

STEM SCHOOL AND ACADEMY

FINANCIAL STATEMENTS

June 30, 2016



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STEM SCHOOL AND ACADEMY

ROSTER OF SCHOOL OFFICIALS

June 30, 2016

BOARD OF DIRECTORS

President	Mark Alpert
Parent Member	Darsh Pandya
Member	Jeffrey Berg
Member	Rudy Lukez
Member	Roy Martinez
Member	Nicole Smith

SCHOOL MANAGEMENT

Dr. Penny Eucker, Executive Director

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Board of Directors
STEM School and Academy
Highlands Ranch, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the STEM School and Academy, 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 the STEM School and Academy, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, the discretely presented component unit, and each major fund of the STEM School and Academy 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.

Ernst & Young LLP

November 3, 2016

STEM School and Academy
Management's Discussion and Analysis

For the Year Ended June 30, 2016

This section of STEM School and Academy annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

FINANCIAL HIGHLIGHTS

The year ended June 30, 2016 is the sixth year of operations for STEM School and Academy.

In May 2016 CECFA issued \$3,000,000 bond proceeds for renovation and leasehold improvements to accommodate for the K-4 expansion approved by DCSD earlier in the year for the 2015-2016 school year.

The General Fund fund balance increased by \$439,349 during the fiscal year ended June 30, 2016 with a total Fund Balance as of June 30, 2016 of \$2,742,581.

The operation of STEM School and Academy is funded primarily by tax revenue under the State School Finance Act. Per pupil revenue for STEM increased 4.1% from \$6696.81 in 2014-2015 to \$6974.25 for 2015-2016. STEM School increased pupil count by 307 students which amounted to a \$2,437,382 increase in Per Pupil Revenue for 2015-2016 school year or 36.8%.

Overview of Financial Statements

The School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

Government-wide financial statements are prepared to provide interested parties with a broad overview of the School's financial reporting in similar format to a private-sector business. The statement of net position presents information related to assets and liabilities and remaining assessment of financial value. With historical data, increases and decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the year. Changes to net position are reported at the primary occurrence, regardless of the timing of related cash flows. Thus, some revenues and expenses are reported in the statement that will only result in cash flows in future periods.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the business-type activities financial statements, only in more detail. The proprietary fund financial statements provide separate information for the leasing activities of the Corporation.

Notes to Financial Statements

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

Other Information-GASB 68

As noted previously, net position may serve over time as a useful indicator of the School's financial position. For the year ended June 30, 2016, STEM's total net position was a negative (\$6,634,954), the negative increase is \$1,020,401 from last year. The net pension liability in the amount of \$13,232,559 represents the School's proportionate share of the School Division Trust Fund (SDTF) pension liability, administered by the Public Employees' Retirement Association of Colorado (PERA). This amount was determined by an independent actuarial valuation of PERA's financial position on December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. Of STEM's total net position, \$28,398 is the Net Investment in Capital Assets. A negative (\$7,058,352) is unrestricted and \$395,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

Government-wide Financial Analysis

The two summary statements below (pages iv and v) report the fiscal year 2016, and the prior year, fiscal year 2015.

Analysis of Operations

Revenues: Total revenues for the period of July 1, 2015 through June 30, 2016 were \$10,693,212. The majority of income was received in the form of per pupil revenue, allocated from the State of Colorado through the School's charter authorizer Douglas County School District. The School had 1289 full time students and received \$6974.25 for per pupil funding. The rate of per pupil funding increased \$277.44 from 2014-2015 to 2015-2016. The School received \$337,196 in Capital Construction funding from the State of Colorado that supported the building lease expense.

Expenses: Total expenses for the period of July 1, 2015 through June 30, 2016 were \$9,986,888 up 65% from the year ended June 30, 2015. The most significant factor contributing to the increase is a 32% increase in student population. In addition, significant building renovation occurred at the beginning of 2015-2016 and continued through the year to accommodate the K-4 expansion.

General Fund: For the period of July 1, 2015 through June 30, 2016 STEM reported a General Fund fund balance of \$2,742,581, a 19% increase from the prior year.

Net Position Building Corp - For the period of July 1, 2015 through June 30, 2016 the Building Corporation reported a net increase of \$268,234 in net position. This increase is due to the capital contributions from the School related to the final completion of the elementary school and the middle school front offices.

Analysis of Budget-General Fund

The 2015-2016 STEM school budget was approved and finalized by the Board of Directors in October 2015 and included School expenditures of \$12,065,275. The budget revisions and finalization was based on projected October enrollment, therefore STEM's Per Pupil Revenue tied very closely to budget and STEM's actual expenditures and transfers out were less than the final budgeted amounts by \$970,809 which is mainly attributed to reimbursement of expenses from the Building Corp for capital construction for the K-4 expansion. Change in fund balance was budgeted at a net loss of (\$1,797,722) and the year closed at a net income of \$439,349.

Capital Assets and Long Term Debt

As previously stated STEM received a loan for \$3,000,000 for the purposes of completion of the elementary school and front office renovations. Additional information regarding capital assets and long-term debt is provided in Notes 5 and 6 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the School is student enrollment. Enrollment for the 2015-16 school year was 1289 and projected enrollment for the 2016-17 school year is 1590.

The Board and School administration acknowledge that the amount of funding for School operations is contingent upon the state of the economy and current and future legislation. Therefore, the School practices conservative budgeting and closely monitors the budget to actual in order to proactively adjust planned spending when necessary.

Requests for Information

This financial report is provided as a general overview of the STEM School and Academy's finances for persons interested in the School. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Star Ake, CFO
STEM School and Academy
8773 South Ridgeline Boulevard.
Highlands Ranch, CO 80129

	Condensed Statement of Net Position					
	Governmental		Business -Type Activities		Combined	
	2015-2016	2014-2015	2015-2016	2014-2015	2015-2016	2014-2015
Current assets:						
Other Assets	\$ 3,360,635	\$ 2,766,363	\$ 1,841,185	\$ 1,119,358	\$ 5,201,820	\$ 3,885,721
Net capital assets	\$ 28,398	\$ 14,002	\$ 13,321,402	\$ 10,767,249	\$ 13,349,800	\$ 10,781,251
Deferred Outflow of Resources						
Loss on debt refunding			\$ 154,257	\$ 308,515	\$ 154,257	\$ 308,515
Pensions, net of Accm Amortization	\$ 4,014,072	\$ 1,560,813			\$ 4,014,072	\$ 1,560,813
TOTAL ASSETS	\$ 7,403,105	\$ 4,341,178	\$ 15,316,844	\$ 12,195,122	\$ 22,719,949	\$ 16,536,300
Current liabilities:	\$ 618,054	\$ 463,131	\$ 377,074	\$ 287,403	\$ 995,128	\$ 750,534
Long-term liabilities:	\$ 13,232,559	\$ 9,491,891	\$ 17,134,032	\$ 14,370,215	\$ 30,366,591	\$ 23,862,106
Deferred Inflow of Resources						
Pensions, net of Accm Amortization	\$ 187,446	\$ 709			\$ 187,446	\$ 709
TOTAL LIABILITIES	\$ 14,038,059	\$ 9,955,731	\$ 17,511,106	\$ 14,657,618	\$ 31,549,165	\$ 24,613,349
Net position:						
Net investment in capital assets	\$ 28,398	\$ 14,002	\$ (3,262,984)	\$ (3,464,451)	\$ (3,234,586)	\$ (3,450,449)
Restricted for Debt Service			\$ 1,037,221	\$ 1,001,955	\$ 1,037,221	\$ 1,001,955
Restricted for TABOR	\$ 395,000	\$ 227,000			\$ 395,000	\$ 227,000
Restricted for other purposes			\$ 31,501		\$ 31,501	
Unrestricted	\$ (7,058,352)	\$ (5,855,555)			\$ (7,058,352)	\$ (5,855,555)
TOTAL NET POSITION	\$ (6,634,954)	\$ (5,614,553)	\$ (2,194,262)	\$ (2,462,496)	\$ (8,829,216)	\$ (8,077,049)

Condensed Statement of Activities						
	Governmental		Business -Type Activities		Combined	
	Actual	Actual	Actual	Actual	Actual	Actual
	2015-2016	2014-2015	2015-2016	2014-2015	2015-2016	2014-2015
Revenue:						
Per Pupil Revenue	\$ 9,047,927	\$ 6,610,545			\$ 9,047,927	\$ 6,610,545
Investments					\$ 126	\$ 109
Mill Levy/Override	\$ 715,180	\$ 550,164			\$ 715,180	\$ 550,164
Capital Construction	\$ 333,196	\$ 165,991			\$ 333,196	\$ 165,991
Interest Income	\$ 4,890	\$ 2,008	\$ 126	\$ 109	\$ 5,016	\$ 2,117
Student Participation Fees	\$ 194,619	\$ 161,676			\$ 194,619	\$ 161,676
Rental/Lease	\$ 30,000	\$ 30,000			\$ 30,000	\$ 30,000
Contributions/Donations	\$ 367,400	\$ 40,599			\$ 367,400	\$ 40,599
Categorical Revenue					\$ -	\$ -
Miscellaneous Revenue/Facilities	\$ -	\$ 17,182			\$ -	\$ 17,182
Food Service Catering					\$ -	\$ -
Transfer In from Building Corp						
Local Sources	\$ 10,693,212	\$ 7,578,165	\$ 126	\$ 109	\$ 10,693,338	\$ 7,578,274
Total Revenues	<u>\$ 10,693,212</u>	<u>\$ 7,578,165</u>	<u>\$ 126</u>	<u>\$ 109</u>	<u>\$ 10,693,338</u>	<u>\$ 7,578,274</u>
Expenditures:						
Instructional	\$ 5,832,019	\$ 3,678,992			\$ 5,832,019	\$ 3,678,992
Support	\$ 4,154,869	\$ 2,358,875			\$ 4,154,869	\$ 2,358,875
Building Corporation			\$ 1,458,617	\$ 1,674,256	\$ 1,458,617	\$ 1,674,256
Debt Service Expense						
Total Expenditures	<u>\$ 9,986,888</u>	<u>\$ 6,037,867</u>	<u>\$ 1,458,617</u>	<u>\$ 1,674,256</u>	<u>\$ 11,445,505</u>	<u>\$ 7,712,123</u>
Transfers	\$ (1,726,725)	\$ (913,432)	\$ 1,726,725	\$ 913,432	\$ -	\$ -
Change in Net Position	\$ (1,020,401)	\$ 626,866	\$ 268,234	\$ (760,715)	\$ (752,167)	\$ (133,849)
Net Position, Beginning	\$ (5,614,553)	\$ (6,241,419)	\$ (2,462,496)	\$ (1,701,781)	\$ (8,077,049)	\$ (7,943,200)
Net Position, Ending	<u>\$ (6,634,954)</u>	<u>\$ (5,614,553)</u>	<u>\$ (2,194,262)</u>	<u>\$ (2,462,496)</u>	<u>\$ (8,829,216)</u>	<u>\$ (8,077,049)</u>

BASIC FINANCIAL STATEMENTS

STEM SCHOOL AND ACADEMY

STATEMENT OF NET POSITION

June 30, 2016

	PRIMARY GOVERNMENT			COMPONENT
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL	UNIT
	ACTIVITIES	ACTIVITIES		STEM ACADEMY
ASSETS				
Cash and Investments	\$ 2,618,905	\$ -	\$ 2,618,905	\$ 49,000
Restricted Cash and Investments	-	2,516,248	2,516,248	-
Prepaid Expenses	66,667	-	66,667	-
Internal Balances	675,063	(675,063)	-	-
Capital Assets, Not Being Depreciated	-	2,370,970	2,370,970	-
Capital Assets, Net of Accumulated Depreciation	28,398	10,950,432	10,978,830	17,371
TOTAL ASSETS	3,389,033	15,162,587	18,551,620	66,371
DEFERRED OUTFLOWS OF RESOURCES				
Pensions, Net of Accumulated Amortization	4,014,072	-	4,014,072	-
Loss on Debt Refunding, Net of Accumulated Amortization	-	154,257	154,257	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	4,014,072	154,257	4,168,329	-
LIABILITIES				
Accounts Payable	158,578	-	158,578	-
Accrued Salaries and Benefits	459,476	-	459,476	-
Accrued Interest Payable	-	137,074	137,074	-
Noncurrent Liabilities				
Due Within One Year	-	240,000	240,000	-
Due in More Than One Year	-	17,134,032	17,134,032	-
Net Pension Liability	13,232,559	-	13,232,559	-
TOTAL LIABILITIES	13,850,613	17,511,106	31,361,719	-
DEFERRED INFLOWS OF RESOURCES				
Pensions, Net of Accumulated Amortization	187,446	-	187,446	-
NET POSITION				
Net Investment in Capital Assets	28,398	(3,262,984)	(3,234,586)	17,371
Restricted for Debt Service	-	1,037,221	1,037,221	-
Restricted for Repair and Replacement	-	31,501	31,501	-
Restricted for Emergencies	395,000	-	395,000	-
Unrestricted	(7,058,352)	-	(7,058,352)	49,000
TOTAL NET POSITION	\$ (6,634,954)	\$ (2,194,262)	\$ (8,829,216)	\$ 66,371

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

NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION

PRIMARY GOVERNMENT			COMPONENT UNIT
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	STEM ACADEMY
\$ (5,633,542)	\$ -	\$ (5,633,542)	\$ -
(3,774,869)	-	(3,774,869)	-
(9,408,411)	-	(9,408,411)	-
-	(1,458,617)	(1,458,617)	-
(9,408,411)	(1,458,617)	(10,867,028)	-
-	-	-	(20,230)
9,047,927	-	9,047,927	-
715,180	-	715,180	-
333,196	-	333,196	-
13,542	-	13,542	31,153
4,890	126	5,016	-
(1,726,725)	1,726,725	-	-
8,388,010	1,726,851	10,114,861	31,153
(1,020,401)	268,234	(752,167)	10,923
(5,614,553)	(2,462,496)	(8,077,049)	55,448
\$ (6,634,954)	\$ (2,194,262)	\$ (8,829,216)	\$ 66,371

STEM SCHOOL AND ACADEMY

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2016

	<u>GENERAL</u>
ASSETS	
Cash and Investments	\$ 2,618,905
Prepaid Expenditures	66,667
Interfund Receivables	<u>675,063</u>
TOTAL ASSETS	<u>\$ 3,360,635</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 158,578
Accrued Salaries and Benefits	<u>459,476</u>
TOTAL LIABILITIES	<u>618,054</u>
FUND BALANCE	
Nonspendable Prepaid Expenditures	66,667
Restricted for Emergencies	395,000
Unrestricted, Unassigned	<u>2,280,914</u>
TOTAL FUND BALANCE	<u>2,742,581</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,360,635</u>

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

Total Fund Balance of the Governmental Fund	\$ 2,742,581
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	28,398
Long-term liabilities and related items, including net pension liability (\$13,232,559), deferred outflows of resources \$4,014,072, and deferred inflows of resources (\$187,446), are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(9,405,933)</u>
Total Net Position of Governmental Activities	<u>\$ (6,634,954)</u>

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

STEM SCHOOL AND ACADEMY

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

	GENERAL
REVENUES	
Local Sources	\$ 10,356,158
State Sources	337,054
TOTAL REVENUES	10,693,212
EXPENDITURES	
Instruction	4,806,898
Supporting Services	6,256,068
TOTAL EXPENDITURES	11,062,966
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(369,754)
OTHER FINANCING SOURCES (USES)	
Transfers In	840,603
Transfers Out	(31,500)
TOTAL OTHER FINANCING SOURCES (USES)	809,103
NET CHANGE IN FUND BALANCE	439,349
FUND BALANCE, Beginning	2,303,232
FUND BALANCE, Ending	\$ 2,742,581

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

Net Change in Fund Balance of the Governmental Fund	\$ 439,349
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$21,500 exceeded depreciation expense (\$7,104) in the current year.	14,396
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in the net pension liability (\$3,740,668), pension-related deferred outflows of resources \$2,453,259, and pension-related deferred inflows of resources (\$186,737) in the current year.	(1,474,146)
Change in Net Position of Governmental Activities	\$ (1,020,401)

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

STEM SCHOOL AND ACADEMY

STATEMENT OF NET POSITION
PROPRIETARY FUND

June 30, 2016

	<u>BUILDING CORPORATION</u>
ASSETS	
CURRENT ASSETS	
Restricted Cash and Investments	\$ <u>2,516,248</u>
NONCURRENT ASSETS	
Capital Assets, Not Being Depreciated	2,370,970
Capital Assets, Net of Accumulated Depreciation	<u>10,950,432</u>
TOTAL NONCURRENT ASSETS	<u>13,321,402</u>
TOTAL ASSETS	<u>15,837,650</u>
DEFERRED OUTFLOWS OF RESOURCES	
Loss on Debt Refunding, Net of Accumulated Amortization	<u>154,257</u>
LIABILITIES	
CURRENT LIABILITIES	
Interfund Payables	675,063
Accrued Interest Payable	137,074
Loans Payable, Current Portion	<u>240,000</u>
TOTAL CURRENT LIABILITIES	1,052,137
NONCURRENT LIABILITIES	
Loans Payable	<u>17,134,032</u>
TOTAL LIABILITIES	<u>18,186,169</u>
NET POSITION	
Net Investment in Capital Assets	(3,262,984)
Restricted for Debt Service	1,037,221
Restricted for Repair and Replacement	<u>31,501</u>
TOTAL NET POSITION	<u>\$ (2,194,262)</u>

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

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

	<u>BUILDING CORPORATION</u>
OPERATING REVENUES	
Lease Income	\$ <u>925,841</u>
OPERATING EXPENSES	
Depreciation	492,752
Debt Service	
Interest and Fees	<u>878,765</u>
TOTAL OPERATING EXPENSES	<u>1,371,517</u>
NET OPERATING LOSS	<u>(445,676)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment Income	126
Debt Issuance Costs	<u>(87,100)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(86,974)</u>
NET LOSS BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	(532,650)
Transfers In	31,500
Transfers Out	(840,603)
Capital Contributions	<u>1,609,987</u>
CHANGE IN NET POSITION	268,234
NET POSITION, Beginning	<u>(2,462,496)</u>
NET POSITION, Ending	\$ <u><u>(2,194,262)</u></u>

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

STEM SCHOOL AND ACADEMY

STATEMENT OF CASH FLOWSPROPRIETARY FUND

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

	<u>BUILDING CORPORATION</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Lease Payments Received	\$ 925,841
Loan Principal Paid	(170,000)
Loan Interest and Fees Paid	<u>(701,019)</u>
Net Cash Provided by Operating Activities	<u>54,822</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Debt Proceeds	3,000,000
Construction and Acquisition of Capital Assets	(761,855)
Transfer to the School	(840,603)
Debt Issuance Costs Paid	(87,100)
Transfer from the School	<u>31,500</u>
Net Cash Provided by Capital and Related Financing Activities	<u>1,341,942</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income Received	<u>126</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,396,890
CASH AND CASH EQUIVALENTS, Beginning	<u>1,119,358</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 2,516,248</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net Operating Loss	\$ (445,676)
Adjustments to Reconcile Net Operating Loss to Net Cash Provided by Operating Activities	
Depreciation	492,752
Amortization of Discount	3,817
Amortization of Loss on Refunding	154,258
Changes in Assets and Liabilities	
Accrued Interest Payable	19,671
Loans Payable	<u>(170,000)</u>
Net Cash Provided by Operating Activities	<u>\$ 54,822</u>
NONCASH TRANSACTIONS	
Contributed Capital Assets	<u>\$ 1,609,987</u>

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

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Science Technology Engineering and Math (STEM) High School, dba the STEM School and Academy (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District (the “District”).

The financial statements of the School have been prepared in conformity with 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. The more significant of the School’s accounting policies are described below.

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 LightHouse Building Corporation (the “Corporation”) within its reporting entity. The Corporation was organized to own property or interests therein to be leased to the School. The Corporation is blended into the School’s financial statements as an enterprise fund, and does not issue separate financial statements.

The School includes the STEM Academy (the “Academy”) within its reporting entity. The Academy is a non-profit entity organized for the purpose of building youth organizations, assisting teens in making healthy decisions and avoiding high-risk behaviors by engaging in high-tech, educational, creative, preventative or fun activities. The Academy provides educational classes, activities and clubs. The Academy is discretely presented in the School’s financial statements and does not issue separate financial statements.

The School is a component unit of the District. The School’s charter was 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 and its component units. 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 primary government is reported separately from the legally separate component unit for which the School is financially accountable.

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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.

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 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 a proprietary fund's principal ongoing operations. Operating expenses for enterprise 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 funds:

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.

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Building Corporation - This fund is used to account for the financial activities of the Corporation, including facilities acquisition and construction, and the related debt service.

Assets, Liabilities and Fund Balance/Net Position

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

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

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future years and are reported as prepaid expenses. This includes rent paid in advance for elementary classrooms.

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 statement of net position in the government-wide financial statements and the proprietary fund in the fund financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method.

Land Improvements	10 years
Buildings	40 years
Building Improvements	15 years
Equipment	5 years

Accrued Salaries and Benefits - Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

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.

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Compensated Absences - The School's policy allows eligible employees to use seven days of personal and sick leave annually. Certified employees are compensated for any unused leave at \$80 per day and classified employees at \$50 per day. Upon termination, employees are paid for any unused sick and personal leave. No liability for these compensated absences is reported in the financial statements because employees are compensated for any unused leave prior to the end of each fiscal year.

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.

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 Board of Directors 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: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Accountability

At June 30, 2016, the Corporation had a negative net position of \$2,194,262. Management expects this negative balance to be eliminated as the Corporation's debt is paid.

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 3: CASH AND INVESTMENTS

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

Deposits	\$ 538,403
Investments	<u>4,596,750</u>
Total	<u>\$ 5,135,153</u>

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

Cash and Investments	\$ 2,618,905
Restricted Cash and Investments	<u>2,516,248</u>
Total	<u>\$ 5,135,153</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 \$1,055,091 collateralized with securities held by the financial institution's agent but not in the School's name.

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.

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

Credit Risk - State statutes limit most investments to those with certain ratings from nationally recognized statistical rating organizations, depending on the type of investment. At June 30, 2016, the Corporation had \$2,516,248 invested in a money market fund rated AAAM by Standard and Poor's.

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 had \$2,080,502 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established by State statutes for local government entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7, with each share valued at \$1. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust 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

At June 30, 2016, the Corporation held investments of \$2,516,248 restricted for capital projects, future debt service, and building repair and replacement.

NOTE 4: INTERFUND BALANCES AND TRANSACTIONS

At June 30, 2016, the Building Corporation owed \$675,063 to the General Fund to reimburse the General Fund for construction costs.

During the year ended June 30, 2016, the General Fund transferred \$31,500 to the Corporation to fund the repair and replacement reserve, as required by the Corporation's loan agreement (See Note 6). In addition, the Corporation paid \$835,603 and \$5,000 to the General Fund for equipment purchases and debt issuance costs, respectively.

NOTE 5: CAPITAL ASSETS

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

	Balances <u>6/30/15</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>6/30/16</u>
Governmental Activities				
Capital Assets, Being Depreciated				
Equipment	\$ 283,891	\$ 21,500	\$ -	\$ 305,391
Accumulated Depreciation	<u>(269,889)</u>	<u>(7,104)</u>	<u>-</u>	<u>(276,993)</u>
Governmental Activities Capital Assets, Net	<u>\$ 14,002</u>	<u>\$ 14,396</u>	<u>\$ -</u>	<u>\$ 28,398</u>

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 5: CAPITAL ASSETS (Continued)

	Balances <u>6/30/15</u>	Additions	Deletions	Balances <u>6/30/16</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 2,370,970	\$ -	\$ -	\$ 2,370,970
Capital Assets, Being Depreciated				
Land Improvements	365,936	-	-	365,936
Buildings	5,220,614	-	-	5,220,614
Building Improvements	3,474,900	3,046,905	-	6,521,805
Equipment	100,875	-	-	100,875
Total Capital Assets, Being Depreciated	<u>9,162,325</u>	<u>3,046,905</u>	<u>-</u>	<u>12,209,230</u>
Less Accumulated Depreciation				
Land Improvements	(109,781)	(36,593)	-	(146,374)
Buildings	(391,546)	(130,515)	-	(522,061)
Building Improvements	(232,464)	(303,194)	-	(535,658)
Equipment	(32,255)	(22,450)	-	(54,705)
Total Accumulated Depreciation	<u>(766,046)</u>	<u>(492,752)</u>	<u>-</u>	<u>(1,258,798)</u>
Total Capital Assets, Being Depreciated, Net	<u>8,396,279</u>	<u>2,554,153</u>	<u>-</u>	<u>10,950,432</u>
Business-Type Activities Capital Assets, Net	<u>\$10,767,249</u>	<u>\$ 2,554,153</u>	<u>\$ -</u>	<u>\$13,321,402</u>
Component Unit				
Capital Assets, Being Depreciated				
Equipment	\$ 100,020	\$ -	\$ -	\$ 100,020
Accumulated Depreciation	(67,694)	(14,955)	-	(82,649)
Component Unit Capital Assets, Net	<u>\$ 32,326</u>	<u>\$ (14,955)</u>	<u>\$ -</u>	<u>\$ 17,371</u>

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

NOTE 6: LONG-TERM DEBT

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

	Balances <u>6/30/15</u>	Additions	Payments	Balances <u>6/30/16</u>	Due Within <u>One Year</u>
Business-Type Activities					
2014 Building Loan	\$ 14,670,000	\$ -	\$ 170,000	\$ 14,500,000	\$ 190,000
2014 Loan Discount	(129,785)	-	(3,817)	(125,968)	-
2016 Building Loan	-	3,000,000	-	3,000,000	50,000
Total	<u>\$14,540,215</u>	<u>\$ 3,000,000</u>	<u>\$ 166,183</u>	<u>\$17,374,032</u>	<u>\$ 240,000</u>

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 6: LONG-TERM DEBT (Continued)

On November 20, 2014, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$14,670,000 Charter School Refunding Revenue Bonds, Series 2014. Bond proceeds were used to refund the outstanding Charter School Revenue Bonds, Series 2012 and 2013, originally loaned to the Corporation to acquire land and a building and to construct improvements to the building for use as an educational facility. Interest accrues on the bonds at rates ranging from 4% to 5.125% per annum, and is payable semi-annually on May 1 and November 1. Principal payments are due annually on November 1, through 2049.

On May 13, 2016, CECFA issued \$3,000,000 Charter School Taxable Revenue Bonds, Series 2016. Bond proceeds were loaned to the Corporation for certain renovations, improvements, and equipment relating to the School's educational facility. Interest accrues on the bonds at rates ranging from 4% to 5% per annum, and is payable semi-annually on May 1 and November 1. Principal payments are due annually on November 1, through 2036.

The School is obligated under lease agreements to make monthly payments to the Corporation for using the facilities. The Corporation is required to make equal loan payments to the bond trustee for payment of the bonds.

Future debt service requirements for the bonds are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 240,000	\$ 756,230	\$ 996,230
2018	290,000	817,629	1,107,629
2019	305,000	805,394	1,110,394
2020	320,000	792,536	1,112,536
2021	330,000	779,155	1,109,155
2022 - 2026	1,870,000	3,675,533	5,545,533
2027 - 2031	2,320,000	3,219,142	5,539,142
2032 - 2036	2,885,000	2,627,050	5,512,050
2037 - 2041	2,670,000	1,919,870	4,589,870
2042 - 2046	3,135,000	1,214,103	4,349,103
2047 - 2050	<u>3,135,000</u>	<u>331,462</u>	<u>3,466,462</u>
Total	<u>\$ 17,500,000</u>	<u>\$ 16,938,104</u>	<u>\$ 34,438,104</u>

NOTE 7: 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.

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

General Information (Continued)

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 8). The School's contributions to the SDTF for the year ended June 30, 2016, were \$852,490, equal to the required contributions.

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

At June 30, 2016, the School reported a net pension liability of \$13,232,559, 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 0.0865195772%, which was an increase of 0.0164860787% from its proportion measured at December 31, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$2,294,118. 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	\$ 174,737	\$ 446
Changes of assumptions and other inputs	-	187,000
Net difference between projected and actual earnings on plan investments	1,086,600	-
Changes in proportion	2,261,309	-
Contributions subsequent to the measurement date	<u>491,426</u>	<u>-</u>
Total	<u>\$ 4,014,072</u>	<u>\$ 187,446</u>

School contributions subsequent to the measurement date of \$491,426 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	\$ 1,271,144
2018	1,158,151
2019	675,185
2020	<u>230,720</u>
Total	<u>\$ 3,335,200</u>

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:

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

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, 2013, 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:

<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>	

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

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:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate share of the net pension liability	<u>\$ 17,153,263</u>	<u>\$ 13,232,559</u>	<u>\$ 9,971,264</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.

NOTE 8: 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 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 \$46,352, \$32,600, and \$27,144, respectively, equal to the required amounts for each year.

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 9: COMMITMENTS AND CONTINGENCIES

Claims and Judgments

The School participates in a number of federal and state 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 appropriate 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 many interpretations, but the School believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the School has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2016, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$395,000.

Lease Agreement

On May 12, 2015, the School entered into an agreement to lease an adjacent building to be used for elementary classrooms. Monthly rental payments ranging from \$33,333 to \$78,956 commenced on September 1, 2015. The lease expires on August 31, 2025. The agreement includes an option to purchase that may be exercised at any time beginning on August 31, 2020.

The School prepaid rent for the initial twelve months of the agreement in the amount of \$400,000. The remaining balance of \$66,667 is reported as prepaid expenses in the financial statements.

Following is a schedule of future minimum payments required by the lease agreement.

Year Ended June 30,

2017	\$ 566,667
2018	700,000
2019	744,000
2020	773,760
2021	804,710
2022 - 2026	<u>3,711,773</u>
Total	<u>\$ 7,300,910</u>

REQUIRED SUPPLEMENTARY INFORMATION

STEM SCHOOL AND ACADEMY

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>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY			
School's Proportion of the Net Pension Liability	0.0865195772%	0.0700334985%	0.0591000446%
School's Proportionate Share of the Net Pension Liability	\$ 13,232,559	\$ 9,491,891	\$ 7,538,195
School's Covered-Employee Payroll	\$ 3,763,936	\$ 2,933,901	\$ 2,382,510
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	352%	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>
SCHOOL CONTRIBUTIONS			
Statutorily Required Contribution	\$ 806,138	\$ 539,534	\$ 424,023
Contributions in Relation to the Statutorily Required Contribution	<u>(806,138)</u>	<u>(539,534)</u>	<u>(424,023)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
School's Covered-Employee Payroll	\$ 4,544,302	\$ 3,196,033	\$ 2,653,206
Contributions as a Percentage of Covered-Employee Payroll	17.74%	16.88%	15.98%

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.

STEM SCHOOL AND ACADEMY

BUDGETARY COMPARISON SCHEDULEGENERAL FUND

Year Ended June 30, 2016

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 9,106,554	\$ 9,025,759	\$ 9,047,927	\$ 22,168
District Mill Levy	724,464	724,209	715,180	(9,029)
Tuition	-	25,000	-	(25,000)
Student Fees and Activities	183,960	179,160	194,619	15,459
Contributions and Donations	22,000	22,000	363,542	341,542
Investment Income	2,592	2,592	4,890	2,298
Rental Income	30,000	30,000	30,000	-
Other	13,761	17,042	-	(17,042)
Total Local Sources	<u>10,083,331</u>	<u>10,025,762</u>	<u>10,356,158</u>	<u>330,396</u>
State Sources				
Grants	-	-	3,858	3,858
Capital Construction	133,600	241,791	333,196	91,405
Total State Sources	<u>133,600</u>	<u>241,791</u>	<u>337,054</u>	<u>95,263</u>
TOTAL REVENUES	<u>10,216,931</u>	<u>10,267,553</u>	<u>10,693,212</u>	<u>425,659</u>
EXPENDITURES				
Salaries	4,531,946	5,024,721	4,983,459	41,262
Employee Benefits	1,359,584	1,507,416	1,198,705	308,711
Purchased Services	2,597,879	2,544,377	2,374,114	170,263
Supplies and Materials	335,980	409,331	359,361	49,970
Property	450,000	2,529,000	2,095,753	433,247
Other	95,430	50,430	51,574	(1,144)
TOTAL EXPENDITURES	<u>9,370,819</u>	<u>12,065,275</u>	<u>11,062,966</u>	<u>1,002,309</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>846,112</u>	<u>(1,797,722)</u>	<u>(369,754)</u>	<u>1,427,968</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	840,603	840,603
Transfers Out	-	-	(31,500)	(31,500)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>809,103</u>	<u>809,103</u>
NET CHANGE IN FUND BALANCE	846,112	(1,797,722)	439,349	2,237,071
FUND BALANCE, Beginning	<u>2,419,969</u>	<u>2,303,232</u>	<u>2,303,232</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ 3,266,081</u>	<u>\$ 505,510</u>	<u>\$ 2,742,581</u>	<u>\$ 2,237,071</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**Budgetary Information**

Budgets are required by State statutes for all funds and are adopted on a basis consistent with generally accepted accounting principles.

The School adheres to the following procedures in establishing the budgetary information reflected in the financial statements.

- Management submits to the Board of Directors 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 Board of Directors.
- Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
- All appropriations lapse at fiscal year end.