

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

FINANCIAL STATEMENTS

June 30, 2016



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Board of Directors
Chavez/Huerta K-12 Preparatory Academy
Pueblo, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Chavez/Huerta K-12 Preparatory Academy, component unit of Pueblo School District No. 60, 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 Chavez/Huerta K-12 Preparatory 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, and each major fund of the Chavez/Huerta K-12 Preparatory 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.

Smartmont & Company LLC

October 6, 2016

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

MANAGEMENT DISCUSSION AND ANALYSIS

As management of the Chavez/Huerta K-12 Preparatory Academy, we offer readers of the Chavez/Huerta K-12 Preparatory Academy financial statements this narrative overview and analysis of the financial activities of the organization for the fiscal year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

Chavez/Huerta K-12 Preparatory Academy (also referred to as the “Academy”) was required to implement GASB 68 in 2015 resulting in a net pension liability of \$11,792,396 that increased to \$11,967,471 in 2016. Under GASB 68 the Academy’s proportionate share of the net pension liability of the Colorado state retirement system, the Public Employees Retirement Association, is recorded as a liability of the Academy. At implementation beginning equity was restated and deferred inflows, outflows and net pension liability are reported. Beginning net position of governmental activities decreased as a result of this change.

Upon implementation of GASB 68 in 2014-15, the beginning net position of governmental activities decreased \$11,817,483 to (\$10,049,098) from \$1,768,385 at the end of the 2013-14 fiscal year. The ending net position at June 30, 2015 increased \$288,221 to (\$9,760,877). During 2015-16 the change in net position from governmental activities increased \$26,611 due to GASB 68 and increased \$885,959 from other activities resulting in ending net position at June 30, 2016 for (\$8,848,307).

The CCA Building Corporation (also referred to as the “Corporation”) was formed for the specific purpose of holding title to real and/or personal property for the Academy and to make the same available for use by the Academy. The Academy pays rent to the Corporation for use of the facilities, which in turn is used to pay the related debt. The Corporation is blended into the Academy’s financial statements as an enterprise fund (proprietary fund type). The net position of the Corporation at June 30, 2016 increased \$69,371 from current activities to (\$1,026,370) compared to (\$1,095,741) the prior year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Chavez/Huerta K-12 Preparatory Academy’s basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

Government-wide Financial Statements:

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

The statement of net position presents information on all of the Academy's assets and liabilities, and deferred inflows and outflows, 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 Academy is improving or deteriorating.

The statement of activities presents information showing how the Academy's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected grant revenues and earned but unpaid salary and benefits).

The government-wide statement of activities distinguishes functions/programs of the Academy supported primarily by per pupil revenue (PPR) passed through from the District. The governmental activities of the Academy include instruction and supporting services expense. The government-wide financial statements can be found on pages 1-2 of this report.

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. Chavez/Huerta K-12 Preparatory Academy, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Academy are divided into two categories: governmental funds and proprietary funds.

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

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

Chavez/Huerta K-12 Preparatory Academy maintains one governmental fund and adopts an annual appropriated budget. Budgetary comparison statements have been provided to demonstrate compliance with the budget.

Proprietary Fund: The CCA Building Corporation is considered a component unit of the charter school and presented separately in the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows for Proprietary Funds. Annual budgets are prepared for the proprietary funds. Though budgetary comparisons are not required for these funds for reporting purposes, appropriate comparisons are reported to the Academy's governing body through internal reports to demonstrate compliance with the budget.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided on pages 8 through 19.

GOVERNMENT-WIDE FINANCIAL STATEMENT ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Academy, liabilities exceeded assets by \$9,874,677 as of the close of the 2015-16 fiscal year compared to \$10,856,618 the prior year. The negative balance is due primarily to the adoption of GASB Statement No. 68 whereby the Academy reports its proportionate share of the state retirement plan as a liability on its financial statements. The net pension liability at the end of the current fiscal year is \$11,967,471 compared to \$11,792,396 the prior year. Current year pension related activities increased the net position by \$26,611.

Statement of Net Position Governmental and Business Type Activities

	30-Jun-16	30-Jun-15	Net Change
Current and other assets	\$ 4,794,529	\$ 3,713,174	\$ 1,081,355
Capital assets	<u>\$ 10,994,292</u>	<u>\$ 11,303,120</u>	<u>\$ (308,828)</u>
TOTAL ASSETS	<u>\$ 15,788,821</u>	<u>\$ 15,016,294</u>	<u>\$ 772,527</u>
<hr/>			
DEFERRED OUTFLOWS OF RESOURCES	\$ 1,523,862	\$ 570,955	\$ 952,907
<hr/>			
Current liabilities	\$ 579,809	\$ 411,382	\$ 168,427
Other liabilities	<u>\$ 25,103,231</u>	<u>\$ 25,279,386</u>	<u>\$ (176,155)</u>
TOTAL LIABILITIES	<u>\$ 25,683,040</u>	<u>\$ 25,690,768</u>	<u>\$ (7,728)</u>
<hr/>			
DEFERRED INFLOWS OF RESOURCES	<u>\$ 1,504,320</u>	<u>\$ 753,099</u>	<u>\$ 751,221</u>
<hr/>			
Net Position			
Net Investment in Capital Assets	\$ (2,141,468)	\$ (2,183,870)	\$ 42,402
Restricted for Debt Service	\$ 1,315,958	\$ 1,297,583	\$ 18,375
Restricted for Repairs & Replacement	\$ 260,243	\$ 256,866	\$ 3,377
Restricted for Emergencies	\$ 240,000	\$ 240,000	\$ -
Unrestricted	<u>\$ (9,549,410)</u>	<u>\$ (10,467,197)</u>	<u>\$ 917,787</u>
TOTAL NET POSITION	<u>\$ (9,874,677)</u>	<u>\$ (10,856,618)</u>	<u>\$ 981,941</u>

Cash and investments make up 29.8% of total assets compared to 24.5% the prior year. 38.6% of cash and investments are restricted in the Corporation for maintenance of capital assets and reserved to repay debt. Capital assets, which reflect the Academy's investment in real and personal property and equipment, currently make up 69.6% of total assets compared to 75.3% the previous year. The remaining assets, primarily grants receivable, make up 0.6% of total assets.

Deferred inflows of resources net of deferred outflows of resources increased \$201,686. Total liabilities decreased \$7,728 while total assets increased by \$772,527 due to increases in cash deposits as reserves have grown to meet debt covenants.

Statement of Activities
For the Years Ended June 30, 2016 and June 30, 2015

	<u>30-Jun-16</u>	<u>30-Jun-15</u>	<u>Net Change</u>
Program Revenue:			
Charges for Services	\$ 50,251	\$ 186,278	\$ (136,027)
Restricted Grants & Contributions	\$ 911,285	\$ 769,992	\$ 141,293
Total Program Revenue	<u>\$ 961,536</u>	<u>\$ 956,270</u>	<u>\$ 5,266</u>
General Revenue:			
Per Pupil Operating Revenue	\$ 7,223,494	\$ 6,765,308	\$ 458,186
Capital Construction Grant	\$ 257,277	\$ 163,283	\$ 93,994
Unrestricted Grants & Contributions	\$ 95,602	\$ 25,317	\$ 70,285
Investment Income	\$ 5,427	\$ 1,608	\$ 3,819
Miscellaneous	\$ 1,947	\$ 11,713	\$ (9,766)
Total General Revenue	<u>\$ 7,583,747</u>	<u>\$ 6,967,229</u>	<u>\$ 616,518</u>
Total Revenue	<u>\$ 8,545,283</u>	<u>\$ 7,923,499</u>	<u>\$ 621,784</u>
Expenses:			
Current:			
Instruction	\$ 3,405,085	\$ 3,669,993	\$ (264,908)
Supporting Services	\$ 3,262,787	\$ 3,007,284	\$ 255,503
Interest on Long-Term Debt	\$ -	\$ -	\$ -
Building Corporation	\$ 895,470	\$ 932,994	\$ (37,524)
Total Expenses	<u>\$ 7,563,342</u>	<u>\$ 7,610,271</u>	<u>\$ (46,929)</u>
CHANGE IN NET POSITION	\$ 981,941	\$ 313,228	\$ 668,713
NET POSTION, Beginning (Restated)	<u>\$ (10,856,618)</u>	<u>\$ (11,169,846)</u>	<u>\$ 313,228</u>
NET POSTION, Ending	<u>\$ (9,874,677)</u>	<u>\$ (10,856,618)</u>	<u>\$ 981,941</u>

Per pupil operating revenue increased \$458,186 due to increased enrollment and per pupil funding from the School Finance Act. Grants and contributions increased by \$141,293 due to increases in funding from Title I and state and federal funding for exceptional student services. Capital Construction increased \$93,994 due to increased funding for charter school capital construction and increased enrollment. Overall revenues increased \$621,784 due to additional spending from grants and fewer vacancies during the year.

ANALYSIS OF THE FUND FINANCIAL STATEMENTS

As noted earlier, Chavez/Huerta K-12 Preparatory Academy uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

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

This is the 16th full year of operations for the Academy, but the fourth year since the two schools were merged. Total revenue for FY 2015-16 was \$8,541,021 compared to \$7,922,292 the prior year. Per pupil operating revenue, makes up 84.6% of Governmental Funds revenue for FY 2015-16 compared to 85.4% the prior year. Funded pupil count for 2015-16 was 997 compared to 965 the prior year, an increase of 32 students. Per pupil funding increased from \$7,014 in FY 2014-15 to \$7,271 in FY 2015-16, an increase of \$257 per student.

As of the end of the current fiscal year, the Academy reported ending fund balance of \$2,638,519 in its General Fund compared to \$1,747,343 the prior year, an increase of \$891,176. Reserves are adequate to meet the restricted emergency reserve requirement under TABOR in the amount of \$240,000 and to comply with the unrestricted \$725,000 working capital requirement set forth in a separate agreement with the lender.

Proprietary Fund: The net position of the Building Corporation as of June 30, 2016 is (\$1,026,370) compared to (\$1,095,741) the prior year, an increase of \$69,371, as a result of decreased interest expense as outstanding debt declines.

BUDGETARY HIGHLIGHTS

The Academy approves a budget in June based on enrollment projections for the following school year. The budget is amended in December, after enrollment is finalized and per pupil funding can be more accurately projected.

The majority of Academy spending in the General Fund is for salaries and benefits, which make up 61% of total expenditures for FY 2015-16 compared to 61.9% the prior year. Purchased services made up 27.8% of total expenditures compared to 26.7% the prior year. The primary sources of spending for purchased services are rents paid to the Building Corporation, overhead costs charged by the District, insurance, legal, audit and financial services.

Other Budgetary Highlights: Total expenditures did not exceed the amount appropriated for fiscal year 2015-16.

CAPITAL ASSET AND LONG-TERM DEBT

Capital assets: CCA Building Corporation owns land with a carrying value of \$1,178,524 and buildings and improvements capitalized at \$11,930,930 at June 30, 2016. Capitalized equipment, including buses, totals \$546,099. The net carrying value of capital assets after subtracting accumulated depreciation is \$10,533,189. There were no additions or disposals of capital assets in the Building Corporation during 2015-16. Additional information on this investment is provided in Note 4 to the financial statements.

Government Fund purchased certain capital assets, which are reported as governmental activities on the Statement of Net Position. Buildings including modular classrooms and improvements are capitalized at \$1,127,776 at June 30, 2016. Capitalized equipment, including buses, totals \$572,428. The net carrying value of capital assets after subtracting accumulated depreciation is \$461,103. Current year additions included handicap access areas at the Dolores Huerta Preparatory High School at a cost of \$16,900 and replacement of the intercom systems at Cesar Chavez Academy at a cost of \$17,942. In addition, the telephone system was replaced resulting in additions totaling \$42,191 and disposal of the old system carried at \$33,842.

Long-term debt: In April, 2007, the Building Corporation issued \$15,570,000 in bonds under an agreement with the Colorado Educational and Cultural Facilities Authority (CECFA) at interest costs ranging from 4% to 4.5%. Interest payments are due semi-annually and principal payments are due annually on August 1 beginning in 2009, through 2037. These transactions flow through the State intercept program where the State withholds a portion of the State funding and transfers the funds to a designated trustee that in turn makes the principal and interest payments when due. At June 30, 2016 the outstanding loan balance was \$13,320,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The lease payments to the Corporation for principal and interest due on the 2007 bond issue have stabilized and will increase very little in future years. Funded pupil count must be sustained to meet the commitments under this agreement. Enrollment at the Academy continues to fluctuate, which presents a challenge in balancing the budget from year to year. The funded pupil count on October 1, 2012 was 1155, dropped to 1065 on October 1, 2013, and decreased again for October 1, 2014 to 965. Funded pupil count increased to 997 for October 1, 2015. Enrollment is expected to decrease slightly for 2015-16. Though appropriate action has been taken to modify operations in light of the changes in the funded pupil count, the Academy needs to maintain or increase its enrollment to make required debt payments and still provide quality programs for its students.

In November of 2000 voters in Colorado approved a provision to the Colorado constitution providing that K-12 funding would increase at pupil growth, plus inflation, plus 1% for 10 years and thereafter, growth plus inflation. As a result of this provision the single most important factor in projecting revenues is estimated future inflation. There was a significant recession during 2008-09 that continued through the 2011-12 fiscal year resulting in deflation (negative growth). In an effort to balance its budget, the

State rescinded funding approved for public schools. Per pupil funding declined each year for four years and then stabilized in 2012-13 with base per pupil funding remaining the same as the prior year. The Academy's per pupil funding increased 2.5% to \$6,574 for 2013-14, 6.7% to \$7,014 for 2014-15 and 3.7% to \$7,271 for 2015-16. Per pupil funding is expected to increase 1.6% to \$7,389 for 2016-17.

SUBSEQUENT EVENT

There were no significant subsequent events to report as of the date of the release of these financial statements

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Chavez/Huerta K-12 Preparatory Academy's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be submitted in writing and addressed to Dr. Richard E. Duran, Executive Director, Cesar/Huerta K-12 Preparatory Academy, 2727 W. 18th St., Pueblo, CO 81003.

BASIC FINANCIAL STATEMENTS

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

STATEMENT OF NET POSITION

June 30, 2016

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Investments	\$ 2,889,721	\$ -	\$ 2,889,721
Restricted Cash and Investments	-	1,818,032	1,818,032
Accounts Receivable, Net of Allowance for Doubtful Accounts	1,311	-	1,311
Grants Receivable	35,465	-	35,465
Deposits	50,000	-	50,000
Capital Assets, Not Being Depreciated	-	1,178,524	1,178,524
Capital Assets, Net of Accumulated Depreciation	<u>461,103</u>	<u>9,354,665</u>	<u>9,815,768</u>
TOTAL ASSETS	<u>3,437,600</u>	<u>12,351,221</u>	<u>15,788,821</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions, Net of Accumulated Amortization	<u>1,523,862</u>	<u>-</u>	<u>1,523,862</u>
LIABILITIES			
Accounts Payable	114,840	-	114,840
Accrued Liabilities	23,138	-	23,138
Accrued Interest Payable	-	241,831	241,831
Unearned Revenues	200,000	-	200,000
Noncurrent Liabilities			
Due Within One Year	-	375,000	375,000
Due in More Than One Year	-	12,760,760	12,760,760
Net Pension Liability	<u>11,967,471</u>	<u>-</u>	<u>11,967,471</u>
TOTAL LIABILITIES	<u>12,305,449</u>	<u>13,377,591</u>	<u>25,683,040</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions, Net of Accumulated Amortization	<u>1,504,320</u>	<u>-</u>	<u>1,504,320</u>
NET POSITION			
Net Investment in Capital Assets	461,103	(2,602,571)	(2,141,468)
Restricted for Debt Service	-	1,315,958	1,315,958
Restricted for Repair and Replacements	-	260,243	260,243
Restricted for Emergencies	240,000	-	240,000
Unrestricted	<u>(9,549,410)</u>	<u>-</u>	<u>(9,549,410)</u>
TOTAL NET POSITION	<u>\$ (8,848,307)</u>	<u>\$ (1,026,370)</u>	<u>\$ (9,874,677)</u>

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

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>	
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>
PRIMARY GOVERNMENT			
Governmental Activities			
Instruction	\$ 3,405,085	\$ 50,251	\$ 793,899
Supporting Services	<u>3,262,787</u>	<u>-</u>	<u>117,386</u>
Total Governmental Activities	<u>6,667,872</u>	<u>50,251</u>	<u>911,285</u>
Business-Type Activities			
Building Corporation	<u>895,470</u>	<u>-</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 7,563,342</u>	<u>\$ 50,251</u>	<u>\$ 911,285</u>
		GENERAL REVENUES	
		Per Pupil Revenue	
		Capital Construction	
		Grants and Contributions Not Restricted to Specific Programs	
		Investment Income	
		Other	
		TRANSFERS	
		TOTAL GENERAL REVENUES AND TRANSFERS	
		CHANGE IN NET POSITION	
		NET POSITION, Beginning	
		NET POSITION, Ending	

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

NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION

<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
\$ (2,560,935)	\$ -	\$ (2,560,935)
<u>(3,145,401)</u>	<u>-</u>	<u>(3,145,401)</u>
(5,706,336)	-	(5,706,336)
-	(895,470)	(895,470)
<u>(5,706,336)</u>	<u>(895,470)</u>	<u>(6,601,806)</u>
7,223,494	-	7,223,494
257,277	-	257,277
95,602	-	95,602
1,165	4,262	5,427
1,947	-	1,947
<u>(960,579)</u>	<u>960,579</u>	<u>-</u>
<u>6,618,906</u>	<u>964,841</u>	<u>7,583,747</u>
912,570	69,371	981,941
<u>(9,760,877)</u>	<u>(1,095,741)</u>	<u>(10,856,618)</u>
\$ <u><u>(8,848,307)</u></u>	\$ <u><u>(1,026,370)</u></u>	\$ <u><u>(9,874,677)</u></u>

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2016

	<u>GENERAL</u>
ASSETS	
Cash and Investments	\$ 2,889,721
Accounts Receivable, Net of Allowance for Doubtful Accounts	1,311
Grants Receivable	35,465
Deposits	50,000
TOTAL ASSETS	\$ 2,976,497
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 114,840
Accrued Liabilities	23,138
Unearned Revenues	200,000
TOTAL LIABILITIES	337,978
FUND BALANCE	
Nonspendable Deposits	50,000
Restricted for Emergencies	240,000
Unrestricted, Unassigned	2,348,519
TOTAL FUND BALANCE	2,638,519
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,976,497
 Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 2,638,519
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	461,103
Long-term liabilities and related items, including net pension liability (\$11,967,471), pension-related deferred outflows of resources \$1,523,862, and pension-related deferred inflows of resources (\$1,504,320), are not due and payable in the current year and, therefore, are not reported in governmental funds.	(11,947,929)
Total Net Position of Governmental Activities	\$ (8,848,307)

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

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

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

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 7,380,959
State Sources	589,124
Federal Sources	570,938
 TOTAL REVENUES	 8,541,021
EXPENDITURES	
Instruction	3,405,583
Supporting Services	4,244,262
 TOTAL EXPENDITURES	 7,649,845
 NET CHANGE IN FUND BALANCE	 891,176
FUND BALANCE, Beginning	1,747,343
FUND BALANCE, Ending	\$ 2,638,519
 Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Net Change in Fund Balance of the Governmental Fund	\$ 891,176
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$80,966) and loss on disposal (\$1,284) exceeded capital outlay \$77,033 in the current year.	(5,217)
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 net pension liability (\$175,075), pension-related deferred outflows of resources \$952,907, and pension-related deferred inflows of resources (\$751,221) in the current year.	26,611
Change in Net Position of Governmental Activities	\$ 912,570

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

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2016

	<u>BUILDING CORPORATION</u>
ASSETS	
CURRENT ASSETS	
Restricted Cash and Investments	\$ <u>1,818,032</u>
TOTAL CURRENT ASSETS	<u>1,818,032</u>
NONCURRENT ASSETS	
Capital Assets, Not Being Depreciated	1,178,524
Capital Assets, Net of Accumulated Depreciation	<u>9,354,665</u>
TOTAL NONCURRENT ASSETS	<u>10,533,189</u>
TOTAL ASSETS	<u>12,351,221</u>
LIABILITIES	
CURRENT LIABILITIES	
Accrued Interest Payable	241,831
Loan Payable, Current Portion	<u>375,000</u>
TOTAL CURRENT LIABILITIES	616,831
NONCURRENT LIABILITIES	
Loan Payable	<u>12,760,760</u>
TOTAL LIABILITIES	<u>13,377,591</u>
NET POSITION	
Net Investment in Capital Assets	(2,602,571)
Restricted for Debt Service	1,315,958
Restricted for Repair and Replacements	<u>260,243</u>
TOTAL NET POSITION	<u>\$ (1,026,370)</u>

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

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

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

	<u>BUILDING CORPORATION</u>
OPERATING REVENUES	
Rental Income	\$ <u>960,579</u>
TOTAL OPERATING REVENUES	<u>960,579</u>
OPERATING EXPENSES	
Depreciation	303,611
Debt Service	
Interest and Fiscal Charges	<u>591,859</u>
TOTAL OPERATING EXPENSES	<u>895,470</u>
NET OPERATING INCOME	65,109
NONOPERATING REVENUES	
Investment Income	<u>4,262</u>
CHANGE IN NET POSITION	69,371
NET POSITION, Beginning	<u>(1,095,741)</u>
NET POSITION, Ending	\$ <u><u>(1,026,370)</u></u>

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

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

STATEMENT OF CASH FLOWS

PROPRIETARY 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	\$ 960,579
Loan Principal Paid	(360,000)
Loan Interest Paid	<u>(590,156)</u>
Net Cash Provided by Operating Activities	<u>10,423</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income Received	<u>4,262</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,685
CASH AND CASH EQUIVALENTS, Beginning	<u>1,803,347</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 1,818,032</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net Operating Income	\$ 65,109
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	303,611
Amortization of Discount	8,770
Changes in Assets and Liabilities	
Accrued Interest Payable	(7,067)
Loan Payable	<u>(360,000)</u>
Net Cash Provided by Operating Activities	<u>\$ 10,423</u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Chavez/Huerta K-12 Preparatory Academy (the “Academy”) was formed by the merger of Cesar Chavez Academy and Dolores Huerta Preparatory High, effective July 1, 2012. The Academy operates a charter school within Pueblo School District No. 60 (the “District”). The Academy is a non-profit organization as defined in Section 501(c)(3) of the Internal Revenue Code.

The accounting policies of the Academy 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 Academy’s more significant policies.

Reporting Entity

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

The Academy includes the CCA Building Corporation (the “Building Corporation”) within its reporting entity. The Building Corporation was incorporated to acquire, exchange, lease, hold, use, operate or otherwise deal with property, borrow money and secure the repayment of moneys borrowed for the Building Corporation or the Academy. The Building Corporation is blended into the Academy’s financial statements as an enterprise fund, and does not issue separate financial statements.

The Academy is a component unit of the District. The Academy’s charter was authorized by the District and the majority of the Academy’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 Academy. 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 the *business-type activities*, which rely to a significant extent on fees and charges for support.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Government-Wide and Fund Financial Statements (Continued)**

Major individual governmental and proprietary 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 revenue is considered measurable and available only when cash is received by the Academy. 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 ongoing operations. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The Academy reports the following major funds:

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

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

Assets, Liabilities and Fund Balance/Net Position

Cash and Investments - Cash equivalents are defined as investments with an original maturity of ninety days or less. Investments are stated at fair value. The Building Corporation's investment in the local government investment pool is reported at the net asset value per share, which is measured using amortized cost.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Deposits - The Academy has provided a security deposit for an equipment installation project. The deposit will be applied to the cost of the project.

Capital Assets - Capital assets, which include property 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 is calculated using the straight-line method over the following estimated useful lives.

Land Improvements	10 - 40 years
Buildings	10 - 40 years
Building Improvements	10 - 40 years
Equipment	3 - 10 years

Unearned Revenues - Unearned revenues include grants received before eligibility requirements established by the provider have been met.

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 and discounts are deferred and amortized over the life of the debt using the straight-line method. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses.

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

Pensions - The Academy 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Net Position/Fund Balance - In the government-wide and fund financial statements, net position and fund balance are restricted when constraints placed on the use of resources are externally imposed. The 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 Academy 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 Academy uses restricted fund balance first, followed by committed, assigned, and unassigned balances.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Accountability

At June 30, 2016, the Building Corporation had a negative net position of \$1,026,370. Management expects this negative balance to be eliminated as the Building Corporation's debt is paid.

NOTE 3: CASH AND INVESTMENTS

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

Deposits	\$ 2,889,721
Investments	<u>1,818,032</u>
Total	<u>\$ 4,707,753</u>

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

Cash and Investments	\$ 2,889,721
Restricted Cash and Investments	<u>1,818,032</u>
Total	<u>\$ 4,707,753</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 Academy had bank deposits of \$2,967,036 collateralized with securities held by the financial institution's agent but not in the Academy's name.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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

The Academy 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 investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years.

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

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

At June 30, 2016, the Building Corporation had \$1,818,032 invested in the Colorado Surplus Asset Fund Trust (CSAFE), an investment vehicle established for local government entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating CSAFE. CSAFE operates in conformity with the Securities and Exchange Commission's Rule 2a-7, with each share valued at \$1. CSAFE is rated AAAM by Standard and Poor's. Investments of CSAFE are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

Restricted Cash and Investments

At June 30, 2016, the Building Corporation held investments of \$1,818,032 restricted by its loan agreement for future debt service and building repair and replacements.

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 4: 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
Governmental Activities				
Capital Assets, Being Depreciated				
Land Improvements	\$ 105,943	\$ 16,900	\$ -	\$ 122,843
Buildings	641,143	-	-	641,143
Building Improvements	363,790	-	-	363,790
Equipment	<u>546,137</u>	<u>60,133</u>	<u>33,842</u>	<u>572,428</u>
Total Capital Assets, Being Depreciated	<u>1,657,013</u>	<u>77,033</u>	<u>33,842</u>	<u>1,700,204</u>
Less Accumulated Depreciation				
Land Improvements	15,031	4,630	-	19,661
Buildings	561,210	23,901	-	585,111
Building Improvements	178,453	15,345	-	193,798
Equipment	<u>435,999</u>	<u>37,090</u>	<u>32,558</u>	<u>440,531</u>
Total Accumulated Depreciation	<u>1,190,693</u>	<u>80,966</u>	<u>32,558</u>	<u>1,239,101</u>
Governmental Activities Capital Assets, Net	<u>\$ 466,320</u>	<u>\$ (3,933)</u>	<u>\$ 1,284</u>	<u>\$ 461,103</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	<u>\$ 1,178,524</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,178,524</u>
Capital Assets, Being Depreciated				
Land Improvements	89,058	-	-	89,058
Buildings	11,802,663	-	-	11,802,663
Building Improvements	39,209	-	-	39,209
Equipment	<u>546,099</u>	<u>-</u>	<u>-</u>	<u>546,099</u>
Total Capital Assets, Being Depreciated	<u>12,477,029</u>	<u>-</u>	<u>-</u>	<u>12,477,029</u>
Less Accumulated Depreciation				
Land Improvements	13,061	3,560	-	16,621
Buildings	2,405,305	283,506	-	2,688,811
Building Improvements	5,604	800	-	6,404
Equipment	<u>394,783</u>	<u>15,745</u>	<u>-</u>	<u>410,528</u>
Total Accumulated Depreciation	<u>2,818,753</u>	<u>303,611</u>	<u>-</u>	<u>3,122,364</u>
Capital Assets, Being Depreciated, Net	<u>9,658,276</u>	<u>(303,611)</u>	<u>-</u>	<u>9,354,665</u>
Business-Type Activities Capital Assets, Net	<u>\$ 10,836,800</u>	<u>\$ (303,611)</u>	<u>\$ -</u>	<u>\$ 10,533,189</u>

Depreciation expense of the governmental activities was charged to functions/programs as follows.

Instruction	\$ 15,735
Supporting Services	<u>65,231</u>
Total	<u>\$ 80,966</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 5: 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>	<u>Additions</u>	<u>Payments</u>	Balances <u>6/30/16</u>	Due Within <u>One Year</u>
Business-Type Activities					
Building Loan	\$ 13,680,000	\$ -	\$ 360,000	\$ 13,320,000	\$ 375,000
Discount	<u>(193,010)</u>	<u>-</u>	<u>(8,770)</u>	<u>(184,240)</u>	<u>-</u>
Total	<u>\$ 13,486,990</u>	<u>\$ -</u>	<u>\$ 351,230</u>	<u>\$ 13,135,760</u>	<u>\$ 375,000</u>

In April, 2007, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$15,570,000 Charter School Revenue Bonds, Series 2007. Bond proceeds were loaned to the Building Corporation under a mortgage and loan agreement to refinance various existing debt, purchase land, and construct a new high school. The Academy is obligated under a lease agreement to make monthly lease payments to the Building Corporation for using the buildings and equipment. The Building Corporation is required to make equal loan payments to the Trustee, for payment of the bonds. Interest accrues at rates ranging from 4% to 4.5%. Interest payments are due semi-annually on August 1 and February 1. Principal payments are due annually on August 1, through 2037.

Annual debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 375,000	\$ 575,316	\$ 950,316
2018	390,000	559,875	949,875
2019	405,000	543,975	948,975
2020	425,000	527,375	952,375
2021	440,000	510,075	950,075
2022 - 2026	2,505,000	2,249,265	4,754,265
2027 - 2031	3,095,000	1,638,229	4,733,229
2032 - 2036	3,875,000	858,938	4,733,938
2037 - 2038	<u>1,810,000</u>	<u>82,351</u>	<u>1,892,351</u>
Total	<u>\$ 13,320,000</u>	<u>\$ 7,545,399</u>	<u>\$ 20,865,399</u>

NOTE 6: RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Academy accounts for and finances its risk activities in the General Fund.

The Academy purchases commercial insurance for workers compensation risks. For its risk of property loss or damage and general liability, the Academy participates in the Colorado School Districts Self-Insurance Pool (CSDSIP).

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 6: RISK MANAGEMENT (Continued)

The CSDSIP is sponsored by the Colorado Association of School Boards (CASB) and operates as a self-insurance pool comprised of various school districts and other related public educational entities within the State of Colorado. The Academy pays an annual premium to the CSDSIP for property and liability insurance coverage. The CSDSIP will be self-sustaining through member premiums and will reinsure through a duly authorized insurer. The reinsurance covers claims against the CSDSIP in excess of specific claim amounts and in the aggregate in an amount and at limits determined by the CSDSIP to be adequate to protect the solvency of the CSDSIP.

NOTE 7: DEFINED BENEFIT PENSION PLAN**General Information**

Plan Description - The Academy 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 Academy 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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

General Information (Continued)

Contributions - The Academy 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 Academy's contribution rate for calendar years 2015 and 2016 was 18.35% and 19.15% of covered salaries, respectively. However, a portion of the Academy's contributions (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 8). The Academy's contributions to the SDTF for the year ended June 30, 2016, were \$655,496, 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 Academy reported a net pension liability of \$11,967,471, 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 Academy's proportion of the net pension liability was based on the Academy'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 Academy's proportion was 0.0782479466%, which was a decrease of 0.0087592384% from its proportion measured at December 31, 2014.

For the year ended June 30, 2016, the Academy recognized pension expense of \$592,362. At June 30, 2016, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 158,032	\$ 555
Changes of assumptions and other inputs	-	169,121
Net difference between projected and actual earnings on plan investments	1,038,046	-
Changes in proportion	-	1,334,644
Contributions subsequent to the measurement date	<u>327,784</u>	<u>-</u>
Total	<u>\$ 1,523,862</u>	<u>\$ 1,504,320</u>

Academy contributions subsequent to the measurement date of \$327,784 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:

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)

Year Ended June 30,

2017	\$ (332,811)
2018	(249,135)
2019	65,039
2020	<u>208,665</u>
Total	<u>\$ (308,242)</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	7.5%
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:

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)

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity - Large Cap	26.76%	5.00%
U.S. Equity - Small Cap	4.40%	5.19%
Non U.S. Equity - Developed	22.06%	5.29%
Non U.S. Equity - Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration 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	100.00%	

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 Academy's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as the Academy'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	\$ 15,513,340	\$ 11,967,471	\$ 9,017,969

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 8: POSTEMPLOYMENT HEALTHCARE BENEFITS

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

Funding Policy - The Academy 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 Academy 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 Academy's apportionment to the HCTF for the years ended June 30, 2016, 2015 and 2014 was \$35,449, \$35,524 and \$38,352, respectively, equal to the required amounts for each year.

NOTE 9: COMMITMENTS AND CONTINGENCIES**Claims and Judgments**

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

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 Academy believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the Academy 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 \$240,000.

REQUIRED SUPPLEMENTARY INFORMATION

CHAVEZ/HUERTA K-12 PREPARATORY 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			
Academy's Proportion of the Net Pension Liability	0.0782479466%	0.0870071850%	0.0950888738%
Academy's Proportionate Share of the Net Pension Liability	\$ 11,967,471	\$ 11,792,396	\$ 12,128,560
Academy's Covered-Employee Payroll	\$ 3,404,251	\$ 3,644,977	\$ 3,833,335
Academy'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>
ACADEMY CONTRIBUTIONS			
Statutorily Required Contribution	\$ 617,622	\$ 587,688	\$ 600,866
Contributions in Relation to the Statutorily Required Contribution	<u>(617,622)</u>	<u>(587,688)</u>	<u>(600,866)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Academy's Covered-Employee Payroll	\$ 3,475,430	\$ 3,482,715	\$ 3,759,983
Contributions as a Percentage of Covered-Employee Payroll	17.77%	16.87%	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.

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2016

	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL		Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 7,047,000	\$ 7,177,000	\$ 7,223,494	\$ 46,494
Tuition and Fees	56,200	56,200	34,520	(21,680)
Pupil Activities	40,000	40,000	15,731	(24,269)
Grants and Contributions	130,300	127,800	104,102	(23,698)
Investment Income	-	2,500	1,165	(1,335)
Other	5,600	105,600	1,947	(103,653)
State Sources				
Capital Construction	165,200	251,900	257,277	5,377
Transportation	31,500	31,500	42,712	11,212
Grants	239,300	296,500	289,135	(7,365)
Federal Sources				
Grants	622,500	665,100	570,938	(94,162)
TOTAL REVENUES	8,337,600	8,754,100	8,541,021	(213,079)
EXPENDITURES				
Salaries	3,888,900	3,900,000	3,675,395	224,605
Employee Benefits	1,126,700	1,088,700	990,506	98,194
Purchased Services	2,107,900	2,139,500	2,131,317	8,183
Supplies and Materials	871,600	986,000	731,382	254,618
Property	95,000	410,000	86,448	323,552
Other	27,500	27,500	34,797	(7,297)
Contingency	1,593,200	1,949,700	-	1,949,700
TOTAL EXPENDITURES	9,710,800	10,501,400	7,649,845	2,851,555
NET CHANGE IN FUND BALANCE	(1,373,200)	(1,747,300)	891,176	2,638,476
FUND BALANCE, Beginning	1,373,200	1,747,300	1,747,343	43
FUND BALANCE, Ending	\$ -	\$ -	\$ 2,638,519	\$ 2,638,519

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 Academy's contributions and related ratios represent cash contributions and any related accruals that coincide with the Academy's fiscal year ending on June 30.

Changes in Assumptions and Other Inputs

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

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

A budget is adopted for the Academy on a basis consistent with generally accepted accounting principles (GAAP). The Academy adheres to the following procedures to establish 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.