

Knowledge Quest Academy
Milliken, Colorado

Financial Statements

For the Year Ended June 30, 2016



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Independent Auditors' Report

Board of Directors
Knowledge Quest Academy
Milliken, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Knowledge Quest Academy (the Academy), a component unit of Weld County School District RE-5J, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Academy as of June 30, 2016, and the respective changes in financial position for the year then ended in conformity 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, budgetary comparison information and historical pension 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Lauer, Szabo & Associates, P.C.

Sterling, Colorado
October 31, 2016

**KNOWLEDGE QUEST ACADEMY
Management Discussion and Analysis
For Fiscal Year Ended June 30, 2016**

This section of Knowledge Quest Academy's (the Academy) annual financial report presents its discussion and analysis of the District's financial performance during the year ended June 30, 2016.

Financial Highlights

- The liabilities and deferred inflows of resources of Knowledge Quest Academy exceeded its assets and deferred outflows of resources at the close of the fiscal year by \$2,114,528 (net position - deficit).
- The Knowledge Quest Academy's general fund ending fund balance rose to \$1,141,677, an increase of \$515,023.

Overview of Financial Statements

The discussion and analysis is intended to serve as an introduction to Knowledge Quest Academy's basic financial statements. A comparison to the prior year's activity is provided in the document. The basic financial statements consist of four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements, and 4) required supplementary information. This report also contains required supplementary information in addition to the basic financial statements.

Government-wide Statements

The government-wide financial statements are designed to provide readers with information about the Knowledge Quest Academy as a whole using accounting methods similar to those used by private-sector businesses.

The statement of net position includes all of the Knowledge Quest Academy's assets and liabilities, with the difference between the two 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 Knowledge Quest 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 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.

The government-wide statement of activities distinguishes functions/programs of Knowledge Quest Academy supported primarily by per pupil revenue (PPR) passed through from the Weld County School District RE-5J.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Knowledge Quest Academy, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Most of the Knowledge Quest Academy's basic services are included in the governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds 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 Knowledge Quest Academy'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 government's near-term financing decisions.

The Knowledge Quest Academy maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and change in fund balances for the general fund, which is considered to be a major fund. The Knowledge Quest Academy adopts an annual appropriated budget. A budget comparison statement has been provided for the general fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the Academy. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Academy's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statement can be found on page 18 of this report.

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. The notes to the financial statements may be found on pages 19-40 of this report.

Financial Analysis of the Knowledge Quest Academy as a Whole

As noted earlier, net position may serve over time as a useful indicator of the Knowledge Quest Academy's financial position.

The following table provides a summary of the Academy's net position (deficit) as of June 30, 2016 and 2015.

	Governmental Activities		\$ Change
	2016	2015	
Current and other assets	\$ 1,279,618	\$ 1,434,161	\$ (154,543)
Capital assets	4,442,359	4,389,840	52,519
Total assets	5,721,977	5,824,001	(102,024)
Deferred outflows of resources	919,143	398,287	520,856
Total assets and deferred outflows of resources	\$ 6,641,120	\$ 6,222,288	\$ 418,832
Long-term liabilities	\$ 8,561,823	\$ 8,144,264	\$ 417,559
Other liabilities	139,303	324,625	(185,322)
Total liabilities	8,701,126	8,468,889	232,237
Deferred inflows of resources	54,522	199	54,323
Net investment in capital assets	-	464,840	(464,840)
Restricted net position	91,000	732,945	(641,945)
Unrestricted net position	(2,205,528)	(3,444,585)	1,239,057
Total net position (deficit)	(2,114,528)	(2,246,800)	132,272
Total liabilities, deferred inflows of resources and net position	\$ 6,641,120	\$ 6,222,288	\$ 418,832

The following table presents a summary of the Academy's change in net position for the fiscal years ended June 30, 2016 and 2015.

	Governmental Activities		\$ Change
	2016	2015	
Charges for services	\$ 527,666	\$ 533,320	\$ (5,654)
Operating grants or contributions	131,776	99,289	32,487
Per pupil revenue	2,704,522	2,601,346	103,176
Interest earned	1,850	537	1,313
Miscellaneous	191,194	28,127	163,067
Total revenues	3,557,008	3,262,619	294,389

	Governmental Activities		\$ Change
	2016	2015	
Instruction	1,781,728	1,655,105	126,623
Pupil instruction and services	71,228	46,132	25,096
Administrative and business services	221,021	179,842	41,179
Maintenance	724,029	714,625	9,404
Other	626,730	488,675	138,055
Total expenditures	3,424,736	3,084,379	340,357
Change in net position	\$ 132,272	\$ 178,240	\$ (45,968)

The primary source of operating revenue for Knowledge Quest Academy comes from the School Finance Act of 1994, as amended (SFA). Under the SFA Knowledge Quest Academy received \$6,938 per funded student. In fiscal year 2015-16 the funded pupil count was 389.8. Funding for the SFA comes from property taxes, specific ownership tax and state equalization.

Governmental Funds

The focus of the Knowledge Quest Academy's governmental funds is to provide information on near-term inflows, outflows, and balances of resources. Such information is useful in assessing the Knowledge Quest Academy's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the Knowledge Quest Academy's net resources available for spending at the end of the fiscal year. At the end of the fiscal year, the Knowledge Quest Academy's governmental funds reported combined ending fund balances of \$1,142,677, a decrease of \$132,922 in comparison with the prior year.

General Fund Budget Highlights

The Knowledge Quest Academy's budget is prepared according to Colorado law and is based on accounting for transactions under generally accepted accounting principles. The Academy was able to increase their net position, and have also refunded their bonds which lowers their debt service payments by approximately \$1.6 million over the life of the bonds. These savings can be used for school instruction and other expenses to address needs of the school.

Capital Assets and Debt Administration

Capital Assets

The Academy's net investment in capital assets as of June 30, 2016 amounts to \$4,442,359. This investment in capital assets includes land, buildings and improvements, and equipment.

The Academy's total capital assets at June 30, 2016, net of accumulated depreciation, were as follows:

Land	\$ 260,000
Buildings and improvements	4,141,924
Equipment	<u>40,435</u>
Total	<u>\$ 4,442,359</u>

Additional information on the Academy's capital assets can be found in Note D, page 28, of the basic financial statements.

Debt Administration

In August, 2005, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$5,840,000 in Charter School Revenue Bonds, Series 2005, bearing interest at a rate of 6.50% with a final payment due May 1, 2036. The proceeds from the bonds were loaned to the KQA Building Corporation under a lease agreement to construct the Academy's school facility. The Academy is obligated under a lease agreement to make monthly lease payments to the KQA Building Corporation for use of the building. The KQA Building Corporation is required to make semi-annual payments to the Trustee for payment of the bonds. The CECFA issued \$4,715,000 in Charter School Refunding Revenue Bonds, Series 2016, due in annual installments beginning in fiscal year 2018 ranging from \$175,000 to \$310,000, bearing interest at a rate of 2.990%, payable semi-annually on January 1st and July 1st.

At year-end, the Academy's long-term debt of \$8,561,823 represented its Charter School revenue bonds of \$4,715,000 and net pension liability of \$3,846,823.

Economic Factors

The Weld County School District RE-5J, which includes Knowledge Quest Academy, has experienced growth in previous years. This rapid growth has leveled off to a more manageable growth pattern of approximately two percent per year, with overall enrollment growth to be approximately 1.7% in Fiscal 2017. The Weld County School District RE-5J assessed valuation has increased at a rate of nearly ten percent a year, slowing to an increase of approximately three percent over the last two years, due to growth in new business, residential, oil and gas. Preliminary information indicates that the total assessed valuation may decrease; this information will be final in December 2016. All areas are expected to increase in value except vacant land which is expected to decrease by .2%, and oil and gas. Oil and gas decreased by (-4.5%) from December of 2015 to August of 2016.

Contacting the Districts Financial Management

This financial report is designed to provide the Knowledge Quest Academy's citizens, taxpayers, parents, investors and creditors with a general overview of the Knowledge Quest Academy's finances and to demonstrate the Knowledge Quest Academy's accountability for the money it receives. If you have any questions or need additional information, please contact the Knowledge Quest Academy at 705 S. School House Drive, Milliken, Colorado 80543.

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Basic Financial Statements

The basic financial statements of the Academy include the following:

Government-wide financial statements. The government-wide statements display information about the reporting government as a whole, except for its fiduciary activities.

Fund financial statements. The fund financial statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds.

Notes to the financial statements. The notes communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements. As such, the notes are an integral part of the basic financial statements.

Required supplementary information other than MD&A. Budgetary comparison schedules should be presented for the general fund and for each major special revenue fund that has a legally adopted budget.

KNOWLEDGE QUEST ACADEMY
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,245,996
Cash with fiscal agent	5,000
Due from school district	25,417
Receivables	3,205
Capital assets, net of depreciation	<u>4,442,359</u>
Total assets	5,721,977
Deferred outflows of resources	
Deferred charges on refundings of bonds	48,277
Pension deferrals	<u>870,866</u>
Total deferred outflows of resources	<u>919,143</u>
Total assets and deferred outflows of resources	<u>\$ 6,641,120</u>
Liabilities	
Accounts payable	\$ 7,501
Accrued salaries and benefits	84,680
Due to school district	30,088
Unearned revenue	14,672
Accrued interest	2,362
Noncurrent liabilities	
Due in more than one year	<u>8,561,823</u>
Total liabilities	8,701,126
Deferred inflows of resources	
Differences between expected and actual experience	<u>54,522</u>
Pension deferrals	54,522
Net position	
Restricted for emergencies	90,000
Restricted for debt service	1,000
Unrestricted (deficit)	<u>(2,205,528)</u>
Total net position (deficit)	<u>(2,114,528)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 6,641,120</u>

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

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KNOWLEDGE QUEST ACADEMY
Statement of Activities
For the Year Ended June 30, 2016

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
Instruction	\$ 1,781,728	\$ 65,566	\$ 31,016	
Supporting services				
Students	48,881			
Instructional staff	22,347			
General administration	1,300			
School administration	173,885			
Business services	45,836			
Operations and maintenance	724,029	462,100	100,760	
Central support services	36,958			
Food service operations	900			
Unallocated depreciation *	111,196			
Interest and fiscal charges	477,676			
Total governmental activities	<u>\$ 3,424,736</u>	<u>\$ 527,666</u>	<u>\$ 131,776</u>	<u>\$ -</u>

General revenues
 Per pupil operating revenue
 Earnings on investments
 Miscellaneous

Total general revenues

Change in net position

Net position (deficit) at beginning of year,
 as originally reported

Prior period adjustment

Net position (deficit) at beginning of year,
 as restated

Net position (deficit) at end of year

* This amount excludes depreciation included in the direct expenses of the various programs.

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

Net (Expenses)
Revenues and
Changes in
Net Position

Governmental
Activities

\$ (1,685,146)

(48,881)

(22,347)

(1,300)

(173,885)

(45,836)

(161,169)

(36,958)

(900)

(111,196)

(477,676)

(2,765,294)

2,704,522

1,850

191,194

2,897,566

132,272

(2,433,632)

186,832

(2,246,800)

\$ (2,114,528)

KNOWLEDGE QUEST ACADEMY
Balance Sheet
Governmental Funds
June 30, 2016

	General Fund	KQA Building Corporation	Total Governmental Funds
Assets			
Cash	\$ 1,245,996		\$ 1,245,996
Cash with fiscal agent		\$ 5,000	5,000
Due from other funds	4,000		4,000
Due from school district	25,417		25,417
Other receivable	3,205		3,205
Total assets	\$ 1,278,618	\$ 5,000	\$ 1,283,618
Liabilities			
Accounts payable	\$ 7,501		\$ 7,501
Due to other funds		\$ 4,000	4,000
Due to school district	30,088		30,088
Accrued salaries and benefits	84,680		84,680
Unearned revenue	14,672		14,672
Total liabilities	136,941	4,000	140,941
Fund balance			
Restricted for emergencies	90,000		90,000
Restricted for debt service		1,000	1,000
Unassigned	1,051,677		1,051,677
Total fund balance	1,141,677	1,000	1,142,677
Total liabilities and fund balance	\$ 1,278,618	\$ 5,000	\$ 1,283,618

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

KNOWLEDGE QUEST ACADEMY

**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2016**

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance - governmental funds	\$ 1,142,677
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	4,442,359
Accrued interest on long-term debt is not due and payable in the current period and therefore is not reported as a liability in the funds.	(2,362)
Long-term liabilities and the related deferred outflows and inflows of resources are not due and payable in the current period and therefore are not reported in the funds.	<u>(7,697,202)</u>
Net position of the governmental activities	<u><u>\$ (2,114,528)</u></u>

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

KNOWLEDGE QUEST ACADEMY
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2016

	General Fund	KQA Building Corporation	Total Governmental Funds
Revenues			
Local sources	\$ 2,961,282	\$ 463,950	\$ 3,425,232
State sources	131,776		131,776
Total revenues	3,093,058	463,950	3,557,008
Expenditures			
Instruction	1,493,443		1,493,443
Supporting services	1,156,834		1,156,834
Debt service			
Principal		110,000	110,000
Interest and fiscal charges		337,519	337,519
Bond issuance costs		193,665	193,665
Total expenditures	2,650,277	641,184	3,291,461
Excess of revenues over (under) expenditures	442,781	(177,234)	265,547
Other financing sources (uses)			
Proceeds of refunding bonds		4,715,000	4,715,000
Payment to escrow agent		(5,113,469)	(5,113,469)
Transfers in	72,242		72,242
Transfers out		(72,242)	(72,242)
Total other financing sources (uses)	72,242	(470,711)	(398,469)
Net change in fund balance	515,023	(647,945)	(132,922)
Fund balance at beginning of year	626,654	648,945	1,275,599
Fund balance at end of year	<u>\$ 1,141,677</u>	<u>\$ 1,000</u>	<u>\$ 1,142,677</u>

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

KNOWLEDGE QUEST ACADEMY
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - governmental funds \$ (132,922)

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual amortization expense in the depreciation expense in the statement of activities. This is the amount by which capital outlays exceeded depreciation in the current period. 52,519

In the statement of activities, certain expenses related to the pension liabilities and bonds payable, and the related deferred inflows and outflows and accrued interest payable, are measured by the amounts incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). (295,794)

The bond proceeds are reported as a revenue in the governmental funds, however, they are reported as long-term liability in the statement of activities. (4,715,000)

Repayment of principal on long-term debt are expenditures in the governmental funds, but the repayment reduces the long-term debt liability in the statement of net position. 5,223,469

Change in net position of governmental activities \$ 132,272

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

KNOWLEDE QUEST ACADEMY
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	<u>Agency Funds</u>
Assets	
Cash	\$ 11,255
Total assets	<u>\$ 11,255</u>
Liabilities	
Due to student groups	\$ 11,255
Total liabilities	<u>\$ 11,255</u>

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

KNOWLEDGE QUEST ACADEMY

Notes to Financial Statements

Note A – Summary of significant accounting policies

This summary of the Knowledge Quest Academy's (the Academy) significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. The policies are considered essential and should be read in conjunction with the accompanying financial statements.

The financial statements of the Academy have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of the Academy's accounting policies are described below.

A.1 – Reporting entity

The Knowledge Quest Academy was organized in 2001 pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Weld County School District RE-5J of the State of Colorado. The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The reporting entity's financial statements should present the funds of the primary government (including its blended component units, which are, in substance, part of the primary government) and provide an overview of the discretely presented component units. Blended component units, although legally separate entities, are, in substance, part of the Academy's operations. Discretely presented component units, if any, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Academy.

The Academy has examined other entities that could be included as defined in number 2 and 3 above. Based on these criteria, the KQA Building Corporation is included in the Academy's basic financial statements. The KQA Building Corporation was formed to support and assist the Academy in performing its function or carrying out its purpose, specifically to assist in the financing and construction of the Academy's facilities. The KQA Building Corporation is blended into the Academy's financial statements as a special revenue fund.

The Academy is a component unit of the Weld County School District RE-5J as it is fiscally dependent on the District for the majority of funding.

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note A – Summary of significant accounting policies (Continued)

A.2 – Fund accounting

The Academy uses funds to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate “fund types.” The Academy does not have any proprietary funds.

Governmental funds are used to account for all or most of a government’s general activities, including the collection and disbursement of earmarked funds (special revenue funds). The following are the Academy’s major governmental funds:

General Fund – The General Fund is the operating fund of the Academy. It is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include per pupil operating funds passed through from the Weld County School District RE- 5J and grants and contributions. Expenditures include all costs associated with the daily operation of the schools, except for certain capital outlay expenditures.

KQA Building Corporation – This fund is a special revenue fund used to account for specific revenue sources and the related expenditures of the KQA Building Corporation that are restricted to capital expenditures and debt service.

Fiduciary funds focus on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Academy under a trust agreement for individuals, private organizations or other governments and are therefore not available to support the Academy’s own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The Academy has the following agency fund:

Pupil Activity Agency Fund – This fund is an agency fund used to record transactions related to school-sponsored pupil organizations and activities.

Note A.3 – Basis of presentation

Government-wide financial statements – The statement of net position and the statement of activities display information about the Academy as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the Academy that are governmental and those that are considered business-type activities.

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note A – Summary of significant accounting policies (Continued)

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Academy's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Academy, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Academy.

Fund financial statements – Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources management focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, deferred outflows of resources, current liabilities and deferred inflows of resources, and a statement of revenues, expenditures and changes in fund balance, which reports the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources.

Fiduciary funds focus on net position and changes in net position and are reported using accounting principles similar to proprietary funds. The Academy's fiduciary fund is presented in the fiduciary fund financial statements by type (private-purpose trust and agency). Since by definition these assets are being held for the benefit of a third-party and cannot be used to address the activities or obligations of the Academy, these funds are not incorporated into the government-wide financial statements.

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note A – Summary of significant accounting policies (Continued)

A.4 – Basis of accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues – exchange and nonexchange transactions – Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Academy, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. State equalization funds are recognized as revenues during the period in which they are appropriated. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Deferred outflows/inflows of resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note A – Summary of significant accounting policies (Continued)

Unearned revenue – Unearned revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues also arise when resources are received by the Academy before it has a legal claim to them, as when grant monies are received prior to meeting eligibility requirements. In subsequent periods, when both revenue recognition criteria are met, or when the Academy has a legal claim to the resources, the liability for unearned revenue is removed and the revenue is recognized.

Expenditures – The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

A.5 – Encumbrances

Encumbrance accounting is utilized by the Academy to record purchase orders, contracts and other commitments for the expenditure of monies to assure effective budgetary control and accountability. Encumbrances outstanding at year-end are canceled and reappropriated in the ensuing year’s budget.

A.6 – Short-term interfund receivables/payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as internal balances on the government-wide statement of net position, and are classified as due from other funds or due to other funds on the balance sheet.

A.7 – Capital assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements.

All capital assets with a unit cost greater than \$5,000 are capitalized at cost (or estimated historical cost, if actual cost is not available) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair value on the date received. Infrastructure assets, consisting of certain improvements other than buildings (such as parking facilities, sidewalks, landscaping and lighting systems) are capitalized along with other capital assets. Improvements to assets are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not.

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note A – Summary of significant accounting policies (Continued)

All reported capital assets will be depreciated with the exception of land costs. Improvements will be depreciated over the remaining useful lives of the related capital assets.

<u>Description</u>	<u>Governmental Activities</u>
Buildings and improvements	50 years
Furniture and equipment	7-10 years

A.8 – Compensated absences

Each employee shall have six (6) paid time off (“PTO”) days. PTO days are granted August 1st of each school year and expire July 31st of the following school year. PTO days do not roll over. Employees may elect to have a maximum of three (3) PTO days paid out at \$100 per day. The election must be communicated by May 15th of the school year. PTO days may be used at the employee’s discretion for events such as: sickness (self or family), funeral, doctor appointments, or professional development (note: this list is not all inclusive). PTO days will be taken in either half or full day increments, unless the employee receives written communication from the school principal.

No liability is reported in the financial statements due to the immateriality of the amount involved.

A.9 – Accrued liabilities and long-term obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. Bonds payable and other long-term obligations are not recognized in the fund financial statements until due. Amounts deferred upon refunding of bonds are amortized over the life of the bonds using the straight-line method.

A.10 – Fund balance

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement defines the different type of fund balances that a governmental entity must use for financial reporting purposes.

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note A – Summary of significant accounting policies (Continued)

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories listed below.

Nonspendable, such as fund balance associated with inventories, prepaid expenditures, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed or assigned).

Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the board of education (the Academy's highest level of decision-making authority).

Assigned fund balances are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

Unassigned fund balance is the residual classification for the Academy's general fund and includes all spendable amounts not contained in the other classifications.

Committed fund balance is established by a formal passage of a resolution. This is typically done through the adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the board of directors through adoption or amendment of the budget as intended for specific purposes (such as purchase of fixed assets, construction, debt service or for other purposes).

When both restricted and unrestricted resources are available in governmental funds, the Academy applies expenditures against restricted fund balance first, and followed by committed fund balance, assigned fund balance and then unassigned fund balance.

A.11 – Net position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are liabilities imposed on their use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note A – Summary of significant accounting policies (Continued)

The Academy applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

A.12 – Interfund transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. In general, the effect of interfund activity has been eliminated from the government-wide financial statements.

A.13 – Extraordinary and special items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the board of education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the year.

Note B – Cash and investments

Cash and deposits

Colorado State statutes govern the Academy's deposit of cash. The Public Deposit Protection Act (PDPA) for banks and savings and loans requires state regulators to certify eligible depositories for public deposits. The PDPA require eligible depositories with public deposits in excess of federal insurance levels to create a single institution collateral pool of defined eligible assets. Eligible collateral includes obligations of the United States, obligations of the State of Colorado or Colorado local governments and obligations secured by first lien mortgages on real property located in the state. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group and not held in any individual government's name. The fair value of the assets in the pool must be at least equal to 102% of the aggregate uninsured deposits.

Custodial credit risk – deposits – Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk. As of year-end, the Academy had total deposits of \$1,258,864, of which \$261,344 was insured and \$997,520 was collateralized with securities held by the pledging institution's trust department or agent in the Academy's name.

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note B – Cash and investments (Continued)

Investments

Authorized investments – Investment policies are governed by Colorado State Statutes and the Academy’s own investment policies and procedures. Investments of the Academy may include:

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

The Academy did not make any investments of funds at any time during the year.

Note C – Interfund transactions

The following is a summary of interfund transfers for the year as presented in the fund financial statements:

	<u>Transfers In</u>	<u>Transfers Out</u>
<u>Governmental funds</u>		
General Fund	\$ 72,242	\$ -
KQA Building Corporation	<u>-</u>	<u>72,242</u>
Total	<u>\$ 72,242</u>	<u>\$ 72,242</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. The Academy transferred funds from the KQA Building Corporation to the General Fund relating to the refinancing of the bonds payable.

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note C – Interfund transactions (Continued)

The following is a summary of interfund borrowings and transfers for the year as presented in the fund financial statements:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Governmental funds</u>		
General fund	\$ 4,000	\$ -
KQA Building Corporation	<u>-</u>	<u>4,000</u>
Total	<u>\$ 4,000</u>	<u>\$ 4,000</u>

All balances resulted from the time lag between the dates that (1) interfund reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Note D – Capital assets

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 260,000	\$ -	\$ -	\$ 260,000
Capital assets, being depreciated:				
Buildings and improvements	4,942,886	163,715	-	5,106,601
Equipment	<u>132,800</u>	<u>-</u>	<u>-</u>	<u>132,800</u>
Total capital assets, being depreciated	<u>5,075,686</u>	<u>163,715</u>	<u>-</u>	<u>5,239,401</u>
Total capital assets	5,335,686	163,715	-	5,499,401
Less accumulated depreciation for:				
Buildings and improvements	(863,636)	(101,041)	-	(964,677)
Equipment	<u>(82,210)</u>	<u>(10,155)</u>	<u>-</u>	<u>(92,365)</u>
Total accumulated depreciation	<u>(945,846)</u>	<u>(111,196)</u>	<u>-</u>	<u>(1,057,042)</u>
Capital assets, net	<u>\$ 4,389,840</u>	<u>\$ 52,519</u>	<u>\$ -</u>	<u>\$ 4,442,359</u>

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note E – Accrued salaries and benefits

Salaries and benefits of certain contractually employed personnel are paid over a twelve-month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned but not paid at year-end are estimated to be \$84,680. Accordingly, this accrued compensation is reflected as a liability in the accompanying financial statements.

Note F – Long-term debt

The following is a summary of the changes in long-term debt for the year:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due within one year</u>
Governmental Activities					
Bonds payable	\$ 5,175,000	\$ 4,715,000	\$ (5,175,000)	\$ 4,715,000	\$ -
Net pension liability	<u>3,079,264</u>	<u>767,559</u>	<u>-</u>	<u>3,846,823</u>	<u>-</u>
Totals	<u>\$ 8,254,264</u>	<u>\$ 5,482,559</u>	<u>\$ (5,175,000)</u>	<u>\$ 8,561,823</u>	<u>\$ -</u>

The bonds payable will be liquidated by the KQA Building Corporation, while the net pension liability attributable to the governmental activities will be liquidated primarily by the General Fund.

Charter School Revenue Bonds

In August 2005, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$5,840,000 in Charter School Revenue Bonds, Series 2005, bearing interest at a rate of 6.50% with a final payment due May 1, 2036. The proceeds from the bonds were loaned to the KQA Building Corporation under a lease agreement to construct the Academy’s school facility. The Academy is obligated under a lease agreement to make monthly lease payments to the KQA Building Corporation for use of the building. The KQA Building Corporation is required to make semi-annual payments to the Trustee for payment of the bonds.

In June 2016, the CECFA issued \$4,715,000 in Charter School Refunding Revenue Bonds, Series 2016, due in annual installments beginning in fiscal year 2018 ranging from \$175,000 to \$310,000, bearing interest at a rate of 2.990%, payable semi-annually on January 1st and July 1st.

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note F – Long-term debt (Continued)

The following schedule represents the KQA Building Corporation's debt service requirements to maturity for all outstanding bonded indebtedness:

<u>Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ -	\$ 74,797	\$ 74,797
2018	175,000	140,262	315,262
2019	180,000	134,881	314,881
2020	185,000	129,347	314,347
2021	190,000	124,009	314,009
2022-2026	1,045,000	526,802	1,571,802
2027-2031	1,220,000	355,500	1,575,500
2032-2036	1,410,000	156,372	1,566,372
2037	<u>310,000</u>	<u>4,686</u>	<u>314,686</u>
Totals	<u>\$ 4,715,000</u>	<u>\$ 1,646,656</u>	<u>\$ 6,361,656</u>

Advance refunding

On June 24, 2016, the Colorado Educational and Cultural Facilities Authority issued \$4,715,000 in general obligation refunding bonds with an interest rate of 2.990% to advance refund \$5,065,000 of outstanding Series 2005 bonds with an interest rate of 6.500%. The net proceeds of \$5,113,469 (after payment of \$193,665 in underwriting fees, insurance and other issuance costs) were deposited into an escrow account created pursuant to an agreement between the Academy and its escrow agent. The moneys in the account were used to purchase United States government securities which will provide for all debt service payments on the advance refunded bonds. As a result, \$5,065,000 of the Series 2005 bonds are considered to be defeased and the liability for those bonds has been removed from the financial statements.

The Academy advance refunded the Series 2005 bonds to reduce its total debt service payments over the next 21 years by \$2,913,777 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,082,751.

Note G – Defined benefit pension plan

Summary of significant accounting policies

Pensions. The Academy participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note G – Defined benefit pension plan (Continued)

fiduciary net position of the SCHDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General information about the pension plan

Plan description. Eligible employees of the Academy are provided with pensions through the School Division Trust Fund (SCHDTF) – a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

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

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

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

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

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

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note G – Defined benefit pension plan (Continued)

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

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10% of PERA's Annual Increase Reserve (AIR) for the SCHDTF.

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

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

Contributions. Eligible employees and the Academy are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. Section 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note G – Defined benefit pension plan (Continued)

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2016
Employer contribution rate	10.15%	10.15%
Amount of employer contribution apportioned to the health care trust fund as specified in C.R.S. Section 24-51-208(1)(f)	<u>(1.02)%</u>	<u>(1.02)%</u>
Amount apportioned to the SCHDTF	9.13%	9.13%
Amortization equalization disbursement (AED) as specified in C.R.S. Section 24-51-411	4.20%	4.50%
Supplemental amortization equalization disbursement (SAED) as specified in C.R.S. Section 24-51-411	<u>4.00%</u>	<u>4.50%</u>
Total employer contribution rate to the SCHDTF	<u><u>17.33%</u></u>	<u><u>18.13%</u></u>

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the Academy were \$212,021 for the year ended.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions

At year-end, the Academy reported a liability of \$3,846,823 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The Academy's proportion of the net pension liability was based on the Academy's contributions to the SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2015, the Academy's proportion was 0.0251 percent, which was an increase of 0.0024 percent from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016, the Academy recognized pension expense of \$561,324. At year-end, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note G – Defined benefit pension plan (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 50,798	\$ 160
Changes of assumptions or other inputs	-	54,362
Net difference between projected and actual earnings on pension plan investments	327,088	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	383,580	-
Contributions subsequent to the measurement date	<u>109,400</u>	<u>-</u>
Total	<u>\$ 870,866</u>	<u>\$ 54,522</u>

\$109,400 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30, _____</u>	<u>Amount</u>
2017	\$ 261,651
2018	235,453
2019	142,768
2020	<u>67,072</u>
Totals	<u>\$ 706,944</u>

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions and inputs:

Actuarial cost method	Entry age
Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.10 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.50 percent

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note G – Defined benefit pension plan (Continued)

Future post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06; (ad hoc, substantively automatic)	financed by the annual increase reserve

Mortality rates were based on the RP-2000 combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with males set back 1 year, and females set back 2 years.

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

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

- Valuation of the full survivor benefit without any reduction for possible remarriage.
- Reflection of the employer match on separation benefits for all eligible years.
- Reflection of one year of service eligibility for survivor annuity benefit.
- Refinement of the 18 month annual increase timing.
- Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.

The following methodology changes were made:

- Recognition of merit salary increases in the first projection year.
- Elimination of the assumption that 35% of future disabled members elect to receive a refund.
- Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
- Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

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

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note G – Defined benefit pension plan (Continued)

As of the November 15, 2013 adoption of the long-term expected real rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<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	<u>7.00%</u>	7.15%
Total	<u>100.00%</u>	

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

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

- Total covered payroll for the initial projects year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.90%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimate future AED and

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note G – Defined benefit pension plan (Continued)

SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

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

Sensitivity of the Academy's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note G – Defined benefit pension plan (Continued)

	1% Decrease <u>(6.50%)</u>	Current Discount <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
Proportionate share of the net pension liability	\$ <u>4,986,607</u>	\$ <u>3,846,823</u>	\$ <u>2,898,736</u>

Pension plan fiduciary net position. Detailed information about the SCHDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

Payables to the pension plan

The Academy did not report any payables to the pension plan at year-end.

Note H – Defined contribution pension plan

Voluntary Investment Program

Plan description. Employees of the Academy that are also members of the SCHDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial

Funding policy. The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. The Academy does not offer matching contributions to its employees. Employees are immediately vested in their own contributions and investment earnings. For the year, program members contributed \$12,630 for the Voluntary Investment Program.

Note I – Other postemployment benefits

Health Care Trust Fund

Plan description. The Academy contributed to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note I – Other postemployment benefits

financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding policy. The Academy is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Academy are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the fiscal years ended June 30, 2016, 2015 and 2014, the Academy's contributions to the HCTF were \$11,531, \$10,665 and \$8,892, respectively, equal to their required contributions for each year.

Note J – Risk management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Academy participates in the Colorado School Districts Self-Insurance Pool (the Pool). The Pool's objectives are to provide member school districts defined property and liability coverages through self-insurance and excess insurance purchased from commercial companies. The Academy pays an annual contribution to the Pool for its insurance coverages. The Academy's contribution for the year was \$22,076. The Academy continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage or the deductible in any of the past three fiscal years. There has been no significant reduction in insurance coverage from the prior year in any of the major categories of risk.

Note K – Commitments and contingencies

Federal and state funding

The Academy receives revenues from various federal and state grant programs which are subject to final review and approval by the grantor agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Academy expects such amounts, if any, to be immaterial.

KNOWLEDGE QUEST ACADEMY
Notes to Financial Statements

Note K – Commitments and contingencies (Continued)

TABOR Amendment

In November 1992, Colorado voters passed an amendment, commonly known as the Taxpayer's Bill of Rights (TABOR), to the State Constitution (Article X, Section 20) which limits the revenue raising and spending abilities of state and local governments. The limits on "fiscal year spending" include allowable annual increases tied to inflation and local growth in student enrollment. Fiscal year spending as defined by the amendment excludes spending from certain revenue and financing sources such as federal funds, gifts, property sales, fund transfers, damage awards, and fund reserves (balances). The amendment requires voter approval for any increase in mill levy or tax rates, new taxes, or creation of multi-year debt. Revenue earned in excess of the spending limit must be refunded or approved to be retained by the Academy under specified voting requirements by the entire electorate. On November 4, 1997, the voters of the Weld County School Academy RE-5J approved a ballot initiative permitting the Weld County School Academy RE-5J to retain, appropriate, and utilize, by retention for reserve, carryover fund balance, or expenditure, the full proceeds and revenues received from every source whatsoever, without limitation, in this fiscal year and all subsequent fiscal years notwithstanding any limitation of Article X, Section 20 of the Colorado Constitution. The Academy believes that the Weld County School Academy RE-5J's ballot issue extends to release the Academy from the spending limits imposed by TABOR. TABOR is complex and subject to judicial interpretation. The Academy believes it is in compliance with the requirements of TABOR. However, the Academy has made certain interpretations of TABOR's language in order to determine its compliance. The Academy has reserved funds in the General Fund in the amount of \$90,000 for the emergency reserve.

Note L – Prior period restatement

In fiscal year 2015, the Academy adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement requires the Academy to recognize a liability for its proportionate share of the net pension liability of PERA's School Division Trust Fund, as well as pension expense, and to report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. An adjustment has been made in order to correctly report the change in proportion as of June 30, 2015. Accordingly, the Academy has increased the beginning net position of its governmental activities by \$186,832.

Required Supplementary Information

Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund
- Schedule of the Academy’s Proportionate Share of the Net Pension Liability
- Schedule of Academy Contributions

KNOWLEDGE QUEST ACADEMY
General Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources	\$ 2,782,152	\$ 2,686,120	\$ 2,961,282	\$ 275,162
State sources	-	65,000	131,776	66,776
Total revenues	2,782,152	2,751,120	3,093,058	341,938
Expenditures				
Instruction	1,536,115	1,549,354	1,493,443	55,911
Supporting services	1,040,247	1,075,287	1,156,834	(81,547)
Appropriated reserves	166,929	126,479		126,479
Total expenditures	2,743,291	2,751,120	2,650,277	100,843
Excess of revenues over expenditures	38,861	-	442,781	442,781
Other financing sources				
Transfers in			72,242	72,242
Net change in fund balance	\$ 38,861	\$ -	515,023	\$ 515,023
Fund balance at beginning of year			626,654	
Fund balance at end of year			\$ 1,141,677	

KNOWLEDGE QUEST ACADEMY
Schedule of the Academy's Proportionate Share of the Net Pension Liability ¹
June 30, 2016

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Academy's proportion of the net pension liability	0.0251520152%	0.0227052680%
Academy's proportionate share of the net pension liability	\$ 3,846,823	\$ 3,077,326
Academy's covered-employee payroll	\$ 1,130,520	\$ 1,045,603
Academy's proportionate share of the net pension liability as a percentage of its covered-employee payroll	340.27%	294.31%
Plan fiduciary net position as a percentage of the total pension liability	59.20%	62.84%

¹ Information is not available prior to June 30, 2015. In future reports, additional years will be added until 10 years of historical data are presented.

KNOWLEDGE QUEST ACADEMY
Schedule of Academy Contributions ¹
June 30, 2016

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution	\$ 212,021	\$ 187,290
Contributions in relation to the contractually required contribution	<u>(212,021)</u>	<u>(187,290)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Academy's covered-employee payroll	\$ 1,130,520	\$ 1,045,603
Contributions as a percentage of covered-employee payroll	18.75%	17.91%

¹ Information is not available prior to June 30, 2015. In future reports, additional years will be added until 10 years of historical data are presented.

KNOWLEDGE QUEST ACADEMY
Notes to the Required Supplementary Information

Note A – Budgetary data

The Academy adheres to the following procedures in compliance with Colorado Revised Statutes, establishing the budgetary data in the financial statements:

1. Budgets are required by state law for all funds. Prior to May 31, the principal 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.
2. Public hearings are conducted by the board of directors to obtain taxpayer comments.
3. Prior to June 30, the budget is adopted by formal resolution.
4. Expenditures may not legally exceed appropriations at the fund level. Authorization to transfer budgeted amounts between departments within any fund and reallocation of budget line items within any department in the General Fund rests with the principal. Revisions that alter the total expenditures of any fund must be approved by the board of directors.
5. Budgets for all funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. Budgeted amounts reported in the accompanying financial statements are as originally adopted and as amended by the board of directors throughout the year. After budget approval, the Academy board of directors may approve supplemental appropriations if an occurrence, condition, or need exists which was not known at the time the budget was adopted.
7. Appropriations lapse at year-end.

Note B – Factors affecting trends in amounts reported in the pension schedules

Information about factors that significantly affect trends in the amounts reported in the Schedule of the Academy's Proportionate Share of the Net Pension Liability and the Schedule of Academy Contributions is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

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Other Supplementary Information

Other supplementary information includes financial statements and schedules that are not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

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Budgetary Comparison Schedules – General Fund

The General Fund accounts for all transactions of the Academy not required to be accounted for in other funds. This fund represents an accounting of the Academy's ordinary operations financed primarily from per pupil operating revenues passed through from the Weld County School District RE- 5J and grants and contributions. It is the most significant fund in relation to the Academy's overall operations. The schedules of revenues and expenditures are included to provide a greater level of detail to the reader of the financial statements.

KNOWLEDGE QUEST ACADEMY
General Fund
Budgetary Comparison Schedule - Revenues
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Local sources				
Per pupil operating revenue	\$ 2,766,349	\$ 2,669,469	\$ 2,704,522	\$ 35,053
Tuition			36,450	36,450
Pupil activities			29,116	29,116
Other local revenue	15,803	16,651	191,194	174,543
Total local sources	2,782,152	2,686,120	2,961,282	275,162
State sources				
Capital construction		65,000	100,760	35,760
District pass-through			31,016	31,016
Total state sources	-	65,000	131,776	66,776
Total revenues	\$ 2,782,152	\$ 2,751,120	\$ 3,093,058	\$ 341,938

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KNOWLEDGE QUEST ACADEMY
General Fund
Budgetary Comparison Schedule - Expenditures
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Expenditures				
Instruction				
Salaries	\$ 948,148	\$ 951,387	\$ 951,527	\$ (140)
Employee benefits	427,767	427,767	387,130	40,637
Purchased services	60,200	60,200	46,137	14,063
Supplies and materials	100,000	110,000	108,649	1,351
Total instruction	1,536,115	1,549,354	1,493,443	55,911
Supporting services				
Students				
Salaries	22,200	41,625	27,040	14,585
Employee benefits	12,417	17,598	13,649	3,949
Total students	34,617	59,223	40,689	18,534
Instructional staff				
Salaries	13,567	13,567	12,971	596
Employee benefits	10,742	10,742	2,622	8,120
Supplies and materials			2,824	(2,824)
Total instructional staff	24,309	24,309	18,417	5,892
General administration				
Purchased services	7,500	7,500	1,000	6,500
Supplies and materials		500	300	200
Total general administration	7,500	8,000	1,300	6,700
School administration				
Salaries	96,209	88,210	100,531	(12,321)
Employee benefits	42,993	41,442	36,688	4,754
Purchased services	1,000	1,000	3,004	(2,004)
Supplies and materials		100	323	(223)
Other	1,800	2,900	2,881	19
Total school administration	142,002	133,652	143,427	(9,775)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Business services				
Purchased services	65,216	65,216	45,746	19,470
Supplies and materials	100	100	90	10
Total business services	65,316	65,316	45,836	19,480
Operations and maintenance				
Salaries	59,526	54,696	60,855	(6,159)
Employee benefits	27,767	26,830	28,601	(1,771)
Purchased services	544,396	566,396	554,212	12,184
Supplies and materials	65,000	67,000	61,924	5,076
Total operations and maintenance	696,689	714,922	705,592	9,330
Central support services				
Purchased services	68,614	68,615	36,958	31,657
Total central support services	68,614	68,615	36,958	31,657
Food service operations				
Purchased services	1,200	1,250	900	350
Total food service operations	1,200	1,250	900	350
Facilities acquisition				
Property			163,715	(163,715)
Total facilities acquisition	-	-	163,715	(163,715)
Total supporting services	1,040,247	1,075,287	1,156,834	(81,547)
Appropriated reserves	166,929	126,479		126,479
Total expenditures	<u>\$ 2,743,291</u>	<u>\$ 2,751,120</u>	<u>\$ 2,650,277</u>	<u>\$ 100,843</u>

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Budgetary Comparison Schedule - Fiduciary Fund

These funds focus on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds.

Agency funds – These funds are used to report resources held by the Academy in a purely custodial capacity (assets equal liabilities). These funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

- Pupil Activity Fund – This fund is used to record transactions related to school-sponsored pupil organizations and activities. These activities are self-supporting and do not receive any direct or indirect support within the fund.

KNOWLEDGE QUEST ACADEMY
Pupil Activity Agency Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Additions				
Fundraising and other events	\$ 50,000	\$ 50,000	\$ 48,002	\$ (1,998)
Deductions				
Pupil activity expenditures	50,000	50,000	48,430	1,570
Excess of additions over (under) deductions	<u>\$ -</u>	<u>\$ -</u>	(428)	<u>\$ (428)</u>
Due to student groups at beginning of year			<u>11,683</u>	
Due to student groups at end of year			<u>\$ 11,255</u>	