

**PARKER CORE KNOWLEDGE, INC.**  
**Parker, Colorado**

**FINANCIAL STATEMENTS**

**June 30, 2016**



**RECEIVED**

*By Justin L. Smith at 11:07 am, Dec 07, 2016*

## TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	
Management's Discussion and Analysis	i - vii
<b>Basic Financial Statements</b>	
Statement of Net Position	1
Statement of Activities	2
Balance Sheet - Governmental Fund	3
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund	4
Statement of Net Position - Proprietary Fund	5
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund	6
Statement of Cash Flows - Proprietary Fund	7
Notes to Financial Statements	8 - 19
<b>Required Supplementary Information</b>	
Schedule of Proportionate Share of the Net Pension Liability and Contributions	20
Budgetary Comparison Schedule - General Fund	21
Notes to Required Supplementary Information	22



Operating Council  
Parker Core Knowledge, Inc.  
Parker, Colorado

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Parker Core Knowledge, Inc., component unit of Douglas County 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 Parker Core Knowledge, Inc., as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Parker Core Knowledge, Inc., as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters (Required Supplementary Information)**

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

*Snodgrass & Company, LLC*

October 31, 2016

# **Parker Core Knowledge, Inc.**

Management's Discussion and Analysis  
Fiscal Year Ending June 30, 2016

The Management's Discussion and Analysis of Parker Core Knowledge's financial performance provides narrative overview and analysis of the financial activities of Parker Core Knowledge for the fiscal year ended June 30, 2016. Readers of this narrative are encouraged to review the Financial Statements and Notes to Financial Statements to better understand the School's financial performance.

## **Financial Highlights**

The year ending June 30, 2016 is the twenty-second year of operations for Parker Core Knowledge. The General Fund balance increased \$185,283 during the year, from \$1,715,242 to \$1,900,525

Historically, the operations of Parker Core Knowledge have been funded almost exclusively by tax revenue received under the State School Finance Act. Under the Act, the school is paid a per pupil revenue (PPR) for each child enrolled in the school on October 1<sup>st</sup> of each year. The downturn in the economy, and subsequent loss of state revenues by the State of Colorado, had an adverse effect on the PPR funding from the State for the past several years. In the 2009-10 school year, the PPR was \$6,813. During this decline, PPR from the state dropped each of the following two years, for a total decline of close to 10%. A recovery began in 2012-2013 and in 2015-2016 PPR levels exceeded the amount allocated in the 2009-2010 school year.

The expansion project that began in 2011-2012, which added one additional classroom of 24 students in grades K-8 was completed in 2015-2016 and has contributed to the school success in weathering declining PPR revenue. The school continues to operate the preschool program; 2015-2016 was the program's fifth year. The program has been successful and enrollments and income have increased each year.

## **Overview of Financial Statements**

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

### *1) Government-wide Financial Statements*

The government-wide financial statements report information on all activities of the school and the CKCS Building Corporation. They are designed to provide readers with a broad overview of Parker Core Knowledge's finances, in a manner similar to a private-sector business.

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

The Statement of Activities (Revenues and Expenses) presents information showing how Parker Core Knowledge's net position changed during the year. All changes in net position are reported as soon as the underlying event, giving rise to the change occurred, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in the statement for some items that will affect cash flows in future periods.

## *2) 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. Parker Core Knowledge keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. The General Fund of Parker Core Knowledge is a governmental fund; the CKCS Building Corporation is a proprietary or enterprise fund.

Governmental Funds. Governmental funds are used to account for 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 resources, as well as on balances of resources available at the end of the fiscal year. Such information may be useful in evaluating Parker Core Knowledge's near-term financing requirements.

Parker Core Knowledge maintains two individual governmental funds, the General Fund and the Activity Fund. The Activity Fund is used to record school sponsored pupil organizations and activities. These activities are self-supporting and do not receive any direct support from the general funds. However, the activity in this Fund is minimal compared to the Operating Fund so, the Operating Fund and Activity funds have been combined in the accompanying financial statements.

Proprietary Fund. The CKCS Building Corporation is considered a component unit of the Parker Core Knowledge and has one fund, the proprietary fund. Its activity is related to the assets purchased with tax-exempt financing. It is represented in the financial statements with statements of net position, revenues, expenses and changes in net position, and cash flows.

## *3) Notes to the financial statements*

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

#### 4) *Supplementary Information*

Parker Core Knowledge adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget.

### **Government-wide Financial Analysis**

As noted previously, net position may serve over time as a useful indicator of Parker Core Knowledge's financial position. For the year ended June 30, 2016, Parker Core Knowledge's net position is a negative (\$6,201,212). The negative balance is due primarily to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$9,698,202, representing the Parker Core Knowledge's proportionate share of PERA's net pension liability. This is an increase of the proportionate share of \$1,413,668 over the prior year.

### Core Knowledge Charter School's Combined Net Position For the Year Ended June 30, 2016 and June 30, 2015

	Governmental and Business-Type Activities 2015-2016	Governmental and Business-Type Activities 2014-2015
<u>Assets</u>		
Cash and Investments	\$2,233,884	\$1,978,581
Restricted Cash	\$1,592,748	716,802
Accounts Receivable	49	8,815
Other Receivables	2,000,000	0
Prepaid Expenses	0	20,410
Deposits	5,784	15,032
Capital Assets, Not being Depreciated	235,020	235,020
Capital Assets, Net of Depreciation	<u>4,911,906</u>	<u>5,071,264</u>
Total Assets	\$10,979,391	\$8,045,924
<u>Deferred Outflows of Resources</u>		
Pensions, Net of Accumulated Amortization	1,728,769	805,142
Loss on Debt Refunding, Net of Accumulated Amortization	<u>895,891</u>	<u>496,116</u>
Total Deferred Outflows of Services	2,624,660	1,301,258
<u>Liabilities</u>		
Accounts Payable	40,640	98,557
Accrued Liabilities	152,078	107,304
Unearned Revenues	44,740	
Accrued Interest Payable	23,660	56,973

Non-current Liabilities		
Due within One Year	166,297	121,000
Due in More Than One Year	9,542,203	6,284,012
Net Pension Liability	<u>9,698,202</u>	<u>8,284,534</u>
Total Liabilities	\$19,667,820	\$14,952,380
<u>Deferred Inflows of Resources</u>		
Pensions, Net of Accumulated Amortization	137,443	619
<u>Net Position</u>		
Invested in Capital Assets, net of related debt	(470,685)	(578,044)
Restricted for Debt Service	236,802	544,829
Restricted for Building Repair	117,196	115,000
Restricted for Debt Issuance Costs	123,592	
Restricted for Full-Day Kindergarten	38,673	46,323
Restricted for Emergencies	175,000	165,000
Unrestricted	<u>(6,421,790)</u>	<u>(5,898,925)</u>
Total Net Position	(\$6,201,212)	(\$5,605,817)

**Core Knowledge Charter School Change in Combined Net Assets**  
For the Year Ended June 30, 2016 and June 30, 2015

	Governmental and Business-Type Activities 2015-2016	Governmental and Business-Type Activities 2014-2015
Charges for Services	942,263	915,180
Grants	8,244	10,595
Per Pupil Operating Revenue	4,326,516	3,999,484
Mill Levy Override	340,667	331,556
State Capital Construction Program	160,213	101,135
Contributions not restricted to		
Specific Programs	6,631	116,016
Investment Income	8,110	2,759
Other	<u>33,133</u>	<u>2,419</u>
Total Revenues	\$5,825,777	\$5,479,144
Expenses:		
Instruction	3,998,998	3,468,125
Supporting Services	1,836,734	1,787,697
Building Corporation	<u>585,440</u>	<u>502,159</u>
Total Expenses	6,421,172	\$5,757,981

Increase (decrease) in Net Position	(595,395)	(278,837)
Beginning Net Position	(5,605,817)	(5,326,980)
Ending Net Position	(6,201,212)	(5,605,817)

Parker Core Knowledge’s net position is a negative (\$6,201,212). The negative balance is due to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$9,698,202, representing the Parker Core Knowledge’s proportionate share of PERA’s net pension liability.

## **Financial Analysis of the Funds**

### **Governmental Funds**

The focus of Parker Core Knowledge’s Governmental Fund Financial Statements is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the School’s operating requirements. In particular, the unassigned fund balance may serve as a useful measure of the School’s net resources available for spending at the end of the fiscal year.

The General Fund is the major operating fund of the School and reflects the day-to-day operation of the school. At the end of the current fiscal year, the school’s operating fund reported an ending fund balance of \$1,900,525, an increase of \$185,283. During the previous year, the fund balance increased \$152,835.

### **Proprietary Fund**

The Proprietary Fund includes the activities of the Building Corporation. Its purpose consists entirely of holding title to the School’s facilities and debt service. The School is obligated under a lease agreement to make monthly payments to the Building Corporation for use of the facilities. These payments from the school flow through the Corporation to service the long-term bond debt. These rent payments are then held in restricted cash accounts to service the debt. The only other revenue for the Corporation is the investment earnings of \$2,307.

During 2015-2016 the Building Corporation restructured its debt and borrowed an additional \$3,000,000. The additional \$3,000,000 will be used to construct a new 15,000 sq/ft building on the school’s property. The new building will include seven classrooms and a new, larger school gym.

Because of the limited activity of the Building Corporation, most of its cash is restricted for construction and loan repayment purposes. At the end of 2016, \$1,592,748 in cash and \$2,000,000 in receivables were available for the new construction project, debt service and debt issuance costs.

## **General Fund Budgetary Highlights**

The School approves a budget in May based on enrollment projections for the following school year. The budget is then revised in December after the official student enrollment count is taken. For the school year 2015-16 the school budgeted for net income of \$13,269. The actual compared to budget for 2015-2016 shows a positive variance of \$172,014 including a transfer of \$70,926 to the Building Corporation for loan closing costs associated with the refinance. This variance is due to a combination of budgeting procedures in the activity accounts and savings in the operating accounts.

## **Capital Asset and Debt Administration**

*Capital Assets.* As of June 30, 2016, the CKCS Building Corporation owns land and improvements, net of depreciation of \$5,119,372. This investment in capital assets includes the property and building for one campus. No funds were invested in capital assets during the year-ended June 30, 2016.

*Long-Term Debt.* In April 2004, the CKCS Building Corporation obtained bond financing from the Colorado Educational and Cultural Facilities Authority (CECFA). These bonds, totally, \$4,805,000 were used to refund the Series 1999 bonds originally issued to construct the School's facilities plus \$775,000 to finance improvements to the facilities. These bonds accrued interest at rates ranging from 2.5% to 5.125%. In October 2010, CECFA issued \$2,435,000 in bonds to finance the constructions of an addition to the School's existing facilities. These new bonds accrued interest at rates ranging from 5% to 6%. In June 2016, CECFA issued \$9,605,000 Charter School Refunding and Improvement Revenue Notes, Series 2016. Proceeds were used to defease the outstanding Charter School Bonds discussed above and provide additional funds for construction of an additional building on the current school site. The new loan carries an interest rate of 3.5%. The new loan requires monthly payments of principal and interest with a balloon payment of \$7,446,179 due July 1, 2026. The school makes lease payments for use of the facilities, which the Building Corporations uses to make the required principal and interest payments on this loan. These transactions flow through the Colorado State Intercept Program, which requires the School District to withhold a portion of the Per Pupil Funding and transfer the funds directly to the Trustee who, in turn, makes the principal and interest payments.

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

State funding is expected to increase in 2016-17 as the economy strengthens. Per Pupil revenue is anticipated to increase 4.1% for the 2016-2017 school year due to formula increases (primarily inflation), and the Legislature's continuing effort to buy down the "negative factor". The negative factor is the difference between what public school funding would have been due to Legislative formula and the actual funding that was provided to public schools due to the state level funding cuts. Capital Construction also increased in 2015-16 due to new income the state has received from marijuana revenues and is expected to continue. In April of 2016, the PCK Board of Directors approved an increase in class size from 24 to 26 students per class beginning in school year. The

purpose behind the decision to increase class size was to generate additional revenue specifically earmarked for teacher salary increases. The Board had, as one of its goals, to increase base pay for teachers, and the increase in students by two per class was their solution.

The Board also approved a decision to move forward with a construction project during the 2016-17 school year. This project will be new 15,000 sq./ft. building on the backside of the school's property. The new building will include seven classrooms and a new, larger school gym. The need for the additional space is driven by the school's desire to deliver excellence in its specials classes, where space has been in short supply. Once completed, two grades (six classes) will move into the new building and all Specials classes will enjoy increased, dedicated space, following a retrofit of current space in the existing building. The school will not be increasing students with this new construction project. The addition is strictly about gaining more program space for the school.

### **Requests for Information**

The financial report is designed to provide a general overview of Parker Core Knowledge's finances for those with an interest in Parker Core Knowledge. Questions concerning any information provided in this report or request for additional information should be addressed to:

Business Manager  
Parker Core Knowledge  
11661 N. Pine Drive  
Parker CO 80138#

## **BASIC FINANCIAL STATEMENTS**

PARKER CORE KNOWLEDGE, INC.

STATEMENT OF NET POSITION

June 30, 2016

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
Cash and Investments	\$ 2,132,150	\$ 101,734	\$ 2,233,884
Restricted Cash and Investments	-	1,592,748	1,592,748
Accounts Receivable	49	-	49
Other Receivables	-	2,000,000	2,000,000
Deposits	5,784	-	5,784
Capital Assets, Not Being Depreciated	-	235,020	235,020
Capital Assets, Net of Accumulated Depreciation	27,554	4,884,352	4,911,906
<b>TOTAL ASSETS</b>	<u>2,165,537</u>	<u>8,813,854</u>	<u>10,979,391</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions, Net of Accumulated Amortization	1,728,769	-	1,728,769
Loss on Debt Refunding, Net of Accumulated Amortization	-	895,891	895,891
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,728,769</u>	<u>895,891</u>	<u>2,624,660</u>
<b>LIABILITIES</b>			
Accounts Payable	40,640	-	40,640
Accrued Liabilities	152,078	-	152,078
Unearned Revenues	44,740	-	44,740
Accrued Interest Payable	-	23,660	23,660
<b>Noncurrent Liabilities</b>			
Due Within One Year	12,000	154,297	166,297
Due in More Than One Year	91,500	9,450,703	9,542,203
Net Pension Liability	9,698,202	-	9,698,202
<b>TOTAL LIABILITIES</b>	<u>10,039,160</u>	<u>9,628,660</u>	<u>19,667,820</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions, Net of Accumulated Amortization	137,443	-	137,443
<b>NET POSITION</b>			
Net Investment in Capital Assets	27,554	(498,239)	(470,685)
Restricted for Debt Service	-	236,802	236,802
Restricted for Repair and Replacement	-	117,196	117,196
Restricted for Debt Issuance Costs	-	123,592	123,592
Restricted for Full-Day Kindergarten	38,673	-	38,673
Restricted for Emergencies	175,000	-	175,000
Unrestricted	(6,523,524)	101,734	(6,421,790)
<b>TOTAL NET POSITION</b>	<u>\$ (6,282,297)</u>	<u>\$ 81,085</u>	<u>\$ (6,201,212)</u>

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

PARKER CORE KNOWLEDGE, INC.

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
<u>PRIMARY GOVERNMENT</u>			
<b>Governmental Activities</b>			
Instruction	\$ 3,998,998	\$ 896,397	\$ 8,244
Supporting Services	<u>1,836,734</u>	<u>45,866</u>	<u>-</u>
Total Governmental Activities	<u>5,835,732</u>	<u>942,263</u>	<u>8,244</u>
<b>Business-Type Activities</b>			
Building Corporation	<u>585,440</u>	<u>-</u>	<u>-</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 6,421,172</u>	<u>\$ 942,263</u>	<u>\$ 8,244</u>

GENERAL REVENUES  
 Per Pupil Revenue  
 District Mill Levy  
 Capital Construction  
 Contributions not Restricted to  
 Specific Programs  
 Investment Income  
 Other

TRANSFERS

TOTAL GENERAL REVENUES  
AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION, Beginning

NET POSITION, Ending

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

NET (EXPENSES) REVENUES AND  
CHANGE IN NET POSITION

GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
\$ (3,094,357)	\$ -	\$ (3,094,357)
<u>(1,790,868)</u>	<u>-</u>	<u>(1,790,868)</u>
<u>(4,885,225)</u>	<u>-</u>	<u>(4,885,225)</u>
<u>-</u>	<u>(585,440)</u>	<u>(585,440)</u>
<u>(4,885,225)</u>	<u>(585,440)</u>	<u>(5,470,665)</u>
4,326,516	-	4,326,516
340,667	-	340,667
160,213	-	160,213
6,631	-	6,631
5,803	2,307	8,110
33,133	-	33,133
<u>(513,764)</u>	<u>513,764</u>	<u>-</u>
<u>4,359,199</u>	<u>516,071</u>	<u>4,875,270</u>
(526,026)	(69,369)	(595,395)
<u>(5,756,271)</u>	<u>150,454</u>	<u>(5,605,817)</u>
<u>\$ (6,282,297)</u>	<u>\$ 81,085</u>	<u>\$ (6,201,212)</u>

PARKER CORE KNOWLEDGE, INC.

BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2016

	GENERAL
<b>ASSETS</b>	
Cash and Investments	\$ 2,132,150
Accounts Receivable	49
Deposits	5,784
<b>TOTAL ASSETS</b>	<b>\$ 2,137,983</b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 40,640
Accrued Liabilities	152,078
Unearned Revenues	44,740
<b>TOTAL LIABILITIES</b>	<b>237,458</b>
<b>FUND BALANCE</b>	
Nonspendable Deposits	5,784
Restricted for Full-Day Kindergarten	38,673
Restricted for Emergencies	175,000
Unrestricted, Unassigned	1,681,068
<b>TOTAL FUND BALANCE</b>	<b>1,900,525</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 2,137,983</b>
 Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 1,900,525
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in governmental funds.	27,554
Long-term liabilities and related items, including accrued compensated absences (\$103,500), net pension liability (\$9,698,202), pension-related deferred outflows of resources \$1,728,769, and pension-related deferred inflows of resources (\$137,443), are not due and payable in the current year and, therefore, are not reported in governmental funds.	(8,210,376)
Total Net Position of Governmental Activities	<b>\$ (6,282,297)</b>

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

PARKER CORE KNOWLEDGE, INC.

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

	GENERAL
REVENUES	
Local Sources	\$ 5,655,013
State Sources	168,457
TOTAL REVENUES	5,823,470
EXPENDITURES	
Instruction	3,461,761
Supporting Services	2,105,500
TOTAL EXPENDITURES	5,567,261
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	256,209
OTHER FINANCING SOURCES (USES)	
Transfers Out	(70,926)
NET CHANGE IN FUND BALANCE	185,283
FUND BALANCE, Beginning	1,715,242
FUND BALANCE, Ending	\$ 1,900,525

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

Net Change in Fund Balance of the Governmental Fund	\$ 185,283
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 amount represents depreciation expense in the current year.	(5,512)
Some expenses reported in the statement of activities do not require the use of the current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in accrued compensated absences (\$78,932), net pension liability (\$1,413,668), pension-related deferred outflows of resources \$923,627, and pension-related deferred inflows of resources (\$136,824) in the current year.	(705,797)
Change in Net Position of Governmental Activities	\$ (526,026)

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

PARKER CORE KNOWLEDGE, INC.

STATEMENT OF NET POSITION  
PROPRIETARY FUND  
June 30, 2016

	<u>BUILDING CORPORATION</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and Investments	\$ 101,734
Restricted Cash and Investments	1,592,748
Other Receivables	<u>2,000,000</u>
<b>TOTAL CURRENT ASSETS</b>	<u>3,694,482</u>
<b>NONCURRENT ASSETS</b>	
Capital Assets, Not Being Depreciated	235,020
Capital Assets, Net of Accumulated Depreciation	<u>4,884,352</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>5,119,372</u>
<b>TOTAL ASSETS</b>	<u>8,813,854</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Loss on Debt Refunding, Net of Accumulated Amortization	<u>895,891</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accrued Interest Payable	23,660
Loan Payable, Current Portion	<u>154,297</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>177,957</u>
<b>NONCURRENT LIABILITIES</b>	
Loan Payable	<u>9,450,703</u>
<b>TOTAL LIABILITIES</b>	<u>9,628,660</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	(498,239)
Restricted for Debt Service	236,802
Restricted for Repair and Replacement	117,196
Restricted for Debt Issuance Costs	123,592
Unrestricted	<u>101,734</u>
<b>TOTAL NET POSITION</b>	<u>\$ 81,085</u>

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

PARKER CORE KNOWLEDGE, INC.

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
 Year Ended June 30, 2016

	<u>BUILDING CORPORATION</u>
OPERATING REVENUES	
Rental Income	\$ <u>442,838</u>
TOTAL OPERATING REVENUES	<u>442,838</u>
OPERATING EXPENSES	
Depreciation	153,846
Debt Service	
Interest and Fiscal Charges	<u>292,161</u>
TOTAL OPERATING EXPENSES	<u>446,007</u>
NET OPERATING INCOME (LOSS)	<u>(3,169)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment Income	2,307
Debt Issuance Costs	<u>(139,433)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(137,126)</u>
NET INCOME BEFORE TRANSFERS	(140,295)
Transfers In	<u>70,926</u>
CHANGE IN NET POSITION	(69,369)
NET POSITION, Beginning	<u>150,454</u>
NET POSITION, Ending	<u>\$ 81,085</u>

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

PARKER CORE KNOWLEDGE, INC.

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Increase (Decrease) in Cash and Cash Equivalents  
Year Ended June 30, 2016

	<u>BUILDING CORPORATION</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Lease Payments Received	\$ 442,838
Loan Principal Paid	(115,000)
Loan Interest and Fees Paid	<u>(325,474)</u>
Net Cash Provided by Operating Activities	<u>2,364</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Debt Proceeds	7,605,000
Transfers from the School	70,926
Payment to Escrow Agent	(6,665,219)
Debt Issuance Costs Paid	<u>(139,433)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>871,274</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Income Received	<u>2,307</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>875,945</b>
<b>CASH AND CASH EQUIVALENTS, Beginning</b>	<u>818,537</u>
<b>CASH AND CASH EQUIVALENTS, Ending</b>	<b>\$ <u><u>1,694,482</u></u></b>
<b>RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Net Operating Income (Loss)	\$ (3,169)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depreciation	153,846
Changes in Assets and Liabilities	
Accrued Interest Payable	(33,313)
Loan Payable	<u>(115,000)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 2,364</u></u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

Parker Core Knowledge, Inc. (the “School”) was formed pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District (the “District”).

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

**Reporting Entity**

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

The School includes the Core Knowledge Charter School Building Corporation (the “Corporation”) within its reporting entity. The Corporation was formed to hold title to real and personal property for use by the School and to provide facilities, equipment and other property and related support to the School. The Corporation is blended into the School’s financial statements as an enterprise fund. Separate audited financial statements for the Corporation are not available.

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

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for the governmental fund and the proprietary fund. Major individual funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

**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*, as is the proprietary fund in the fund financial statements. 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 year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The School reports the following major governmental fund:

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

The School reports one major proprietary fund, as follows:

*Building Corporation* - This fund is used to account for the financial transactions of the Corporation, primarily related to capital assets and the related debt service.

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

*Cash and Investments* - Cash equivalents include investments with original maturities of three months or less. Investments are reported at fair value. Investments in the external investment pool are reported at the net asset value per share, which is measured using amortized cost.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

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

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

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported in the applicable statement of net position. Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Land Improvements	15 years
Buildings and Improvements	7 - 45 years
Equipment	7 - 15 years

*Unearned Revenues* - Unearned revenues represent resources received by the School before it has a legal claim to them, including tuition and fees.

*Compensated Absences* - Employees of the School are allowed to accumulate up to 120 hours of unused personal and sick leave. Upon termination of employment from the School, an employee will be compensated for all unused leave at the rate of \$100 per day. A long-term liability has been reported in the government-wide financial statements for these accrued compensated absences.

*Long-Term Debt* - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Debt premiums, discounts and accounting losses resulting from debt refundings are deferred and amortized over the life of the debt using the straight-line method. In the governmental fund financial statements, 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 are reported as other financing uses.

Issuance costs, whether or not withheld from the debt proceeds, are reported as current expenses or expenditures.

*Pensions* - The School participates in the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to and deductions from the SDTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the SDTF. 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.

PARKER CORE KNOWLEDGE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

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

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

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

**Risk Management**

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

**NOTE 2: CASH AND INVESTMENTS**

At June 30, 2016, the School and the Corporation had the following cash and investments:

Cash on Hand	\$	161
Cash Deposits		507,859
Investments		<u>3,318,612</u>
Total	\$	<u><b>3,826,632</b></u>

Cash and investments are reported in the financial statements as follows:

Cash and Investments	\$	2,233,884
Restricted Cash and Investments		<u>1,592,748</u>
Total	\$	<u><b>3,826,632</b></u>

**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2016, the School had bank deposits of \$25,563 collateralized with securities held by the financial institution's agent, but not in the School's name.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 2: CASH AND INVESTMENTS (Continued)**

**Investments**

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity, and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk.

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

*Interest Rate Risk* - State statutes generally limit the maturity of investment securities to five years from the date of purchase, unless the governing board authorizes the investment for a period in excess of five years.

*Credit Risk* - State statutes limit most investments to those with certain ratings from nationally recognized statistical rating organizations, depending on the type of investment.

*Concentration of Credit Risk* - State statutes do not limit the amount the School may invest in a single issuer, except for corporate securities.

*Local Government Investment Pool* - At June 30, 2016, the School and the Corporation had \$1,725,864 and \$1,592,748, respectively, invested in the Colorado Surplus Asset Fund Trust (CSAFE), an investment vehicle established for local government entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating CSAFE. CSAFE operates in conformity with the Securities and Exchange Commission's Rule 2a-7, with each share valued at \$1. CSAFE is rated AAAM by Standard and Poor's. Investments of CSAFE are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

**Restricted Cash and Investments**

Cash and investments of \$1,592,748 have been restricted by the Corporation for capital projects, debt service, building repair and replacement, and debt issuance costs.

PARKER CORE KNOWLEDGE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 3: CAPITAL ASSETS**

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

	Balances 6/30/15	Additions	Deletions	Balances 6/30/16
<b>Governmental Activities</b>				
Capital Assets, Being Depreciated				
Equipment	\$ 43,907	\$ -	\$ -	\$ 43,907
Accumulated Depreciation	<u>(10,841)</u>	<u>(5,512)</u>	<u>-</u>	<u>(16,353)</u>
Governmental Activities Capital Assets, Net	<u>\$ 33,066</u>	<u>\$ (5,512)</u>	<u>\$ -</u>	<u>\$ 27,554</u>
<b>Business-Type Activities</b>				
Capital Assets, Not Being Depreciated				
Land	<u>\$ 235,020</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 235,020</u>
Capital Assets, Being Depreciated				
Land Improvements	113,899	-	-	113,899
Buildings and Improvements	6,297,303	-	-	6,297,303
Equipment	<u>32,464</u>	<u>-</u>	<u>-</u>	<u>32,464</u>
Total Capital Assets, Being Depreciated	<u>6,443,666</u>	<u>-</u>	<u>-</u>	<u>6,443,666</u>
Accumulated Depreciation				
Land Improvements	(30,372)	(7,593)	-	(37,965)
Buildings and Improvements	(1,358,517)	(142,109)	-	(1,500,626)
Equipment	<u>(16,579)</u>	<u>(4,144)</u>	<u>-</u>	<u>(20,723)</u>
Total Accumulated Depreciation	<u>(1,405,468)</u>	<u>(153,846)</u>	<u>-</u>	<u>(1,559,314)</u>
Total Capital Assets, Being Depreciated, Net	<u>5,038,198</u>	<u>(153,846)</u>	<u>-</u>	<u>4,884,352</u>
Business-Type Activities Capital Assets, Net	<u>\$ 5,273,218</u>	<u>\$ (153,846)</u>	<u>\$ -</u>	<u>\$ 5,119,372</u>

Depreciation expense of the governmental activities was charged to the supporting services program of the School.

**NOTE 4: LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the year ended June 30, 2016.

	Balance 6/30/15	Additions	Payments	Balance 6/30/16	Due Within One Year
<b>Governmental Activities</b>					
Compensated Absences	<u>\$ 24,568</u>	<u>\$ 89,557</u>	<u>\$ 10,625</u>	<u>\$ 103,500</u>	<u>\$ 12,000</u>

Compensated absences are expected to be liquidated with revenues of the General Fund.

PARKER CORE KNOWLEDGE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 4: LONG-TERM DEBT (Continued)**

	Balance <u>6/30/15</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>6/30/16</u>	Due Within <u>One Year</u>
<b>Business-Type Activities</b>					
2004 Building Loan	\$ 3,795,000	\$ -	\$ 3,795,000	\$ -	\$ -
Premium	113,967	-	113,967	-	-
2010 Building Loan	2,435,000	-	2,435,000	-	-
Premium	36,477	-	36,477	-	-
2016 Loan	<u>-</u>	<u>9,605,000</u>	<u>-</u>	<u>9,605,000</u>	<u>154,297</u>
Total	<u>\$ 6,380,444</u>	<u>\$ 9,605,000</u>	<u>\$ 6,380,444</u>	<u>\$ 9,605,000</u>	<u>\$ 154,297</u>

On June 27, 2016, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$9,605,000 Charter School Refunding and Improvement Revenue Notes, Series 2016. Proceeds were used to refund the outstanding Charter School Revenue Refunding and Improvement Bonds, Series 2004, and the Charter School Revenue Bonds, Series 2010, and to provide \$3,091,498 for new construction. Proceeds of the refunded bonds were loaned to the Corporation to construct the School's educational facilities.

Proceeds of the Series 2016 Notes, in the amount of \$6,665,219, were deposited with an escrow agent to currently refund the Series 2004 Bonds and advance refund the Series 2010 Bonds. As a result, the refunded debt is considered defeased and the liability has been removed from the financial statements. The refunding resulted in the recognition of an accounting loss of \$895,891. The Series 2010 Bonds will be called and paid in full on November 1, 2020.

The School is obligated under a lease agreement to make monthly payments to the Corporation for using the facilities. The Corporation is required to make equal loan payments to the Trustee, for payment of the notes. Interest accrues on the outstanding balance of the notes at 3.5% per annum. Monthly principal and interest payments are due beginning August 1, 2016, with a balloon payment of \$7,446,179 due on July 1, 2026. Future debt service payments are as follows.

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 154,297	\$ 278,382	\$ 432,679
2018	190,321	331,439	521,760
2019	197,185	324,575	521,760
2020	203,424	318,336	521,760
2021	211,635	310,125	521,760
2022 - 2026	1,177,490	1,431,310	2,608,800
2027	<u>7,470,648</u>	<u>21,718</u>	<u>7,492,366</u>
Total	<u>\$ 9,605,000</u>	<u>\$ 3,015,885</u>	<u>\$ 12,620,885</u>

**NOTE 5: INTERFUND TRANSACTIONS**

During the year ended June 30, 2016, the General Fund transferred \$70,926 to the Corporation to pay a portion of the debt issuance costs.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 6: DEFINED BENEFIT PENSION PLAN**

**General Information**

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

*Benefits Provided* - The SDTF provides retirement, disability, and survivor benefits to plan participants or their beneficiaries. Retirement benefits are determined by the amount of service credit earned or purchased, highest average salary, the benefit structure in place, the benefit option selected at retirement, and age at retirement. The retirement benefit is the greater of the a) highest average salary multiplied by 2.5% and then multiplied by years of service credit, or b) the value of the participant's contribution account plus an equal match on the retirement date, annualized into a monthly amount based on life expectancy and other actuarial factors. In no case can the benefit amount exceed the highest average salary or the amount allowed by applicable federal regulations.

Retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State statutes. Retirees who began employment before January 1, 2007, receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year. Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

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

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

*Contributions* - The School and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The School's contribution rate for calendar years 2015 and 2016 was 18.35% and 19.15% of covered salaries, respectively. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 7). The School's contributions to the SDTF for the year ended June 30, 2016, were \$551,248, equal to the required contributions.

PARKER CORE KNOWLEDGE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

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

At June 30, 2016, the School reported a net pension liability of \$9,698,202, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Changes in assumptions and other inputs since the prior measurement date did not significantly affect the total pension liability. Standard update procedures were used to roll forward the total pension liability to December 31, 2015.

The School's proportion of the net pension liability was based on the School's contributions to the SDTF for the calendar year ended December 31, 2015, relative to the contributions of all participating employers. At December 31, 2015, the School's proportion was 0.0634105901%, which was an increase of 0.0022852739% from its proportion measured at December 31, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$1,186,820. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 128,066	\$ 390
Changes of assumptions and other inputs	-	137,053
Net difference between projected and actual earnings on plan investments	819,277	-
Changes in proportion	460,753	-
Contributions subsequent to the measurement date	<u>320,673</u>	<u>-</u>
Total	<u>\$ 1,728,769</u>	<u>\$ 137,443</u>

School contributions subsequent to the measurement date of \$320,673 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

2017	\$ 437,075
2018	395,474
2019	269,007
2020	<u>169,097</u>
Total	<u>\$ 1,270,653</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

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

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

Price inflation	2.8%
Real wage growth	1.1%
Wage inflation	3.9%
Salary increases, including wage inflation	3.9% - 10.1%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.5%
Future post-retirement benefit increases:	
Hired prior to 1/1/07	2%
Hired after 12/31/06	ad hoc

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

The actuarial assumptions used in the December 31, 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 governing board on November 13, 2012, and an economic assumption study adopted by PERA's governing board on November 15, 2013, and January 17, 2014.

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

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

PARKER CORE KNOWLEDGE, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Geometric Real Rate of Return</u>
U.S. Equity - Large Cap	26.76%	5.00%
U.S. Equity - Small Cap	4.40%	5.19%
Non U.S. Equity - Developed	22.06%	5.29%
Non U.S. Equity - Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Government/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	<u><u>100.00%</u></u>	

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

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

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Proportionate share of the net pension liability	<u>\$ 12,571,704</u>	<u>\$ 9,698,202</u>	<u>\$ 7,307,984</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: POSTEMPLOYMENT HEALTHCARE BENEFITS**

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

*Funding Policy* - The School is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2016, 2015 and 2014 was \$29,175, \$26,936 and \$25,387, respectively, equal to the required amounts for each year.

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgements**

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

**Tabor Amendment**

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to interpretation, but the School believes it is in substantial compliance with the requirements of the Amendment. In accordance with the Amendment, the School has established an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2016, this reserve was reported as restricted fund balance in the General Fund, in the amount of \$175,000.

**REQUIRED SUPPLEMENTARY INFORMATION**

PARKER CORE KNOWLEDGE, INC.

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
AND CONTRIBUTIONS

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO SCHOOL DIVISION TRUST FUND

June 30, 2016

	<u>12/31/15</u>	<u>12/31/14</u>	<u>12/31/13</u>
<b>PROPORTIONATE SHARE OF THE NET PENSION LIABILITY</b>			
School's Proportion of the Net Pension Liability	0.0634105901%	0.0611253162%	0.0570963389%
School's Proportionate Share of the Net Pension Liability	\$ 9,698,202	\$ 8,284,534	\$ 7,282,623
School's Covered-Employee Payroll	\$ 2,763,420	\$ 2,560,712	\$ 2,301,735
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	351%	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59%	63%	64%
	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
<b>SCHOOL CONTRIBUTIONS</b>			
Statutorily Required Contribution	\$ 520,709	\$ 446,317	\$ 398,247
Contributions in Relation to the Statutorily Required Contribution	<u>(520,709)</u>	<u>(446,317)</u>	<u>(398,247)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
School's Covered-Employee Payroll	\$ 2,936,247	\$ 2,640,738	\$ 2,488,878
Contributions as a Percentage of Covered-Employee Payroll	17.73%	16.90%	16.00%

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

See the accompanying Independent Auditors' Report.

PARKER CORE KNOWLEDGE, INC.

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2016

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE Positive (Negative)</u>
<b>REVENUES</b>				
<b>Local Sources</b>				
Per Pupil Revenue	\$ 4,262,544	\$ 4,312,756	\$ 4,326,516	\$ 13,760
District Mill Levy	300,000	350,212	340,667	(9,545)
Tuition and Fees	876,259	893,539	914,379	20,840
Contributions and Fundraising	4,500	7,650	6,631	(1,019)
Rental Income	25,000	25,000	27,884	2,884
Investment Income	2,860	2,860	5,803	2,943
Other	13,450	13,450	33,133	19,683
<b>State Sources</b>				
Capital Construction	154,440	160,650	160,213	(437)
Grants	10,000	8,954	8,244	(710)
<b>TOTAL REVENUES</b>	<u>5,649,053</u>	<u>5,775,071</u>	<u>5,823,470</u>	<u>48,399</u>
<b>EXPENDITURES</b>				
Salaries	2,984,189	3,036,189	3,024,378	11,811
Employee Benefits	992,530	1,005,127	958,368	46,759
Purchased Services	1,140,391	1,122,659	1,078,505	44,154
Supplies and Materials	368,711	368,711	323,810	44,901
Property	141,616	191,616	126,519	65,097
Other	37,500	37,500	55,681	(18,181)
<b>TOTAL EXPENDITURES</b>	<u>5,664,937</u>	<u>5,761,802</u>	<u>5,567,261</u>	<u>194,541</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(15,884)</u>	<u>13,269</u>	<u>256,209</u>	<u>242,940</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	<u>-</u>	<u>-</u>	<u>(70,926)</u>	<u>(70,926)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>(15,884)</u>	<u>13,269</u>	<u>185,283</u>	<u>172,014</u>
<b>FUND BALANCE, Beginning</b>	<u>1,667,323</u>	<u>1,715,242</u>	<u>1,715,242</u>	<u>-</u>
<b>FUND BALANCE, Ending</b>	<u>\$ 1,651,439</u>	<u>\$ 1,728,511</u>	<u>\$ 1,900,525</u>	<u>\$ 172,014</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

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

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

**Changes in Assumptions and Other Inputs**

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

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

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

**Budgets and Budgetary Accounting**

Budgets are required by State statutes for all funds, and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The School adheres to the following procedures in establishing the budgetary information reflected in the financial statements.

- Management submits to the Operating Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- Prior to June 30, the budget is adopted by the Operating Council.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Operating Council.
- All appropriations lapse at fiscal year end.