

**COMMUNITY PREP SCHOOL**

**FINANCIAL STATEMENTS**

**June 30, 2016**



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*By Justin L. Smith at 11:15 am, Jan 03, 2017*

**COMMUNITY PREP SCHOOL**

**June 30, 2016**

**Governing Board**

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Emily Badovinac - Secretary

Kenneth Brower - Treasurer

Wayne Hutchison

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**School Management**

Martin Schneider, Director

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Governing Board  
Community Prep School  
Colorado Springs, Colorado

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of the Community Prep School, component unit of Colorado Springs School District 11, 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 Community Prep School, 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 and the major fund of the Community Prep School as of June 30, 2016, and the respective changes in financial position 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*

August 9, 2016

**COMMUNITY PREP SCHOOL**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR FISCAL YEAR ENDED JUNE 30, 2016**

As management of Community Prep School (the School) we offer readers of the School's annual financial report this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

**FINANCIAL HIGHLIGHTS**

- Liabilities and deferred inflows of the School exceeded its assets and deferred outflows by \$606,315 during the fiscal year resulting in a negative net position balance. This was due to a change in an accounting principle with the adoption of GASB 68.
- The School's total net position decreased \$194,634. The School maintained a similar number of students as in the prior year and had the staff in place to accommodate these students.
- The School has no long term debt.
- As of the close of the current fiscal year, the School's general fund reported an ending fund balance of \$984,229, an increase of \$28,768 in comparison with the prior year.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis serves as an introduction to the School's basic financial statements. The School's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

**Government-wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the School's finances as a whole, in a manner similar to a private-sector business and include two statements:

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

The *statement of activities* presents information reporting how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. Accrued interest expense is an example of this type of item.

Both government-wide financial statements distinguish functions of the School that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School include general government activities of running a school. Currently, the School has no business-type activities.

### **Fund Financial Statements**

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The fund financial statements provide more detailed information about the School's operations, focusing on its most significant funds, not the School as a whole. The School has one fund, the general fund, which is a governmental fund.

**Governmental Funds:** The School's basic services are included in this governmental fund, which focuses on (1) how money flows into and out of the fund and (2) the balances left at year-end that are available for spending or reserves. Consequently, the governmental fund statements provide a detailed short-term view that helps determine the status of financial resources that can be spent in the near future to finance the School's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Thus, readers may better understand the long-term impact of the School's near-term financing decisions. To facilitate this comparison between governmental funds and governmental activities, reconciliations are provided for both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balance.

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

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

### **Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the School. The School adopts an annual appropriated budget for the general fund. A budgetary comparison schedule has been provided to demonstrate compliance with the budget.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of the School, liabilities and deferred inflows exceeded total assets and deferred outflows by \$606,315 as of June 30, 2016 resulting in a negative net position balance.

### Condensed Statement of Net Position

	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 1,034,745	\$ 991,720
Capital assets, net accumulated depreciation	<u>1,359,334</u>	<u>1,400,510</u>
Total assets	<u>2,394,079</u>	<u>2,392,230</u>
Deferred outflows of resources	<u>500,345</u>	<u>167,351</u>
Long-term liabilities	3,402,009	2,934,784
Other liabilities	<u>50,516</u>	<u>36,259</u>
Total liabilities	<u>3,452,525</u>	<u>2,971,043</u>
Deferred inflows of resources	<u>48,214</u>	<u>219</u>
Net position:		
Net investment in capital assets	1,359,334	1,400,510
Restricted	112,102	94,851
Unrestricted	<u>(2,077,751)</u>	<u>(1,907,042)</u>
Total net position	<u>\$ (606,315)</u>	<u>\$ (411,681)</u>

### Condensed Statement of Activities

	<u>2016</u>	<u>2015</u>
Revenues:		
General Revenues	\$ 2,022,598	\$ 1,793,777
Grants and Contributions	122,855	79,595
Charges for Services	<u>25,593</u>	<u>28,133</u>
Total revenues	<u>2,171,046</u>	<u>1,901,505</u>
Expenses:		
Instructional	880,643	812,163
Supporting Services	<u>1,485,037</u>	<u>1,068,912</u>
Total expenses	<u>2,365,680</u>	<u>1,881,075</u>
Change in net position	<u>(194,634)</u>	<u>20,430</u>
Net position, beginning	(411,681)	2,225,725
Prior period adjustment	<u>0</u>	<u>(2,657,836)</u>
Net position, beginning – as restated	<u>(411,681)</u>	<u>(432,111)</u>
Net position, ending	<u>\$ (606,315)</u>	<u>\$ (411,681)</u>

### ANALYSIS OF THE SCHOOL'S FUNDS

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The general fund is the operating fund of the School. The fund balance for the general fund was \$984,229 at the end of the current fiscal year.

The School has maintained its enrollment over the last couple of years. As a result, revenues continue to increase as the per pupil revenue has been increased this past year. The School also has been adjusting the number of teachers and support staff to compensate with the changes in the student population.

## **BUDGETARY HIGHLIGHTS**

The School budgeted for expenditures of \$2,655,030 for the year ended June 30, 2016. Actual expenditures were \$2,142,278.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

Capital assets include all capital outlays related to the school building. The School's investment in capital assets for its governmental activities at the end of the year was \$1,359,334.

- All changes were due to depreciation expense during the year.

### **Debt Administration**

At the end of current fiscal year, the School had no long term debt.

## **ECONOMIC FACTORS**

- The state has increased school funding for the 2016-17 fiscal year. Community Prep School has budgeted for the increase in funding for this coming year.
- Community Prep is located in downtown Colorado Springs. It is centrally located and close to public transportation. The School anticipates that these factors will allow for continued growth in the future.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide readers with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Martin Schneider, Director, Community Prep School, 332 E. Willamette Avenue, Colorado Springs, CO 80903.

## **BASIC FINANCIAL STATEMENTS**

COMMUNITY PREP SCHOOL

STATEMENT OF NET POSITION

June 30, 2016

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash	\$ 1,034,745
Capital Assets, Not Being Depreciated	285,000
Capital Assets, Net of Accumulated Depreciation	<u>1,074,334</u>
TOTAL ASSETS	<u>2,394,079</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions, Net of Accumulated Amortization	<u>500,345</u>
LIABILITIES	
Accounts Payable	27,490
Accrued Liabilities	23,026
Noncurrent Liabilities	
Net Pension Liability	<u>3,402,009</u>
TOTAL LIABILITIES	<u>3,452,525</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions, Net of Accumulated Amortization	<u>48,214</u>
NET POSITION	
Net Investment in Capital Assets	1,359,334
Restricted for Emergencies	64,000
Restricted for Contingencies	48,102
Unrestricted	<u>(2,077,751)</u>
TOTAL NET POSITION	<u>\$ (606,315)</u>

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

COMMUNITY PREP SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
<b>PRIMARY GOVERNMENT</b>				
<b>Governmental Activities</b>				
Instruction	\$ 880,643	\$ 4,312	\$ 92,731	\$ (783,600)
Supporting Services	<u>1,485,037</u>	<u>21,281</u>	<u>30,124</u>	<u>(1,433,632)</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>\$ 2,365,680</u>	<u>\$ 25,593</u>	<u>\$ 122,855</u>	<u>(2,217,232)</u>
<b>GENERAL REVENUES</b>				
Per Pupil Revenue				1,847,718
Additional At-Risk Funding				1,428
District Mill Levy				100,599
Capital Construction				66,432
Investment Income				964
Miscellaneous				<u>5,457</u>
<b>TOTAL GENERAL REVENUES</b>				<u>2,022,598</u>
<b>CHANGE IN NET POSITION</b>				(194,634)
<b>NET POSITION, Beginning</b>				<u>(411,681)</u>
<b>NET POSITION, Ending</b>				<u>\$ (606,315)</u>

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

COMMUNITY PREP SCHOOL

BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2016

	<u>GENERAL</u>
ASSETS	
Cash	\$ <u>1,034,745</u>
TOTAL ASSETS	\$ <u><u>1,034,745</u></u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 27,490
Accrued Liabilities	<u>23,026</u>
TOTAL LIABILITIES	<u>50,516</u>
FUND BALANCE	
Restricted for Emergencies	64,000
Restricted for Contingencies	48,102
Unrestricted, Unassigned	<u>872,127</u>
TOTAL FUND BALANCE	<u>984,229</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u><u>1,034,745</u></u>

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

Total Fund Balance of the Governmental Fund	\$ 984,229
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	1,359,334
Long-term liabilities and related items, including net pension liability (\$3,402,009), pension-related deferred outflows of resources \$500,345, and pension-related deferred inflows of resources (\$48,214), are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(2,949,878)</u>
Total Net Position of Governmental Activities	\$ <u><u>(606,315)</u></u>

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

COMMUNITY PREP SCHOOL

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

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 2,025,766
State Sources	99,531
Federal Sources	45,749
 TOTAL REVENUES	 2,171,046
EXPENDITURES	
Instruction	794,996
Supporting Services	1,347,282
 TOTAL EXPENDITURES	 2,142,278
 NET CHANGE IN FUND BALANCE	 28,768
FUND BALANCE, Beginning	955,461
FUND BALANCE, Ending	\$ 984,229

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

Net Change in Fund Balance of the Governmental Fund	\$ 28,768
Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized in the statement of net position and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This amount represents depreciation expense in the current year.	(41,176)
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 (\$467,225), pension-related deferred outflows of resources \$332,994, and pension-related deferred inflows of resources (\$47,995) in the current year.	(182,226)
Change in Net Position of Governmental Activities	\$ (194,634)

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

COMMUNITY PREP SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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

The Community Prep School (the “School”) was organized in 1995 pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Colorado Springs School District 11 (the “District”) in the State of Colorado. The School’s mission is to provide students with another way to pursue a high school education with an emphasis on individual needs with small classes that engage students in their own learning. The School is governed by a board consisting of at least five members.

The accounting policies of the School conform to generally accepted accounting principles 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 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 there is a potential for the organization to provide benefits to, or impose financial burdens on, the School.

Based on the application of this criteria, the School does not include additional organizations within its reporting entity.

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. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported in a single column.

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

Separate financial statements are provided for the major governmental fund.

COMMUNITY PREP SCHOOL  
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*. 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. Available means 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.

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.

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

*Cash and Investments* - Investments are reported at fair value.

*Capital Assets* - Capital assets, which include land, buildings and building improvements, vehicles and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School 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 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. Capital assets are depreciated using the straight-line method over the following estimated useful lives.

Building	40 years
Building and Improvements	5 - 40 years
Vehicles and Equipment	5 - 10 years

COMMUNITY PREP SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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

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

*Compensated Absences* - Contracted personnel are allowed to accumulate up to ten days of unused sick and vacation time. Accrued sick and vacation time is not paid upon termination of employment. Therefore, no liability is reported in the financial statements.

*Long-Term Debt* - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. 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.

*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 Governing Board 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 balance. 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 carries commercial insurance for these risks of loss.

**NOTE 2: CASH AND INVESTMENTS**

The School's cash and investments at June 30, 2016, consisted of the following:

Cash on Hand	\$ 54
Deposits	<u>1,034,691</u>
Total	<u><b>\$ 1,034,745</b></u>

COMMUNITY PREP SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

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

**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 \$288,955 collateralized with securities held by the financial institutions' agents 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 generally limit the maturity of investment securities to five years from the date of purchase, unless the governing board authorizes an investment for a period in excess of five years. 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

The School had no investments at June 30, 2016.

**NOTE 3: CAPITAL ASSETS**

Changes in capital assets for the year ended June 30, 2016, are summarized below.

	<u>Balances</u> 6/30/15	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 6/30/16
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 285,000	\$ -	\$ -	\$ 285,000
Capital Assets, Being Depreciated				
Building	1,365,000	-	-	1,365,000
Building Improvements	24,209	-	-	24,209
Vehicles and Equipment	124,703	-	-	124,703
Total Capital Assets, Being Depreciated	<u>1,513,912</u>	<u>-</u>	<u>-</u>	<u>1,513,912</u>

COMMUNITY PREP SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 3: CAPITAL ASSETS (Continued)**

	Balances <u>6/30/15</u>	<u>Additions</u>	<u>Deletions</u>	Balances <u>6/30/16</u>
<b>Governmental Activities (Continued)</b>				
Less Accumulated Depreciation				
Building	(280,845)	(32,853)	-	(313,698)
Building Improvements	(8,687)	(3,323)	-	(12,010)
Vehicles and Equipment	<u>(108,870)</u>	<u>(5,000)</u>	-	<u>(113,870)</u>
Total Accumulated Depreciation	<u>(398,402)</u>	<u>(41,176)</u>	-	<u>(439,578)</u>
 Total Capital Assets, Being Depreciated, Net	 <u>1,115,510</u>	 <u>(41,176)</u>	 -	 <u>1,074,334</u>
 Governmental Activities Capital Assets, Net	 <u>\$ 1,400,510</u>	 <u>\$ (41,176)</u>	 <u>\$ -</u>	 <u>\$ 1,359,334</u>

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

**NOTE 4: 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.

COMMUNITY PREP SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)**

**General Information** (Continued)

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 5). The School's contributions to the SDTF for the year ended June 30, 2016, were \$197,402, equal to the required contributions.

**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 \$3,402,009, 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 0.0222436460%, which was an increase of 0.0005900878% from its proportion measured at December 31, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$350,218. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 44,924	\$ 138
Changes of assumptions and other inputs	-	48,076
Net difference between projected and actual earnings on plan investments	287,887	-
Changes in proportion	73,067	-
Contributions subsequent to the measurement date	94,467	-
Total	<b>\$ 500,345</b>	<b>\$ 48,214</b>

COMMUNITY PREP SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)**

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

School contributions subsequent to the measurement date of \$94,467 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	\$ 105,747
2018	103,113
2019	89,487
2020	<u>59,317</u>
Total	<u><b>\$ 357,664</b></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:

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	7.50%
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 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.

COMMUNITY PREP SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2016

**NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)**

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

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>	

*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 percent, the employer contribution rate will decrease .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>\$ 4,409,997</u>	<u>\$ 3,402,009</u>	<u>\$ 2,563,550</u>

COMMUNITY PREP SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)**

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

*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).

**NOTE 5: 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 \$10,730, \$9,289 and \$9,057, respectively, equal to the required amounts for each year.

**NOTE 6: COMMITMENTS AND CONTINGENCIES**

**Building Acquisition**

In January, 2008, the School purchased its educational facilities from the City of Colorado Springs (the "City") for \$1. The terms of the purchase and sale agreement require the property to be used for public educational, classroom purposes for a minimum of twenty-five years. During this period, the City shall have the right of first refusal to purchase the property. After twenty-five years, the City shall not be entitled to any proceeds from any sale of the property.

**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 other government. At June 30, 2016, significant amounts of related expenditures have not been audited but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

COMMUNITY PREP SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 6:**      **COMMITMENTS AND CONTINGENCIES** (Continued)

**Tabor Amendment**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue increases, spending abilities, and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation. However, the School believes it is in substantial compliance with the requirements of the Amendment. The Amendment requires state and local governments to establish an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2016, the School's reserve of \$64,000 was reported as restricted fund balance in the General Fund.

**Contingency Reserve**

In accordance with its charter agreement with the District, the School is required to maintain a contingency reserve to fund unexpected occurrences. The required reserve must equal 2% of the School's total budgeted aggregate revenues for the succeeding year. At June 30, 2016, the contingency reserve of \$48,102 was reported as restricted fund balance in the General Fund.

**REQUIRED SUPPLEMENTARY INFORMATION**

COMMUNITY PREP SCHOOL

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	0.0222436460%	0.0216535582%	0.0213965478%
School's Proportionate Share of the Net Pension Liability	\$ 3,402,009	\$ 2,934,784	\$ 2,729,124
School's Covered-Employee Payroll	\$ 969,149	\$ 906,342	\$ 862,684
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>
SCHOOL CONTRIBUTIONS			
Statutorily Required Contribution	\$ 186,520	\$ 153,563	\$ 141,777
Contributions in Relation to the Statutorily Required Contribution	<u>(186,520)</u>	<u>(153,563)</u>	<u>(141,777)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
School's Covered-Employee Payroll	\$ 1,052,008	\$ 910,646	\$ 890,024
Contributions as a Percentage of Covered-Employee Payroll	17.74%	16.86%	15.93%

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.

COMMUNITY PREP SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2016

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE Positive (Negative)
<b>REVENUES</b>				
Local Sources				
Per Pupil Revenue	\$ 1,769,635	\$ 1,841,293	\$ 1,847,718	\$ 6,425
District Mill Levy	70,750	100,599	100,599	-
Student Activities	-	3,000	4,312	1,312
Food Service Fees	19,000	28,000	17,081	(10,919)
Contributions and Donations	-	-	45,475	45,475
Investment Income	-	-	964	964
Miscellaneous	4,200	8,700	9,617	917
State Sources				
Capital Construction	61,500	72,000	66,432	(5,568)
Special Education	-	-	27,658	27,658
Other	-	-	5,441	5,441
Federal Sources				
Special Education	66,000	71,743	44,085	(27,658)
Improving Teacher Quality	1,450	1,450	1,624	174
Impact Aid	-	-	40	40
<b>TOTAL REVENUES</b>	<u>1,992,535</u>	<u>2,126,785</u>	<u>2,171,046</u>	<u>44,261</u>
<b>EXPENDITURES</b>				
Instruction				
Salaries	532,709	550,273	493,360	56,913
Employee Benefits	176,042	169,026	162,979	6,047
Purchased Services	110,800	125,800	100,308	25,492
Supplies	18,000	22,000	38,349	(16,349)
<b>Total Instruction</b>	<u>837,551</u>	<u>867,099</u>	<u>794,996</u>	<u>72,103</u>
Supporting Services				
Salaries	483,173	483,173	554,681	(71,508)
Employee Benefits	168,907	168,907	200,753	(31,846)
Purchased Services	341,339	432,569	445,515	(12,946)
Supplies	99,000	99,000	136,023	(37,023)
Property	-	-	2,560	(2,560)
Other	2,000	2,000	7,750	(5,750)
<b>Total Supporting Services</b>	<u>1,094,419</u>	<u>1,185,649</u>	<u>1,347,282</u>	<u>(161,633)</u>
<b>Reserves</b>	<u>588,810</u>	<u>602,282</u>	<u>-</u>	<u>602,282</u>
<b>TOTAL EXPENDITURES</b>	<u>2,520,780</u>	<u>2,655,030</u>	<u>2,142,278</u>	<u>512,752</u>
<b>NET CHANGE IN FUND BALANCE</b>	(528,245)	(528,245)	28,768	557,013
<b>FUND BALANCE, Beginning</b>	<u>528,245</u>	<u>528,245</u>	<u>955,461</u>	<u>427,216</u>
<b>FUND BALANCE, Ending</b>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>984,229</u>	\$ <u>984,229</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 to establish the budgetary information reflected in the financial statements.

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