,849</u> | <u>722,386</u> |
| Liabilities | | |
| Current | 935,897 | 1,719,112 |
| Noncurrent | <u>15,180,416</u> | <u>13,606,733</u> |
| Total liabilities | <u>16,116,313</u> | <u>15,325,845</u> |
| Deferred Inflows of Resources | <u>306,215</u> | <u>103,819</u> |
| Net Position | | |
| Restricted | 517,579 | 607,881 |
| Net investment in capital assets | 462,063 | 635,465 |
| Unrestricted (deficit) | <u>(13,201,398)</u> | <u>(12,707,647)</u> |
| Total net position (deficit) | <u>\$ (12,221,756)</u> | <u>\$ (11,464,301)</u> |

Net position decreased by \$757,000, primarily as a result of GASB 68 pension expense of \$764,000. Prior to adjustments for GASB 68, HOPE’s net position increased by \$7,000. Total assets decreased by \$861,000, including a decrease in cash of \$387,000 due to the timing of the receipt of the year’s final Nutrition Services reimbursement and a decrease in capital assets of \$494,000 largely related to depreciation of hardware and amortization of software. HOPE made minimal additions to capital assets in the current year due to a decrease in student count and software amortization accounted for \$394,000 of this decrease in capital assets.



**Management's Discussion and Analysis (Unaudited)
As of and for the Fiscal Year Ended June 30, 2016**

Excluding the GASB 68 pension liability of \$14,934,000, total liabilities decreased by \$867,000. Accounts payable decreased by \$503,000 related to timing of payments for end of year purchases; software payable decreased by \$321,000 related to the expiration of curriculum license agreements; and lease-related liabilities decreased by \$104,000 due to amortization. These decreases were slightly offset by an increase in accrued expenses of \$51,000.

Condensed Statement of Activities

The following table provides a condensed comparative presentation of HOPE's government-wide statement of activities for the fiscal years ended June 30, 2016 and 2015.

| | <u>2016</u> | <u>2015</u> |
|---|-------------------------------|-------------------------------|
| Revenues | | |
| General Revenues | | |
| School Finance Act | \$ 14,703,007 | \$ 17,544,379 |
| Interest and other revenue | 1,449 | 4,115 |
| Program Revenues | <u>2,704,919</u> | <u>3,331,630</u> |
| Total revenues | <u>17,409,375</u> | <u>20,880,124</u> |
| | | |
| Special Item | <u>-</u> | <u>53,091</u> |
| Total revenues and special item | <u>17,409,375</u> | <u>20,933,215</u> |
| | | |
| Expenses | | |
| Governmental Activities | | |
| Instruction | 14,467,709 | 16,951,398 |
| Supporting services | <u>3,699,121</u> | <u>4,051,861</u> |
| Total expenses | <u>18,166,830</u> | <u>21,003,259</u> |
| | | |
| Change in Net Position | (757,455) | (70,044) |
| | | |
| Net Position (Deficit) - Beginning of Year | <u>(11,464,301)</u> | <u>(11,394,257)</u> |
| | | |
| Net Position (Deficit) - End of Year | <u><u>\$ (12,221,756)</u></u> | <u><u>\$ (11,464,301)</u></u> |



Management's Discussion and Analysis (Unaudited) As of and for the Fiscal Year Ended June 30, 2016

Total revenue decreased by \$3,471,000 in the current year. School Finance Act revenue decreased \$2,841,000, largely due to a decrease in student count in the current year of approximately 400 students related to the non-renewal of a few Learning Center contracts, which reduced the number of sites serving HOPE students. Grant funding, including Title I, decreased by \$447,000. Title I funding decreased by \$133,000 due to a lower reimbursable rate through the increased utilization of part-time Literacy Paraprofessionals. Other grant revenue decreased by \$314,000 as certain grants expired, legislation funding changed and Douglas County School District directly serviced one grant. Other significant revenue changes included a decrease in nutrition services revenue of \$171,000 related to the reduced student count.

Total expenses decreased \$2,836,000 in the current year. Instructional expenses decreased \$2,483,000 primarily as a result of a decreased costs related to the lower student count. General administration and school administration services decreased by \$353,000 related to personnel reductions and other cost management solutions. Nutrition Services expense decreased \$154,000 related to the lower student count.

Financial Analysis of HOPE's Governmental Funds

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

The focus of HOPE's governmental funds is to provide information on the near-term inflows, outflows and balances of spendable resources. Such information is useful in the assessment of HOPE's financing and fundraising requirements. In particular, the unassigned fund balance may serve as a useful measure of a government entity's net resources available for spending at the end of the fiscal year.

HOPE's governmental funds reported a combined ending fund balance of \$1,123,000 for the year ended June 30, 2016. After consideration for statutory reserves, the unassigned general fund balance for HOPE at the end of this fiscal year was \$146,000.

HOPE's General Fund reported an ending fund balance of \$818,000 for the year ended June 30, 2016. The General Fund is the chief operating fund of HOPE. General Fund revenue totaled \$16,583,000 for the year ended June 30, 2016. Actual expenditures of the General Fund for the fiscal year amounted to \$16,345,000.



Management's Discussion and Analysis (Unaudited) As of and for the Fiscal Year Ended June 30, 2016

HOPE's Nutrition Services Fund reported an ending fund balance of \$305,000 for the year ended June 30, 2016. Nutrition Services Fund revenue totaled \$827,000 for the year ended June 30, 2016, and expenses for the fiscal year amounted to \$989,000.

HOPE expects that Nutrition Services expenses will continue to exceed revenue as HOPE is committed to the universal free model to support our students.

Capital Assets and Long-term Debt

HOPE has computer equipment, software, leasehold improvements, curriculum licenses, and vehicles with a carrying value of \$462,000 and \$957,000, net of accumulated depreciation of \$3,470,000 and \$3,285,000, at June 30, 2016 and 2015, respectively.

Economic Factors and Next Year's Budget and Rates

For the 2016/2017 fiscal year, HOPE will be receiving \$6,794.83 per pupil (FTE basis), which is an increase of approximately 1.6% over the 2015/2016 final funding of \$6,690.32 per pupil.

HOPE's budget for the 2016/2017 fiscal year anticipates total General Fund revenue of approximately \$20 million.

Enrollment for the 2016/2017 fiscal year was budgeted to be 2,500 full-time students. HOPE's current estimated enrollment is approximately 2,400 full-time students, compared to 2,135 in 2015/2016.

Requests for Information

This financial report is designed to provide a general overview of HOPE's finances for all those with interest in HOPE. Questions concerning any of the information provided in this report or requests for additional information shall be addressed to Heather O'Mara, CEO, HOPE Online Learning Academy Co-Op, 373 Inverness Parkway, Suite 205, Englewood, CO 80112.

HOPE Online Learning Academy Co-Op
(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)
Statement of Net Position
June 30, 2016

| | Governmental Activities |
|---|------------------------------------|
| Assets | |
| Current assets | |
| Cash | \$ 1,432,719 |
| Accounts receivable | 332,460 |
| Refundable deposits | 86,221 |
| Prepaid expenses and other assets | 68,460 |
| Total current assets | 1,919,860 |
| Noncurrent assets | |
| Capital assets, net of accumulated depreciation | 462,063 |
| Total assets | 2,381,923 |
| Deferred Outflows of Resources | 1,818,849 |
| Liabilities | |
| Current liabilities | |
| Accounts payable | 687,378 |
| Accrued lease liability | 134,614 |
| Accrued expenses | 71,505 |
| Unearned revenue | 10,505 |
| Reserve for pupil count audit | 27,890 |
| Noncurrent liabilities, due within one year | |
| Capital lease liability | 4,005 |
| Total current liabilities | 935,897 |
| Noncurrent liabilities, due in more than one year | |
| Unamortized straight-line rent | 246,609 |
| Net pension liability | 14,933,807 |
| Total noncurrent liabilities | 15,180,416 |
| Total liabilities | 16,116,313 |
| Deferred Inflows of Resources | 306,215 |
| Net Position | |
| Restricted for TABOR | 517,579 |
| Net investment in capital assets | 462,063 |
| Unrestricted (deficit) | (13,201,398) |
| Total net position (deficit) | \$ (12,221,756) |

HOPE Online Learning Academy Co-Op
(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)
Statement of Activities
Year Ended June 30, 2016

| | | Program Revenues | Net (Expenses) Revenue and Changes in Net Position |
|---|----------------------|---|---|
| | | Operating Grants and Contributions | Governmental Activities |
| | Expenses | | |
| Functions/Programs | | | |
| Primary government: | | | |
| Governmental activities | | | |
| Instruction | \$ 14,467,709 | \$ 1,878,218 | \$ (12,589,491) |
| Supporting services | | | |
| Administration | 2,700,966 | - | (2,700,966) |
| Nutrition services | 998,155 | 826,701 | (171,454) |
| | <u>\$ 18,166,830</u> | <u>\$ 2,704,919</u> | <u>(15,461,911)</u> |
| Total governmental activities | | | |
| General revenues | | | |
| School Finance Act, unrestricted | | | 14,703,007 |
| Interest and other revenue | | | 1,449 |
| | | | <u>14,704,456</u> |
| Total general revenues | | | |
| | | | (757,455) |
| Change in Net Position | | | <u>(757,455)</u> |
| Net Position (Deficit) - Beginning of Year | | | <u>(11,464,301)</u> |
| Net Position (Deficit) - End of Year | | | <u>\$ (12,221,756)</u> |

HOPE Online Learning Academy Co-Op
(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)

Balance Sheet – Governmental Funds

June 30, 2016

| | General Fund | Nutrition Services | Total |
|--|---------------------|---------------------------|-----------------|
| Assets | | | |
| Cash | \$ 1,212,048 | \$ 220,671 | \$ 1,432,719 |
| Accounts receivable | 244,982 | 87,478 | 332,460 |
| Refundable deposits | 86,221 | - | 86,221 |
| Prepaid expenses and other assets | 68,460 | - | 68,460 |
| Total assets | \$ 1,611,711 | \$ 308,149 | \$ 1,919,860 |
| Liabilities | | | |
| Accounts payable | \$ 733,948 | \$ 3,430 | \$ 737,378 |
| Accrued expenses | 21,505 | - | 21,505 |
| Unearned revenue | 10,505 | - | 10,505 |
| Reserve for pupil count audit | 27,890 | - | 27,890 |
| Total liabilities | 793,848 | 3,430 | 797,278 |
| Fund Balances | | | |
| Nonspendable | | | |
| Refundable deposits | 86,221 | - | 86,221 |
| Prepaid expenses and other assets | 68,460 | - | 68,460 |
| Restricted | | | |
| TABOR | 517,579 | - | 517,579 |
| Assigned | | | |
| | - | 304,719 | 304,719 |
| Unassigned | | | |
| | 145,603 | - | 145,603 |
| Total fund balances | 817,863 | 304,719 | 1,122,582 |
| Total liabilities and fund balances | \$ 1,611,711 | \$ 308,149 | \$ 1,919,860 |
| Reconciliation | | | |
| Net position (deficit) per statement of net position | | | \$ (12,221,756) |
| Less capital assets, net | | | (462,063) |
| Less deferred outflow of resources | | | (1,818,849) |
| Add accrued lease liability | | | 134,614 |
| Add capital lease liability | | | 4,005 |
| Add net pension liability | | | 14,933,807 |
| Add deferred inflows of resources | | | 306,215 |
| Add unamortized straight-line rent | | | 246,609 |
| Total fund balance | | | \$ 1,122,582 |

HOPE Online Learning Academy Co-Op

(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)

Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds

Year Ended June 30, 2016

| | General Fund | Nutrition Services | Total |
|--|-------------------|-----------------------|---------------------|
| Revenue | | | |
| Intergovernmental | \$ 14,703,007 | \$ - | \$ 14,703,007 |
| Contributions | 5,704 | - | 5,704 |
| Title I funding | 1,152,463 | - | 1,152,463 |
| Other grant revenue | 720,051 | - | 720,051 |
| National School Lunch Program | - | 826,701 | 826,701 |
| Interest and other revenue | 1,449 | - | 1,449 |
| | <u>16,582,674</u> | <u>826,701</u> | <u>17,409,375</u> |
| Total revenue | | | |
| Expenditures | | | |
| Instruction | | | |
| Regular instruction | 10,897,714 | - | 10,897,714 |
| Special education instruction | 1,304,559 | - | 1,304,559 |
| Title I expenditures | 1,151,085 | - | 1,151,085 |
| Other grant expenditures | 329,238 | - | 329,238 |
| Supporting services | | | |
| General administration | 964,904 | - | 964,904 |
| School administration services | 1,521,319 | - | 1,521,319 |
| Capital outlay | 176,641 | - | 176,641 |
| Nutrition Services | - | 988,961 | 988,961 |
| | <u>16,345,460</u> | <u>988,961</u> | <u>17,334,421</u> |
| Total expenditures | | | |
| Revenues over Expenditures | <u>237,214</u> | <u>(162,260)</u> | <u>74,954</u> |
| Other Financing Sources and Uses | | | |
| Transfer | (385,284) | 385,284 | - |
| | <u>(385,284)</u> | <u>385,284</u> | <u>-</u> |
| Net Change in Fund Balance | (148,070) | 223,024 | 74,954 |
| Fund Balance, Beginning of Year | 965,933 | 81,695 | 1,047,628 |
| | <u>965,933</u> | <u>81,695</u> | <u>1,047,628</u> |
| Fund Balance, End of Year | <u>\$ 817,863</u> | <u>\$ 304,719</u> | <u>\$ 1,122,582</u> |
| Reconciliation to Statement of Activities | | | |
| Change in net position | | | \$ (757,455) |
| Capitalization of assets | | | (176,641) |
| Depreciation of capital assets | | | 669,831 |
| Loss on disposal of capital assets | | | 1,262 |
| Change in software liability | | | (321,050) |
| Change in capital lease liability | | | (7,716) |
| Pension expense GASB 68 | | | 763,602 |
| Change in lease liabilities | | | (96,879) |
| | | | <u>(757,455)</u> |
| Change in fund balance | | | <u>\$ 74,954</u> |

HOPE Online Learning Academy Co-Op
(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)
Notes to Financial Statements
June 30, 2016

Note 1: Summary of Significant Accounting Policies

The accounting policies of HOPE Online Learning Academy Co-Op (HOPE) conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

The following is a summary of the more significant accounting policies:

Reporting Entity

HOPE Online Learning Academy Co-Op was organized as a Colorado nonprofit corporation on October 25, 2004, for the purpose of entering into a charter school contract with a Colorado school district and contracting with numerous Learning Centers. Learning Centers provide students access to HOPE's blended online curriculum. As of June 30, 2016, HOPE had contracted with 28 Learning Center Organizations that operate 31 Learning Center sites. These financial statements reflect the operations of HOPE. HOPE is a component unit of the Douglas County School District RE. 1 of Douglas County, Colorado (DCSD). 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, DCSD has approved the charter of HOPE for a five-year period ending June 30, 2018.

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

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

HOPE Online Learning Academy Co-Op
(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)
Notes to Financial Statements
June 30, 2016

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 HOPE's financial activities. Governmental activities are normally supported by taxes and intergovernmental revenue. Business-type activities rely, to a significant extent, on fees and charges for support. HOPE has no business-type activities. 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.

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 as 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.

Program revenues are those that are derived directly from the program itself. Program revenues include program-specific operating grants and contributions, which include revenues arising from mandatory and voluntary non-exchange transactions with other governments, private organizations or individuals where monies are required by the grantor/contributor to be used for a particular program or activity. General revenues include state per-pupil funding under the School Finance Act reported as state categorical revenue, interest and other revenue.

Fund Accounting

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

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The major fund presented in the accompanying basic financial statements is the General Fund. The General Fund is used to account for HOPE's general operational governmental activities.

Budget

An annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America, including accrued salaries and benefits. For financial reporting purposes, salaries and benefits earned but unpaid at year-end are reflected as a liability. The schedule of revenues, expenditures and changes in fund balance—budget and actual—general fund is presented as required supplementary information.

HOPE prepares the annual budget and presents it to its board and to the Board of Education of DCSD for approval.

Expenditures/Expenses in Excess of Appropriation

For the year ended June 30, 2015, the Nutrition Services Fund expenditures exceeded the amounts budgeted by \$10,872, which may be a violation of Colorado budget law. This over-expenditure is due to more students being fed during the school year than originally budgeted, both in actual revenues and actual expenditures.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Balance/Net Position

Cash

Cash is held in a checking account. The balance in the cash account is available to meet current operating needs.

Accounts Receivable

Accounts receivable consist of various amounts owed to HOPE. A large portion of these receivables are related to reimbursements requested for federal grant awards that have not yet been received. As the amounts are generally received within one month, HOPE does not record any allowance for doubtful accounts related to these items.

Capital Assets

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

Software licenses are utilized for instructional and general and administrative purposes and are recognized under Governmental Accounting Standards Board No. 51, *Accounting and Reporting for Intangible Assets*. These multiple-year licenses meet the description of an intangible asset. A long-term liability representing HOPE's obligation to make annual payments over the life of the license is also recognized in the government-wide financial statements.

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The monetary threshold for capitalization of assets is \$5,000. All computer equipment (computers, monitors, printers) will be capitalized as these items represent an integral part of HOPE's operations. HOPE's capital assets are depreciated using the straight-line method over the estimated useful lives of the assets.

Prepaid Expenses and Other Assets

Under the modified accrual basis of accounting, a government may recognize the entire amount of prepayments as an expenditure of the period that payment is made (purchase method) or proportionately over the periods that service is provided (consumption method). HOPE uses the purchase method to account for computer warranties and the consumption method to account for other prepaids.

Accrued Salaries and Benefits/Compensated Absences

These amounts represent salaries and benefits earned by HOPE employees, but unpaid at year-end, as well as amounts accrued for unpaid vacation. HOPE policy allows eligible employees to carry forward a maximum of five days of paid time off (PTO) to be used in the following year. Upon resignation, departing employees will be paid an amount based on their salary per day for any unused PTO days.

Accrued Lease Liability and Unamortized Straight-line Rent

Unamortized straight-line rent is recorded for the lease incentive over the life of the lease. The accrued lease liability is also recorded for leases that contain escalating rental payments so that the reimbursement is recognized on a straight-line basis over the life of the lease.

Deferred Inflows and Outflows of Resources

A deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period. Deferred inflows and outflows of resources include items related to the PERA pension plan and is included in the government-wide statements but not in the fund statements.

Net Position and Fund Balances

Restrictions of net position and fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. To comply with Article X, Section 20 of the Colorado Constitution (TABOR Amendment), HOPE is required to report an annual emergency reserve equal to 3% of the General Fund's applicable expenditures. Assigned fund balance is reported when the board, or other authorizing body of official, intends to use the funds for a specific purpose.

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Revenue and Expenditures

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Note 2: Cash

Investment Policy and Compliance

The financial institution holding HOPE's cash accounts is participating in the FDIC's Transaction Account Guarantee Program. Interest-bearing transaction accounts were subject to the \$250,000 limit on FDIC insurance per covered institution.

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

Under the provisions of GASB 40, *Deposit and Investment Risk Disclosures*, deposits are not deemed exposed to custodial credit risk if they are collateralized with securities held by the pledging financial institutions under Colorado Public Deposit Protection Act (PDPA), as discussed below. Custodial credit risk is the risk that in the event of bank failure, HOPE's deposits may not be returned.

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

| Description | Carrying Amount | Bank Balance | Amount Covered by PDPA |
|----------------|---------------------|---------------------|------------------------|
| Cash | \$ 1,432,719 | \$ 1,439,683 | \$ 1,189,683 |
| Total deposits | <u>\$ 1,432,719</u> | <u>\$ 1,439,683</u> | <u>\$ 1,189,683</u> |

Note 3: Capital Assets

As of June 30, 2016, capital assets consisted of the following:

| | Balance at July 1, 2015 | Additions | Disposals | Balance at June 30, 2016 |
|--|----------------------------|---------------------|-------------------|--------------------------------|
| Governmental activities | | | | |
| Computer hardware | \$ 2,019,630 | \$ 176,641 | \$ (275,886) | \$ 1,920,385 |
| Software | 127,884 | - | - | 127,884 |
| Curriculum license | 1,391,400 | - | (210,000) | 1,181,400 |
| Vehicles | 25,492 | - | - | 25,492 |
| Leasehold improvements | 676,836 | - | - | 676,836 |
| Accumulated depreciation and amortization | <u>(3,284,727)</u> | <u>(669,831)</u> | <u>484,624</u> | <u>(3,469,934)</u> |
| Total capital assets, net | <u>\$ 956,515</u> | <u>\$ (493,190)</u> | <u>\$ (1,262)</u> | <u>\$ 462,063</u> |

Depreciation expense was charged to the instructional and general administration costs as follows:

| | |
|------------------------|-------------------|
| Instruction | \$ 573,545 |
| General administration | <u>96,286</u> |
| | <u>\$ 669,831</u> |

HOPE entered into agreements with software providers in which HOPE received a certain number of curriculum licenses with an original value of \$1,181,400. As of June 30, 2016, the curriculum license balance was \$0, net of accumulated amortization.

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Note 4: Leases

HOPE leases office space and office equipment under noncancelable operating lease agreements. The leases expire on various dates through September 2019. Rent expense for these leases for the year ended June 30, 2016, was \$463,765.

Under the operating lease expiring in 2019, HOPE was granted a three-month abated rent period. Additionally, HOPE also received a tenant improvement allowance. The abated rent and tenant improvement allowance were applied to the annual expense, which escalates over the life of the lease. As such, the expense is recognized over the life of the lease.

Minimum annual rental payments required under the operating leases that have remaining terms in excess of one year as of June 30, 2016 are as follows:

| | | |
|-------|----|----------------------------|
| 2017 | \$ | 512,992 |
| 2018 | | 446,304 |
| 2019 | | 457,706 |
| 2020 | | <u>44,516</u> |
| Total | | <u><u>\$ 1,461,518</u></u> |

Note 5: Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pensions

HOPE participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of HOPE have been determined using the same basis as they are reported by the SCHDTF, which uses 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.

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General Information about the Pension Plan

Plan Description

Eligible employees of HOPE are provided with pensions through the SCHDTF. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado state law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided

PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

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

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

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

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit.
- \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

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

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

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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 two percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of two 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 two percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA’s Annual Increase Reserve (AIR) for the SCHDTF.

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

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

Contributions

Eligible employees and HOPE are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, et seq. Eligible employees are required to contribute eight 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 ¹ | 10.15% | 10.15% |
| Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹ | (1.02)% | (1.02)% |
| Amount Apportioned to the SCHDTF ¹ | 9.13% | 9.13% |
| Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹ | 4.20% | 4.50% |
| Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹ | 4.00% | 4.50% |
| Total Employer Contribution Rate to the SCHDTF ¹ | 17.33% | 18.13% |

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

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Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and HOPE is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from HOPE were \$695,385 for the year ended June 30, 2016.

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

At June 30, 2016, HOPE reported a liability of \$14,933,807 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. HOPE's proportion of the net pension liability was based on HOPE's contributions to SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to SCHDTF.

At December 31, 2015, HOPE's proportion was 0.09764 percent, which was a decrease of 0.00031 from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, HOPE recognized pension expense of \$1,458,987. At June 30, 2016, HOPE reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Difference between expected and actual experience | \$ 197,205 | \$ 622 |
| Changes of assumptions or other inputs | - | 211,043 |
| Net difference between projected and actual earnings on pension plan investments | 1,269,811 | - |
| Changes in proportion | - | 94,550 |
| Contributions subsequent to the measurement date | 351,833 | - |
| Total | <u>\$ 1,818,849</u> | <u>\$ 306,215</u> |

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\$351,833 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 ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending June 30 | |
|----------------------------|--------------|
| 2017 | \$ 281,491 |
| 2018 | 293,025 |
| 2019 | 325,894 |
| 2020 | 260,391 |
| | \$ 1,160,801 |

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 January 1, 2007; and DPS Benefit Structure (automatic) | 2.00 percent |
| PERA Benefit Structure hired after December 31, 2006 (ad hoc, substantively automatic) | Financed by the Annual Increase Reserve |

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

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

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

As of the November 15, 2014 adoption of the long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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

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

Discount Rate

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

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.90%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (*i.e.*, the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (*i.e.*, the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

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Based on the above actuarial cost method and assumptions, the SCHDTF’s fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

Sensitivity of HOPE’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 one-percentage-point lower (6.50 percent) or one-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 | \$ 19,358,831 | \$ 14,933,807 | \$ 11,253,369 |

Pension Plan Fiduciary Net Position

Detailed information about the SCHDTF’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.

Note 6: Defined Contribution Pension Plan

In May 2011, HOPE established a defined contribution pension plan under the provisions of the Internal Revenue Service Code Subsection 403(b). Management annually determines the amount, if any, of HOPE’s contributions to the plan during the budgeting process. Each year, the budget is approved by the Board of Directors. No employer contributions were made to this plan for the years ended June 30, 2016 and 2015.

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Note 7: Postemployment Health Care Benefits

Plan Description

HOPE contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy

HOPE 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 HOPE are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ended 2016, 2015 and 2014, HOPE's contributions to the HCTF were \$39,900, \$44,764 and \$40,767, respectively, equal to their required contributions for each year.

Note 8: Related-party Transactions

Douglas County School District

School Finance Act revenue reported in the statement of activities represents HOPE's portion of total state equalization funding. HOPE also pays DCSD for purchased services utilized during the year, including special education expenses, other administrative services, assessment services, emergency management, student information system, and treasury fees. The amount paid to DCSD for the year ended June 30, 2016 was \$1,420,433.

Note 9: Risk Management

HOPE is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; injuries to employees; and natural disasters. HOPE carries commercial insurance for risks of loss, including liability, property, errors and omissions, and workers' compensation. Settled claims resulting from these risks have not exceeded HOPE's insurance coverage for fiscal years 2016, 2015 and 2014.

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Note 10: Contingent Liabilities

TABOR

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

Claims

HOPE is subject to other claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net position and cash flows of HOPE. Events could occur that would change this estimate materially in the near term.

Note 11: Due to Colorado Department of Education

The Colorado Department of Education (CDE) completes regular audits of DCSD's pupil counts. A final audit report was received in the current year, related to the school years 2012/2013 and 2013/2014, which indicated that 2.5 students in 2012/2013 were reported as audit exceptions due to lack of documentation; the audit year of 2013/2014 had zero (0) audit exceptions. Although CDE has not commenced the pupil count audits for school years of 2014/2015 and 2015/2016, management has recorded a payable for count adjustment in the amount of \$27,890. This includes a reserve of one (1) FTE pupil count per open audit year.

Required Supplementary Information

HOPE Online Learning Academy Co-Op
(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)

Schedule of HOPE's Proportionate Share of the Net Pension Liability
Years Ended December 31, 2015 and 2014

| | December 31, | |
|--|---------------------|---------------|
| | 2015 | 2014 |
| HOPE's proportion of the net pension liability | 0.10% | 0.10% |
| HOPE's proportionate share of the net pension liability | \$ 14,933,807 | \$ 13,276,138 |
| HOPE's covered-employee payroll | \$ 4,255,315 | \$ 4,104,363 |
| HOPE's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 350.94% | 302.51% |
| Plan fiduciary net position as a percentage of the total pension liability | 59.20% | 62.84% |

Note: Information is not available prior to 2014. In future reports, additional years will be added until 10 years of historical data are presented.

HOPE Online Learning Academy Co-Op
(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)
Schedule of HOPE's Employer Contributions
Years Ended June 30, 2016 and 2015

| | June 30, | |
|--|---------------------|---------------------|
| | 2016 | 2015 |
| Contractually required contribution | \$ 695,385 | \$ 741,513 |
| Contributions in relation to the contractually required contribution | <u>695,385</u> | <u>741,513</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| HOPE's covered-employee payroll | <u>\$ 3,744,567</u> | <u>\$ 4,388,659</u> |
| Contributions as a percentage of covered-employee payroll | 18.57% | 16.90% |

Note: Information is not available prior to 2015. In future reports, additional years will be added until 10 years of historical data are presented.

HOPE Online Learning Academy Co-Op

(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund

Year Ended June 30, 2016

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---------------------------------|--------------------|---------------------|---------------------|----------------------------------|
| Revenue | | | | |
| School Finance Act | \$ 19,288,018 | \$ 14,715,734 | \$ 14,703,007 | \$ (12,727) |
| Contributions | 11,200 | 2,250 | 5,704 | 3,454 |
| Other grant funding | 969,213 | 756,452 | 720,051 | (36,401) |
| Title I funding | 1,151,162 | 1,327,291 | 1,152,463 | (174,828) |
| Interest and other | 700 | 700 | 1,449 | 749 |
| | <u>21,420,293</u> | <u>16,802,427</u> | <u>16,582,674</u> | <u>(219,753)</u> |
| Total revenue | | | | |
| Expenditures | | | | |
| Instruction | | | | |
| Regular | 15,151,795 | 11,312,921 | 10,897,714 | 415,207 |
| Title I expenses | 1,151,162 | 1,327,291 | 1,151,085 | 176,206 |
| Special education | 1,402,469 | 1,394,154 | 1,304,559 | 89,595 |
| Other grant expenditures | 619,213 | 396,452 | 329,238 | 67,214 |
| Support services | | | | - |
| General administrative | 1,016,547 | 805,713 | 964,904 | (159,191) |
| School administration services | 1,805,838 | 1,548,545 | 1,521,319 | 27,226 |
| Purchase of equipment | 87,935 | 87,935 | 176,641 | (88,706) |
| Transfers to nutrition services | - | 94,429 | 385,284 | (290,855) |
| | <u>21,234,959</u> | <u>16,967,440</u> | <u>16,730,744</u> | <u>236,696</u> |
| Total expenditures | | | | |
| Changes in Fund Balance | <u>\$ 185,334</u> | <u>\$ (165,013)</u> | <u>\$ (148,070)</u> | <u>\$ 16,943</u> |

Supplementary Information

HOPE Online Learning Academy Co-Op
(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)

**Schedule of Revenues, Expenditures and Changes in Fund Balance –
Budget and Actual – Nutrition Services Fund**
Year Ended June 30, 2016

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|--------------------------------------|----------------------------|------------------------|--------------------------|---|
| Revenue | | | | |
| National School Lunch Program | \$ 856,124 | \$ 817,659 | \$ 766,540 | \$ (51,119) |
| State School Lunch Program | 4,500 | 15,000 | 18,114 | 3,114 |
| USDA foods | 50,000 | 50,000 | 42,047 | (7,953) |
| Transfers in from general fund | - | 95,260 | 385,284 | 290,024 |
| | <u>910,624</u> | <u>977,919</u> | <u>1,211,985</u> | <u>234,066</u> |
| Total revenue | | | | |
| Expenditures | | | | |
| Food cost | 936,728 | 853,640 | 880,525 | (26,885) |
| USDA food used | 50,000 | 50,000 | 42,047 | 7,953 |
| Nutrition Services - salaries | 61,360 | 47,778 | 46,510 | 1,268 |
| Nutrition Services - travel | 1,500 | 1,500 | 1,663 | (163) |
| Nutrition Services - fringe benefits | 17,631 | 14,491 | 14,322 | 169 |
| Nutrition Services - equipment | 1,000 | - | 60 | (60) |
| Nutrition Services - other | 13,000 | 10,680 | 3,834 | 6,846 |
| | <u>1,081,219</u> | <u>978,089</u> | <u>988,961</u> | <u>(10,872)</u> |
| Total expenditures | | | | |
| Changes in Fund Balance | <u><u>\$ (170,595)</u></u> | <u><u>\$ (170)</u></u> | <u><u>\$ 223,024</u></u> | <u><u>\$ 223,194</u></u> |

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based
on an Audit of the Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Directors
HOPE Online Learning Academy Co-Op
Englewood, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund and the aggregate remaining fund information of HOPE Online Learning Academy Co-Op (HOPE) (a component unit of Douglas County School District RE. 1 of Douglas County, Colorado (DSCD)), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise HOPE's basic financial statements, and have issued our report thereon dated October 17, 2016.

Internal Control Over Financial Reporting

Management of HOPE is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered HOPE's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HOPE's internal control. Accordingly, we do not express an opinion on the effectiveness of HOPE's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of HOPE's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
HOPE Online Learning Academy Co-Op

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HOPE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of HOPE's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HOPE's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
October 17, 2016

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Board of Directors
HOPE Online Learning Academy Co-Op
Englewood, Colorado

Report on Compliance for Each Major Federal Program

We have audited the compliance of HOPE Online Learning Academy Co-Op (HOPE) (a component unit of Douglas County School District RE. 1 of Douglas County, Colorado (DCSD)) with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of HOPE's major federal program for the year ended June 30, 2016. HOPE's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of HOPE's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hope's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of HOPE's compliance.

Board of Directors
HOPE Online Learning Academy Co-Op

Opinion on Each Major Federal Program

In our opinion, HOPE complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of HOPE Online Learning Academy Co-Op is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered HOPE's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the HOPE's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
October 17, 2016

HOPE Online Learning Academy Co-Op
(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

| Federal Grantor / Pass-Through Grantor / Cluster Title / Program Name | Federal CFDA Number | Pass-through Entity Identifying Number | Passed Through to Subrecipients | Amount Expended |
|---|---------------------------|--|------------------------------------|--------------------|
| U.S. Department of Agriculture | | | | |
| Colorado Department of Education | | | | |
| Child Nutrition Cluster | | | | |
| School Breakfast Program | 10.553 | N/A | \$ - | \$ 249,648 |
| National School Lunch Program | 10.555 | N/A | - | 516,892 |
| Total | | | <u>\$ -</u> | <u>\$ 766,540</u> |

Notes to Schedule

1. This schedule includes the federal awards activity of HOPE Online Learning Academy Co-Op (HOPE), a component unit of Douglas County School District RE. 1 of Douglas County, Colorado, and is presented on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.
2. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
3. HOPE has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

HOPE Online Learning Academy Co-Op
(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.

9. Auditee qualified as a low-risk auditee?

Yes

No

HOPE Online Learning Academy Co-Op
(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)
Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2016

Federal Award Findings and Questioned Costs

| Reference Number | Finding |
|-----------------------------|----------------------------|
| | No matters are reportable. |

HOPE Online Learning Academy Co-Op
(A Component Unit of Douglas County School District RE. 1
Douglas County, Colorado)
Summary of Schedule of Prior Audit Findings
Year Ended June 30, 2016

| Reference Number | Summary of Finding | Status |
|-----------------------------|---------------------------|---------------|
|-----------------------------|---------------------------|---------------|

No matters are reportable.