

NEW LEGACY CHARTER SCHOOL

FINANCIAL STATEMENTS

June 30, 2016



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By Justin L. Smith at 11:42 am, Nov 01, 2016

NEW LEGACY CHARTER SCHOOL

Board of Directors

June 30, 2016

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Vice-President	Philip Cooke
Treasurer	Philip Tromburg
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Member	Taishya Adams
Member	Anne Burris
Member	Noel Giametta Magee
Member	Jessica Gutknecht
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Board of Directors
New Legacy Charter School
Denver, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of the New Legacy Charter School 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 New Legacy Charter School, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the New Legacy Charter School as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters (Required Supplementary Information)

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

Ernst & Young LLP

October 14, 2016

New Legacy Charter School

Management's Discussion and Analysis

Fiscal Year Ending June 30, 2016

As management of New Legacy Charter School (NLCS), we offer readers of NLCS's basic financial statements this narrative and analysis of the financial activities of NLCS for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

Financial Highlights

The year ended June 30, 2016 was the first year of operations serving students for NLCS. The general fund balance for fiscal year ending June 30, 2016 is \$127,938.

The operations of NLCS are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue was \$777,605.

NLCS entered into an agreement with a subsidiary of the Urban Land Conservancy in December 2014 to lease the school's facility. The Charter Schools Development Corporation (CSDC) provided credit enhancement, backed by NLCS's business assets, on behalf of NLCS in the form of a bank deposit. The credit enhancement will be reduced over time and released in 2020. Monthly payments and capital contributions are required under the agreement with the Urban Land Conservancy. Rent in FY17 will be \$305,080, with an increase of \$30,000 for FY18. Additional information regarding commitments and contingencies can be found in Note 7 to the financial statements.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to NLCS's basic financial statements. The basic statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

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

The statement of net position presents information on all NLCS's assets and liabilities, and deferred inflows and outflows, with the difference being reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial position of NLCS is improving or deteriorating. The statement of activities presents information showing how NLCS's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end).

The government-wide statement of activities distinguishes functions/programs of NLCS that will be primarily supported by the per-pupil operating revenue passed from the Colorado Charter School Institute. These activities include instruction and supporting services.

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. NLCS keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements, except that the focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Both the balance sheet and the statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the governmental fund and the governmental activities.

Notes to Financial Statements

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

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of NLCS's financial position. For the year ended June 30, 2016, NLCS's combined net position was negative (\$552,611) due to the net pension liability of \$2,931,114, representing its proportionate share of the net pension liability of 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).

Statement of Net Position	2015-2016	2014-2015
Assets		
Cash	\$ 183,210	\$ 223,337
Accounts Receivable	-	3,128
Grants Receivable	36,465	122,756
Capital Assets, Net of Accumulated Depreciation	72,009	59,199
Total Assets	291,684	408,420
Deferred Outflows of Resources		
Pensions, Net of Accumulated Amortization	2,219,978	-
Liabilities		
Accounts Payable	807	1,233
Accrued Liabilities	32,866	-
Accrued Salaries and Benefits	58,064	-
Noncurrent Liabilities		
Due Within One Year	-	40,000
Net Pension Liability	2,931,114	-
Total Liabilities	3,022,851	41,233
Deferred Inflows of Resources		
Pensions, Net of Accumulated Amortization	41,422	-
Net Position		
Net Investment in Capital Assets	72,009	59,199
Restricted for Emergencies	43,000	-
Unrestricted	(667,620)	307,988
Total Net Position	\$ (552,611)	\$ 367,187

Change in Net Position	2015-2016	2014-2015
Revenues		
Per Pupil Revenue	\$ 777,605	\$ -
Charges for Services	19,818	-
Operating Grants and Contributions	658,389	25,056
Capital Grants and Contributions	23,842	400,000
Grants and Contributions Not Restricted to Specific Programs	380,538	887,888
Additional At-Risk Funding	1,282	-
Capital Construction	21,972	-
Investment Income	71	78
Miscellaneous	3,054	6,522
Total Revenue	1,886,571	1,319,544
Expenses		
Instruction	1,612,247	7,724
Support Services	1,194,122	954,717
Total Expenses	2,806,369	962,441
Increase (decrease) in net position	(919,798)	357,103
Net Position, Beginning	367,187	10,084
Net Position, Ending	\$ (552,611)	\$ 367,187

Governmental Fund

The focus of New Legacy Charter School’s governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing NLCS’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of NLCS’s net resources available to spend at the end of the fiscal year.

As of the end of the current fiscal year, NLCS’s general fund reported an ending fund balance of \$127,938, a decrease of \$220,050 from the prior year. This decrease includes the expenditures of funding received and recognized but not spent in the previous fiscal year.

General Fund Budgetary Highlights

NLCS budgeted for General Fund revenues of \$1,818,546 and expenditures of \$2,119,454 for the year ended June 30, 2016. Actual revenues were \$1,886,571 and actual expenditures were \$2,106,621.

There was a budget amendment during the year, which reflected a decrease in several revenue sources including tuition and grants (local state and federal). It also included the reduction in expenditures identified as the result of the fewer-than-anticipated financial resources expected to be received in fiscal year 2015-2016.

Capital Asset and Debt Administration

Capital assets

NLCS's investment in capital assets net of accumulated depreciation as of June 30, 2016, amounts to \$72,009 in equipment purchased to support NLCS's educational program. Additional information regarding capital assets can be found in Note 3 to the financial statements.

Long-term Debt

In April 2014, NLCS entered into an agreement with the Colorado Charter School Institute for a \$75,000 cash flow loan. The loan was non-interest bearing and due in two installments. The final installment was due and paid during fiscal year 2015-2016. Additional information regarding long-term debt can be found in Note 4 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for NLCS is student enrollment. There were 85 students in the 2015-2016 school year and additional Early Childhood Education students of 120 of which 58 were eligible for the Colorado Preschool Program funding (CPP). The student enrollment projected for the 2016-2017 school year is expected to be 98 in addition to 67 early childhood students of which 38 are CPP (24 CSI slots and 14 DPS slots). This factor was considered in preparing NLCS's budget for 2016-2017.

Requests for Information

This financial report is designed to provide a general overview of New Legacy Charter School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the school:

New Legacy Charter School
2091 Dayton Street
Aurora, CO 80010

BASIC FINANCIAL STATEMENTS

NEW LEGACY CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2016

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash	\$ 183,210
Grants Receivable	36,465
Capital Assets, Net of Accumulated Depreciation	<u>72,009</u>
TOTAL ASSETS	<u>291,684</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions, Net of Accumulated Amortization	<u>2,219,978</u>
LIABILITIES	
Accounts Payable	807
Accrued Liabilities	32,866
Accrued Salaries and Benefits	58,064
Noncurrent Liabilities	
Net Pension Liability	<u>2,931,114</u>
TOTAL LIABILITIES	<u>3,022,851</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions, Net of Accumulated Amortization	<u>41,422</u>
NET POSITION	
Net Investment in Capital Assets	72,009
Restricted for Emergencies	43,000
Unrestricted	<u>(667,620)</u>
TOTAL NET POSITION	<u>\$ (552,611)</u>

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

NEW LEGACY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>			<u>NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION GOVERNMENTAL ACTIVITIES</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
PRIMARY GOVERNMENT					
Governmental Activities					
Instruction	\$ 1,612,247	\$ 19,818	\$ 416,201	\$ -	\$ (1,176,228)
Supporting Services	<u>1,194,122</u>	<u>-</u>	<u>242,188</u>	<u>23,842</u>	<u>(928,092)</u>
Total Governmental Activities	<u>\$ 2,806,369</u>	<u>\$ 19,818</u>	<u>\$ 658,389</u>	<u>\$ 23,842</u>	<u>(2,104,320)</u>
GENERAL REVENUES					
					777,605
					1,282
					21,972
					380,538
					71
					<u>3,054</u>
					<u>1,184,522</u>
					(919,798)
					<u>367,187</u>
					<u>\$ (552,611)</u>

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

NEW LEGACY CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2016

	<u>GENERAL</u>
ASSETS	
Cash	\$ 183,210
Grants Receivable	<u>36,465</u>
TOTAL ASSETS	\$ <u>219,675</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 807
Accrued Liabilities	32,866
Accrued Salaries and Benefits	<u>58,064</u>
TOTAL LIABILITIES	<u>91,737</u>
FUND BALANCE	
Restricted for Emergencies	43,000
Unrestricted, Unassigned	<u>84,938</u>
TOTAL FUND BALANCE	<u>127,938</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>219,675</u>

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

Total Fund Balance of the Governmental Fund	\$ 127,938
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	72,009
Long-term liabilities and related items, including net pension liability (2,931,114), pension-related deferred outflows of resources \$2,219,978, and pension-related deferred inflows of resources (\$41,422), are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(752,558)</u>
Total Net Position of Governmental Activities	\$ <u>(552,611)</u>

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

NEW LEGACY CHARTER SCHOOL

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

	GENERAL
REVENUES	
Local Sources	\$ 1,348,539
State Sources	82,189
Federal Sources	455,843
 TOTAL REVENUES	 1,886,571
EXPENDITURES	
Instruction	1,085,457
Supporting Services	981,164
Debt Service	
Principal	40,000
 TOTAL EXPENDITURES	 2,106,621
 NET CHANGE IN FUND BALANCE	 (220,050)
FUND BALANCE, Beginning	347,988
FUND BALANCE, Ending	\$ 127,938

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

Net Change in Fund Balance of the Governmental Fund	\$ (220,050)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$23,842 exceeded depreciation expense (\$11,032) in the current year.	12,810
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 (\$2,931,114), pension-related deferred outflows of resources \$2,219,978, and pension-related deferred inflows of resources (\$41,422) in the current year.	(752,558)
Repayments of debt principal are expenditures in governmental funds, but the repayments reduce long-term liabilities in the statement of net position and do not affect the statement of activities.	40,000
Change in Net Position of Governmental Activities	\$ (919,798)

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

NEW LEGACY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The New Legacy Charter School (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school for pregnant and parenting teens. On December 12, 2013, the School entered into a contract with the Colorado Charter School Institute (the “Institute”) which authorized the School to operate for an initial term ending June 30, 2019. The School began operations in the Fall of 2015.

The financial statements of the School have been prepared in conformity with generally accepted accounting principles (GAAP) as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School’s accounting policies are described below.

Reporting Entity

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

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the School. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported in a single column.

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

Major individual funds are reported as separate columns in the fund financial statements.

NEW LEGACY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. 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. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current year. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

In the fund financial statements, the School reports the following major governmental fund:

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

Assets, Liabilities and Net Position/Fund Balance

Cash and Investments - Investments are reported at fair value.

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

Capital Assets - Capital assets are reported in the government-wide 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.

Capital assets are depreciated using the straight-line method over the estimated useful lives, as follows:

Equipment	5 years
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NEW LEGACY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Long-Term Debt - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the debt proceeds, are reported as current expenses or expenditures.

Pensions - The School participates in the School Division Trust Fund (SDTF), a multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position, and additions to and deductions from the SDTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the SDTF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

Risk Management

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

NEW LEGACY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 2: CASH AND INVESTMENTS

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.

Investments

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes generally limit the maturity of investment securities to five years from the date of purchase, unless the governing board authorizes an investment for a period in excess of five years. State statutes do not address custodial risk.

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

The School had no investments at June 30, 2016.

NOTE 3: CAPITAL ASSETS

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

	Balances 6/30/15	Additions	Deletions	Balances 6/30/16
Governmental Activities				
Capital Assets, Being Depreciated				
Equipment	\$ 60,994	\$ 23,842	\$ -	\$ 84,836
Accumulated Depreciation	<u>(1,795)</u>	<u>(11,032)</u>	<u>-</u>	<u>(12,827)</u>
Governmental Activities Capital Assets, Net	<u>\$ 59,199</u>	<u>\$ 12,810</u>	<u>\$ -</u>	<u>\$ 72,009</u>

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

NEW LEGACY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 4: LONG-TERM DEBT

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

	Balance 6/30/15	Additions	Payments	Balance 6/30/16	Due Within One Year
Governmental Activities					
Loan	<u>\$ 40,000</u>	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ -</u>	<u>\$ -</u>

In April, 2014, the School entered into a loan agreement with the Colorado Charter School Institute in the amount of \$75,000. Loan proceeds were used to provide cash flow during the start-up phase of the School. The loan was non-interest bearing, and was payable in two installments of \$35,000 and \$40,000, due on July 31, 2014, and July 31, 2015, respectively. During the year ended June 30, 2016, the loan was paid in full.

NOTE 5: DEFINED BENEFIT PENSION PLAN

General Information

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

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.

NEW LEGACY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

General Information (Continued)

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

Contributions - The School and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The School's contribution rate for calendar years 2015 and 2016 was 18.35% and 19.15% of covered salaries, respectively. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 6). The School's contributions to the SDTF for the year ended June 30, 2016, were \$165,636, equal to the required contributions.

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

At June 30, 2016, the School reported a net pension liability of \$2,931,114, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Changes in assumptions and other inputs since the prior measurement date did not significantly affect the total pension liability. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The School's proportion of the net pension liability was based on the School's contributions to the SDTF for the calendar year ended December 31, 2015, relative to the contributions of all participating employers. At December 31, 2015, the School's proportion was 0.0191647559%. The School began participating in the SDTF on July 1, 2015, and therefore, had no measurable proportion of the total pension liability at December 31, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$917,895. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 38,706	\$ -
Changes of assumptions and other inputs	-	41,422
Net difference between projected and actual earnings on plan investments	204,427	-
Change in proportion	1,883,878	-
Contributions subsequent to the measurement date	92,967	-
Total	\$ 2,219,978	\$ 41,422

NEW LEGACY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

School contributions subsequent to the measurement date of \$92,967 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

2017	\$ 763,668
2018	763,668
2019	507,147
2020	<u>51,106</u>
Total	<u>\$ 2,085,589</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, 2014, valuation were based on the results of an actuarial experience study for the period January 1, 2008, through December 31, 2011, adopted by PERA's governing board on November 13, 2012, and an economic assumption study adopted by PERA's governing board on November 15, 2013, and January 17, 2014.

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

NEW LEGACY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

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

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Proportionate share of the net pension liability	<u>\$ 3,799,581</u>	<u>\$ 2,931,114</u>	<u>\$ 2,208,712</u>

NEW LEGACY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 5: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

NOTE 6: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description - The School contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by the PERA (See Note 5). 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 by contacting PERA as described previously.

Funding Policy - The School is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the year ended June 30, 2016, was \$9,001, equal to the required amount.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Claims and Judgments

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

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to interpretation, but the School believes it is in substantial compliance with the requirements of the Amendment. In accordance with the Amendment, the School has established an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2016, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$43,000.

NEW LEGACY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7: COMMITMENTS AND CONTINGENCIES (Continued)

Operating Lease

On December 23, 2014, the School entered into an agreement with a subsidiary of the Urban Land Conservancy to lease a school facility. Monthly payments are required under the agreement, which began on August 24, 2015. The initial base annual rent is \$280,500, with increases of \$29,500 and \$30,000 for the second and third years of the lease term. Each year thereafter, rent will increase at 2.5% of the base annual rent in effect for the preceding year. The initial lease term is five years, with three optional renewal periods of five years each. Rent expense for the year ended June 30, 2016, was \$240,536.

Following is a schedule of required payments for the initial lease term.

Year Ended June 30,

2017	\$ 305,080
2018	335,000
2019	347,083
2020	355,760
2021	<u>59,535</u>
Total	<u>\$ 1,402,458</u>

The agreement requires the School to provide capital contributions totaling \$650,000 to the landlord. The initial contribution of \$245,000 was due upon execution of the agreement. Additional contributions of \$355,000 and \$50,000 are due on or before June 30, 2015, and June 30, 2016, respectively. During the year ended June 30, 2015, the School paid capital contributions of \$634,473. The remaining balance of \$15,527 is expected to be paid during the year ended June 30, 2017.

As security for the lease agreement, the Charter Schools Development Corporation (CSDC) provided a credit enhancement in the form of a bank deposit for the benefit of the landlord in the amount of \$280,500. The credit enhancement will be reduced over time and will be fully released on July 1, 2020. The School paid a one-time fee of \$14,025 and pledged collateral consisting essentially of all of its business assets to CSDC as security for the credit enhancement.

REQUIRED SUPPLEMENTARY INFORMATION

NEW LEGACY CHARTER SCHOOL

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

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO SCHOOL DIVISION TRUST FUND

June 30, 2016

	<u>12/31/15</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	
School's Proportion of the Net Pension Liability	0.0191647559%
School's Proportionate Share of the Net Pension Liability	\$ 2,931,114
School's Covered-Employee Payroll	\$ 417,597
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	702%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59%
	<u>6/30/16</u>
SCHOOL CONTRIBUTIONS	
Statutorily Required Contribution	\$ 156,635
Contributions in Relation to the Statutorily Required Contribution	<u>(156,635)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>
School's Covered-Employee Payroll	\$ 882,385
Contributions as a Percentage of Covered-Employee Payroll	17.75%

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.

NEW LEGACY CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2016

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Operating Revenue	\$ 789,365	\$ 751,231	\$ 777,605	\$ 26,374
Tuition and Fees	327,718	207,728	19,818	(187,910)
Grants	492,117	334,970	466,130	131,160
Contributions	50,000	50,000	81,861	31,861
Investment Income	-	-	71	71
Miscellaneous	-	-	3,054	3,054
Total Local Sources	<u>1,659,200</u>	<u>1,343,929</u>	<u>1,348,539</u>	<u>4,610</u>
State Sources				
Additional At-Risk Funding	-	-	1,282	1,282
Capital Construction	22,500	21,250	21,972	722
Grants	190,363	39,760	58,935	19,175
Total State Sources	<u>212,863</u>	<u>61,010</u>	<u>82,189</u>	<u>21,179</u>
Federal Sources				
Grants	385,976	413,607	455,843	42,236
TOTAL REVENUES	<u>2,258,039</u>	<u>1,818,546</u>	<u>1,886,571</u>	<u>68,025</u>
EXPENDITURES				
Salaries	957,180	984,220	960,820	23,400
Employee Benefits	316,094	306,556	289,148	17,408
Purchased Services	550,788	560,270	547,232	13,038
Supplies and Materials	96,287	145,405	161,361	(15,956)
Property	97,386	65,753	104,354	(38,601)
Other	4,770	4,027	3,706	321
Debt Service				
Principal	40,000	40,000	40,000	-
Contingency	190,541	13,223	-	13,223
TOTAL EXPENDITURES	<u>2,253,046</u>	<u>2,119,454</u>	<u>2,106,621</u>	<u>12,833</u>
NET CHANGE IN FUND BALANCE	4,993	(300,908)	(220,050)	80,858
FUND BALANCE, Beginning	<u>52,057</u>	<u>347,988</u>	<u>347,988</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ 57,050</u>	<u>\$ 47,080</u>	<u>\$ 127,938</u>	<u>\$ 80,858</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

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

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

Changes in Assumptions and Other Inputs

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

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

An annual budget is adopted for the School on a basis consistent with generally accepted accounting principles.

Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1, for their approval. The budget includes proposed expenditures and the means of financing them.

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.