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# Colorado Digital Board of Cooperative Education Services

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*By Justin L. Smith at 4:07 pm, Feb 14, 2017*

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## AUDIT REPORT

**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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# Colorado Digital BOCES June 30, 2016

## Appointed Officials Board of Directors

Marie Lavere-Wright <i>(representing CDBOCES partner D49 - BoE)</i>	President
Andy Holloman <i>(community member at large)</i>	Vice President
Andrew Franko <i>(representing CDBOCES partner D49 - Administration)</i>	Treasurer
Janet Nace <i>(representing CDBOCES partner PPCC)</i>	Secretary

## Administrative Officials

Kim McClelland	Executive Director	Brett Ridgway	Business Director
Kindra Whitmyre	Director of School Operations and Special Education	Rebecca Engasser	Business Manager

## Our Schools

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**COLORADO**  
PREPARATORY  
ACADEMY



**Pikes Peak**<sup>®</sup>  
ONLINE SCHOOL  
POWERED BY K<sup>12</sup>



**Mountain View Virtual**  
Online Learning Elevated

## Our Strategic Partners

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**STEMSCO** *And Beyond!*  
STEM EDUCATION FOR SOUTHERN COLORADO

 **[Colorado]**  
Digital Learning Solutions

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES  
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JUNE 30, 2016**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Colorado Digital Board of Cooperative Educational Services

We have audited the accompanying financial statements of the governmental activities and each major fund of Colorado Digital Board of Cooperative Educational Services (the BOCES), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the BOCES'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.

### Auditor's 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 auditor's 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 and each major fund of Colorado Digital Board of Cooperative Educational Services, 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 required supplementary information as 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.

*Hoelting & Company, Inc.*

Colorado Springs, Colorado  
February 14, 2017

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATION SERVICES**  
**MANAGEMENT DISCUSSION & ANALYSIS**  
**JUNE 30, 2016**

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As management of the Colorado Digital Board of Cooperative Education Services (aka CDBOCES), we offer readers of the CDBOCES financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016.

**Financial Highlights**

- CDBOCES only participated in Governmental Activities during 2015/16. As of June 30, 2016, CDBOCES had a deficit Net Position totaling -\$372,126 at the end of the fiscal year, a decrease of \$388,724 from the prior year. This is due to the net PERA pension liability (Net of Deferred Outflows/Inflows) of \$933,644 being pushed to the entity level.
- General Revenues for the Governmental Activities of the CDBOCES totaled \$15,609,581, or 94.1% of all revenues. Program specific revenues in the form of Charges for Services and Operating Grants and Contributions received accounted for \$982,681, or 5.9% of total revenues of \$16,592,442
- Total student count in the CDBOCES was 2,396 students that translated to 2,309.0 student FTE.
- CDBOCES had three contract schools in 2015/16 – Colorado Preparatory Academy (CPA), Pikes Peak Online School (PPOS) & Rocky Mountain Digital Academy (RMDA). A contract school is different from a charter school in that there is no charter contract to supersede the chartering organization’s authority over the school. A contract school typically utilizes an Education Service Provider (ESP). In the case of both CPA and PPOS, the ESP used was K12 Virtual Schools, LLC. In the case of RMDA, the ESP used was Summit Education Group.
- CDBOCES opened its first ‘internal’ school in 2015/16 – Mountain View Virtual Academy (MVV). This school did not have an ESP supporting its operation. Instead CDBOCES hired, trained, supervised & evaluated all staff and occupied an office in the Denver Tech Center to support students enrolled in MVV

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the CDBOCES’ basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to those financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the CDBOCES’ finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information about all the CDBOCES’ 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 CDBOCES is improving or deteriorating.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATION SERVICES**  
**MANAGEMENT DISCUSSION & ANALYSIS**  
**JUNE 30, 2016**

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The *Statement of Activities* presents information showing how the CDBOCES' net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the CDBOCES that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the CDBOCES include instruction, instructional support, general and school administration, business and central services.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The CDBOCES, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Being a new, and relatively small entity focused for online education (i.e. relatively few physical assets), All of the funds of the CDBOCES has are categorized as government funds.

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

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

The CDBOCES maintains two governmental funds. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances, for both the general fund and the Designated-Purpose Grants Fund.

As required, the CDBOCES adopts an annual appropriated budget. A budgetary comparison schedule has been provided for both funds to demonstrate compliance with this budget.

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

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the CDBOCES.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATION SERVICES  
MANAGEMENT DISCUSSION & ANALYSIS  
JUNE 30, 2016**

**Government-wide Financial Analysis**

As noted earlier, net position may serve as a useful indicator of changes in a government's financial position over time. In the case of CDBOCES, Primary Government Liabilities exceeded Assets by \$372,726 at the close of the most recent fiscal year.

COLORADO DIGITAL BOCES - Statement of Net Position		
	<u>Governmental Activities</u>	
	2016	2015
<b>ASSETS</b>		
Current assets	\$ 947,356	\$ 450,214
Capital assets, net of depreciation	4,878	-
<b>Total assets</b>	<u>952,234</u>	<u>450,214</u>
<b>DEFERRED OUTFLOWS</b>		
Deferred pension outflows	1,856,617	44,515
<b>LIABILITIES</b>		
Current liabilities	391,316	60,350
Long-term liabilities	2,563,079	531,759
<b>Total liabilities</b>	<u>2,954,395</u>	<u>592,109</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	4,878	-
Restricted for:		
TABOR	480,000	328,000
Unrestricted	(857,604)	(425,380)
<b>TOTAL NET POSITION</b>	<u>\$ (372,726)</u>	<u>\$ (97,380)</u>

COLORADO DIGITAL BOCES - Statement of Activities		
	<u>Governmental Activities</u>	
	2016	2015
<b>PROGRAM REVENUES</b>		
Charges for service	\$ 275,196	\$ 205,949
Operating Grants & contributions	707,665	11,946
Capital Grants & contributions	-	-
<b>GENERAL REVENUES</b>		
State equalization	15,448,129	10,594,296
Investment earnings	2,498	324
Miscellaneous revenues & transfer:	158,954	94,391
<b>TOTAL REVENUES</b>	<u>16,592,442</u>	<u>10,906,906</u>
<b>EXPENSES</b>		
Instruction	13,715,275	9,904,853
Supporting Services	3,265,891	754,042
<b>TOTAL EXPENSES</b>	<u>16,981,166</u>	<u>10,658,895</u>
Change in Net Position	(388,724)	248,011
Beginning Net Position	(97,380)	128,115
Prior Period Adjustment	113,378	(473,506)
<b>TOTAL NET POSITION</b>	<u>\$ (372,726)</u>	<u>\$ (97,380)</u>

Governmental activities reduced the net position of the District by \$388,724. Program revenues included \$275,196 in charges for services, and \$707,665 in operating grants and contributions. Nearly \$15.6 million was received in general revenues consisting primarily of school finance act revenue. The majority of expenses were for instructional purposes which totaled \$13,715,275 out of a total of \$16,981,166.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATION SERVICES**  
**MANAGEMENT DISCUSSION & ANALYSIS**  
**JUNE 30, 2016**

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**General Fund Budgetary Highlights**

The CDBOCES approves the original budget in June based on enrollment projections for the following school year. In October, after a better estimate of enrollment can be made, adjustments are made to the budget.

Some significant budget highlights include:

- The final (Amended) budget showed decreased revenue by \$123,876 from the original (Adopted) budget. The revenue changes were added to reflect decreased student count and lower per-pupil funding from the on-line funding rate. The final budget had expense increases of \$33,401 driven entirely by increased spend projection for instructional staff. The final budget was intended to cover TABOR reserve requirements of \$465,000 with no unrestricted fund balance.
- Actual General Funds results for the 2015-16 fiscal year showed revenues in excess of expenses by \$166,176, which was \$22,956 better than the final budget. The improvement came from reduced instruction costs of \$1,336,694 offsetting lower local revenues of \$1,267,293.

**Capital Assets**

- CDBOCES' investment in capital assets for governmental activities as of June 30, 2016 amounts to \$4,878 (net of accumulated depreciation). This nominal investment in capital assets is held in leasehold improvements only and is reflective of the lack of traditional education programming that involves land, buildings and equipment; in favor of online educational programming that does not generally need such an investment in capital assets. Additional information on CDBOCES capital assets can be found in the notes to the financial statements.

**Economic Factors and 2016-2017 Budget**

- As previously mentioned, the CDBOCES contracted three schools in 2015-16 – Colorado Preparatory Academy and Pikes Peak Online School, both operated by K12 Virtual Solutions LLC, and Rocky Mountain Digital Academy, operated by Summit Education Group. In 2015-16, CDBOCES also opened its first 'internally managed' school, Mountain View Virtual Academy (MVV). The four schools are designed to cater to different student populations so that there is no intended overlap and/or competition between the four schools. This will continue to be an underlying theme in future school offerings for CDBOES. In late 2015-16, CDBOCES severed its agreement with Summit Education Group for the 2016-17 fiscal year and beyond. As a result, Rocky Mountain Digital Academy will also become an internally managed school.
- CDBOCES focuses on multi-district, online schools. Multi-district schools have no single constituent tax base that they are accountable to; instead accountable to the state of Colorado. It is that fact that results in the revenue stream being solely fed by State Equalization rather than a blend of State Equalization and local sources seen in traditional school districts. This statewide perspective makes the CDBOES less susceptible to changes in local economic conditions, but completely dependent on statewide economic issues.
- Forecasts for 2016-17 present a 'flat' growth pattern for K12 education in student growth. With changes previously mentioned, CDBOCES expects enrollment to decline next year due to those transitions, and

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATION SERVICES  
MANAGEMENT DISCUSSION & ANALYSIS  
JUNE 30, 2016**

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will make staffing and expense adjustments commensurate with the associated decline in program formula revenue.

**Requests for Information**

The financial report is designed to provide a general overview of CDBOCES' finances for those with an interest in the operation. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Business Director, Colorado Digital BOCES, 4035 Tutt Boulevard, Colorado Springs, CO 80922

## **BASIC FINANCIAL STATEMENTS**

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2016**

**ASSETS**

Current assets	
Cash and cash equivalents	\$ 946,511
Receivables	410
Deposits	435
Non-current assets	
Capital assets, net of accumulated depreciation	<u>4,878</u>
 Total assets	 <u>952,234</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred pension outflows	<u>1,856,617</u>
 Total deferred outflows of resources	 <u>1,856,617</u>

**LIABILITIES**

Current liabilities	
Accounts payable	228,335
Accrued salaries and benefits	136,175
Unearned revenues	26,806
Long-term liabilities	
Net pension liability	<u>2,563,079</u>
 Total liabilities	 <u>2,954,395</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred pension inflows	<u>227,182</u>
Total deferred inflows of resources	<u>227,182</u>

**NET POSITION**

Net investment in capital assets	4,878
Restricted for:	
TABOR	480,000
Unrestricted	<u>(857,604)</u>
 Total net position	 <u><u>\$ (372,726)</u></u>

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

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues		Net Program Expense
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 13,715,275	\$ 83,160	707,665	\$ -
Student support	615,289	-	-	-
Instructional staff	231,820	192,036	-	-
General administration	1,416,521	-	-	-
School administration	531,021	-	-	-
Business services	9,635	-	-	-
Maintenance and operations	105,424	-	-	-
Central services	356,181	-	-	-
<b>Total governmental activities</b>	<b>\$ 16,981,166</b>	<b>\$ 275,196</b>	<b>\$ 707,665</b>	<b>\$ -</b>
General Revenues:				
				15,448,129
Per pupil revenue				2,498
Investment income				158,954
Other income				
Total general revenues				15,609,581
Change in net position				(388,724)
Net position, beginning - as restated				15,998
Net position, ending				\$ (372,726)

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

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

	<u>General Fund</u>	<u>Designated Purpose Grants Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 946,511	\$ -	\$ 946,511
Accounts receivables	410	-	410
Due from other funds	-	63,174	63,174
Deposits	435	-	435
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 947,356</u>	<u>\$ 63,174</u>	<u>\$ 1,010,530</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 206,224	\$ 22,111	\$ 228,335
Accrued salaries and benefits	121,918	14,257	136,175
Due to other funds	63,174	-	63,174
Unearned revenue	-	26,806	26,806
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>391,316</u>	<u>63,174</u>	<u>454,490</u>
<b>FUND BALANCES</b>			
Restricted for TABOR	480,000	-	480,000
Unassigned	76,040	-	76,040
	<hr/>	<hr/>	<hr/>
Total fund balance	<u>556,040</u>	<u>-</u>	<u>556,040</u>
	<hr/>	<hr/>	<hr/>
Total fund balance and liabilities	<u>\$ 947,356</u>	<u>\$ 63,174</u>	<u>\$ 1,010,530</u>

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

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RECONCILIATION OF THE BALANCE SHEET**  
**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 of Governmental Funds	\$ 556,040
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	4,878
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred outflows of resources.	1,856,617
Net pension liability is not due and payable in the current period and, therefore, is not reported in the funds.	(2,563,079)
Other long-term liabilities are not due and payable in the current period and, therefore, are reported as deferred inflows of resources.	<u>(227,182)</u>
Total Net Position of Governmental Activities	<u><u>\$ (372,726)</u></u>

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

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

	<u>General Fund</u>	<u>Designated Purpose Grants Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Local sources	\$ 435,591	\$ -	\$ 435,591
State sources	15,626,717	529,077	16,155,794
Federal sources	1,057	-	1,057
	<u>16,063,365</u>	<u>529,077</u>	<u>16,592,442</u>
<b>EXPENDITURES</b>			
Instruction	13,460,832	132,395	13,593,227
Student support	436,313	64,427	500,740
Instructional staff	113,518	116,070	229,588
General administration	1,159,117	94,764	1,253,881
School administration	373,120	25,750	398,870
Business services	8,504	-	8,504
Maintenance and operations	60,587	-	60,587
Central service	235,196	95,671	330,867
Facilities acquisition and construction	50,002	-	50,002
	<u>15,897,189</u>	<u>529,077</u>	<u>16,426,266</u>
Net change in fund balances	<u>166,176</u>	<u>-</u>	<u>166,176</u>
Fund balances - Beginning	<u>389,864</u>	<u>-</u>	<u>389,864</u>
Fund balances - Ending	<u>\$ 556,040</u>	<u>\$ -</u>	<u>\$ 556,040</u>

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

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES  
RECONCILIATION OF THE STATEMENT OF  
REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE 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 Balance of Governmental Funds	\$	166,176
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		4,878
Expenses reported in the statement of activities for the net pension liability do not require the use of current financial resources and, therefore, are not reported in the funds.		<u>(559,778)</u>
Change in Net Position of Governmental Activities	\$	<u><u>(388,724)</u></u>

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

## **NOTES TO FINANCIAL STATEMENTS**

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

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

The Colorado Digital Board of Cooperative Educational Services (the BOCES) was organized in May 2013 under the provisions of the Boards of Cooperative Services Act of 1965, C.R.S. 22-5-101 et seq. A BOCES is not a political subdivision of the State, but is a legal entity separate and apart from its member school districts and/or higher education entities to which certain governmental decision-making functions have been delegated. Sponsoring member entities are El Paso County School District 49, and Pikes Peak Community College. The BOCES sponsored its first school, Colorado Preparatory Academy, with a related educational services contract agreement from K12 Virtual Schools, LLC in July 2014. Three additional schools have been sponsored since: Pikes Peak Online School (also with K12 Virtual Schools, LLC), Rocky Mountain Digital Academy (initially contracted with Summit Education Group, but subsequently converted to CDBOCES management), and Mountain View Virtual Academy which was established in 2015 as CDBOCES' first internally managed school.

The financial statements of the BOCES 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 accounting policies of the BOCES are described below.

*A. REPORTING ENTITY*

The inclusion or exclusion of component units is based on a determination of the elected official's financial accountability to their constituents, and whether the financial reporting entity follows the same accountability. Further, the financial statements of the reporting entity should enable the reader to distinguish between the primary government (including its blended component units, which are in substance, part of the primary government) and discretely presented component units. The criteria used for determining whether an entity should be included, either blended or discretely presented, includes but is not limited to fiscal dependency, imposition of will, legal standing, and the primary recipient of services.

The BOCES has no component units for which either discrete or blended presentation is required.

*B. BASIS OF PRESENTATION—GOVERNMENT-WIDE FINANCIAL STATEMENTS*

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds.

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all the non-fiduciary activities of the government. Governmental activities are normally supported by intergovernmental revenues, and other nonexchange transactions. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

*C. BASIS OF PRESENTATION—FUND FINANCIAL STATEMENTS*

The accounts of the BOCES are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*C. BASIS OF PRESENTATION—FUND FINANCIAL STATEMENTS (CONTINUED)*

The emphasis of fund financial statements is on major governmental funds. The BOCES reports two major governmental fund:

The *General Fund* is the government's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Governmental Designated-Purpose Grants Fund* is used to record financial transactions for grants received for designated programs funded by federal, state or local governments.

*D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING*

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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 the related cash flow. Grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

The 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 collectible within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Those revenues susceptible to accrual are interest revenue and charges for services. Other revenues are not susceptible to accrual because, generally, they are not measurable until received in cash. Expenditure-driven grants recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

*E. ASSET, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE*

*Cash and cash equivalents*

Cash and cash equivalents include cash on hand and in the bank and short-term investments with original maturities of three months or less from the date of acquisition.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*E. ASSET, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE (CONTINUED)*

*Receivables*

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

*Deposits*

The BOCES has made deposits with certain vendors as required for leases or other services.

*Capital Assets*

Capital assets, which include site improvements, are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. The capitalization level for equipment is \$5,000 in all funds. Donated capital assets are valued at their estimated fair market value on the date received. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and are depreciated over the remaining useful lives of the related capital assets, as applicable.

Improvements are depreciated using the straight-line method over the following estimated useful lives:

Site improvements	15 years
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*Unearned revenues*

Unearned revenues include governmental grants that have been received, but not yet earned, since service has not been provided.

*Pensions*

Colorado Digital Board of Cooperative Educational Services 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 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.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*E. ASSET, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE (CONTINUED)*

*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 (expense/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.

*Net position flow assumption*

The BOCES may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the BOCES's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.

*Fund balance flow assumption*

Sometimes the BOCES will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the BOCES' policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

*Fund Balance Classification*

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the BOCES is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications available to be used in the governmental fund financial statements are as follows:

**Nonspendable** – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

**Restricted** – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*E. ASSET, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE (CONTINUED)*

*Fund Balance Classification (continued)*

Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was used when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned – This classification includes amounts that are constrained by the BOCES's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to management through the budgetary process. This classification also includes the remaining positive fund balance for any governmental funds except for the General Fund.

Unassigned – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The BOCES would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

*F. REVENUES AND EXPENDITURES/EXPENSES*

*Program revenues*

Amounts reported as *program revenues* include 1) fees and charges to customers or applicants 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. Revenues that are not classified as program revenues, including all taxes, are reported as *general revenues*.

*G. ESTIMATES*

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

*BUDGET INFORMATION*

The BOCES follows these procedures in establishing the budgetary data reflected in the financial statement:

1. At the May board meeting of the Board of Directors, the Executive Director submits a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at Board of Directors meetings to obtain taxpayers comments.
3. Prior to June 30, the budget is adopted by the Board of Directors.
4. Any revisions that alter the total expenditures of any fund must be approved by the Board of Directors.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts in this report are as originally adopted or amended.
7. All original and supplemental appropriations for all funds lapse at the end of the fiscal year.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

*Cash deposits with financial institutions*

*Custodial credit risk-deposits.* The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government 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. 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 the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

At June 30, 2016, the carrying amount of the BOCES's deposits was \$184,836 and the bank balances were \$220,356. All of the bank balances were covered by federal deposit insurance.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)**

*Investments*

The BOCES is authorized by Colorado statutes to invest in the following:

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

*Investment interest rate risk.* The BOCES has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, other than those limitations by state statute.

*Credit Risk.* State law limits investments to those described above. The BOCES does not have an investment policy that would further limit its investment choices.

COLOTRUST is an investment vehicle established for local government entities in Colorado pursuant to Part 7 of Article 75 of Title 24 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. These investment vehicles operate similarly to money market funds and each share is equal in value to \$1.00. The fair value of the position in the pool is the same as the value of the pool shares.

The designated custodial bank provides safekeeping and depository services to COLOTRUST in connection with the direct investment and withdrawal functions of COLOTRUST. Substantially all securities owned by COLOTRUST are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by COLOTRUST. Investments of COLOTRUST consist of U.S. Treasury bills, notes and note strips, and repurchase agreements collateralized by U.S. Treasury Notes. However, the Board does not categorize investments with COLOTRUST because they are not evidenced by securities that exist in physical or book entry form.

The Colorado Digital BOCES investments at June 30, 2016 consist of the following:

<u>Investments</u>	<u>Maturities</u>	<u>Fair Value</u>
ColoTrust	Less than 60 days	<u>\$ 761,675</u>

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2016**

**NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)**

*Investments (continued)*

The restricted and unrestricted cash and cash equivalents at June 30, 2016 consist of the following:

	<u>Unrestricted Cash and Cash Equivalents</u>
Deposits	\$ 184,836
ColoTrust	<u>761,675</u>
Total deposits and investments	<u>\$ 946,511</u>

**NOTE 4 – INTERFUND RECEIVABLES AND PAYABLES**

All interfund receivables and payables are created in conjunction with the District’s pooled cash and investment portfolios. Balances are routinely cleared as a matter of practice.

The composition of interfund balances at June 30, 2016 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Grants Fund	General Fund	<u>\$ 63,174</u>

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Balance</u> <u>06/30/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/16</u>
<i>Governmental Activities</i>				
Depreciable assets:				
Site improvements	\$ -	\$ 5,165	\$ -	\$ 5,165
Total depreciable assets	-	5,165	-	5,165
Less accumulated depreciation for:				
Site improvements	-	287	-	287
Total accumulated depreciation	-	287	-	287
Total depreciable assets, net	-	4,878	-	4,878
<i>Governmental activities, net</i>	<u>\$ -</u>	<u>\$ 4,878</u>	<u>\$ -</u>	<u>\$ 4,878</u>

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

Business Services	<u>\$ 287</u>
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**NOTE 6 - DEFINED BENEFIT PENSION PLAN**

*General Information about the Pension Plan*

*Plan description.* Eligible employees of the Colorado Digital Board of Cooperative Educational Services 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](http://www.copera.org/investments/pera-financial-reports).

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

*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. §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.

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, 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 percent of PERA's Annual Increase Reserve 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.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

*Contributions.* Eligible employees and Colorado Digital Board of Cooperative Educational Services are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. §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:

	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. §24-51-208(1)(f)	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. §24-51-411	4.20%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. §24-51-411	4.00%	4.50%
<b>Total Employer Contribution Rate to the SCHDTF</b>	<b>17.33%</b>	<b>18.13%</b>

Rates are expressed as a percentage of salary as defined in C.R.S. §24-51-101(42)

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Colorado Digital Board of Cooperative Educational Services is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from Colorado Digital Board of Cooperative Educational Services were \$204,527 for the year ended June 30, 2016.

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

At June 30, 2016, the Colorado Digital Board of Cooperative Educational Services reported a liability of \$2,563,079 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 Colorado Digital Board of Cooperative Educational Services proportion of the net pension liability was based on Colorado Digital Board of Cooperative Educational Services 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 Colorado Digital Board of Cooperative Educational Services' proportion was 0.0167584014 percent, which was a increase of 0.0128349560 percent from its proportion measured as of December 31, 2014.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

For the year ended June 30, 2016, the Colorado Digital Board of Cooperative Educational Services recognized pension expense of \$764,304. At June 30, 2016, the Colorado Digital Board of Cooperative Educational Services reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 33,846	\$ 107
Changes of assumptions or other inputs	-	36,221
Net difference between projected and actual earnings on pension plan investments	217,934	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	1,496,068	190,854
Contributions subsequent to the measurement date	108,769	-
<b>Total</b>	<b>\$ 1,856,617</b>	<b>\$ 227,182</b>

\$108,769 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 year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 566,336
2018	\$ 553,590
2019	\$ 356,050
2020	\$ 44,690

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

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

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 as follows:

- The following programming changes were made:
  - 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

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 6 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

As of the November 15, 2013 adoption of the long-term expected 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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>10 Year Expected Geometric Real Rate of Return</b>
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 Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

\*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 projection 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 estimated future AED and 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.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 6 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

- 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 reserve 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 SCHDTF’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 Colorado Digital Board of Cooperative Educational Services 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:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$3,322,500	\$2,563,079	\$1,931,383

*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](http://www.copera.org/investments/pera-financial-reports).

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 7 - POSTEMPLOYMENT HEALTHCARE BENEFITS**

*Health Care Trust Fund*

*Plan description.* The Colorado Digital Board of Cooperative Educational Services contributes 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 annual 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](http://www.copera.org/investments/pera-financial-reports).

*Funding policy.* The Colorado Digital Board of Cooperative Educational Services 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 Colorado Digital Board of Cooperative Educational Services 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 years ending June 30, 2016, 2015, and 2014 the Colorado Digital Board of Cooperative Educational Services contributions to the HCTF were \$11,756, \$2,799 and \$1,052 respectively, equal to their required contributions for each year.

**NOTE 8 - RISK MANAGEMENT**

The BOCES 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 BOCES carries commercial insurance for these risks of loss, including worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the last three fiscal years.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

*LEASE COMMITMENT*

In July 2013, the BOCES entered into a lease agreement for office space. The agreement requires monthly lease payments of \$2,483 with rents increasing \$0.50 every second year. The lease term runs July 1, 2013 through July 31, 2017, with the option to extend the lease for one 5 year period. \$38,600 was expended under the terms of the lease for the year ended June 30, 2016.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Future minimum lease payments are as follows:

Fiscal Year <u>Ending June 30</u>	
2017	\$ 32,040
2018	<u>2,669</u>
Total	<u>\$ 34,709</u>

**NOTE 10 – AMENDMENT TO COLORADO CONSTITUTION**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities and other specific requirements of state and local governments.

The amendment requires emergency reserves be established. These reserves must be at least 3% of fiscal year spending. The BOCES is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary and benefit increases. At June 30, 2016 there was a \$480,000 reservation of fund balance in the General Fund for the amendment.

The Amendment is complex and subject to judicial interpretation. The BOCES believes it is in compliance with the requirements of the amendment. However, the BOCES has made certain interpretations of the amendment’s language in order to determine its compliance.

**NOTE 11 – COLORADO SCHOOL /BOCES, ELECTRONIC DATA INTEGRITY CHECK FIGURES**

The School Finance Act requires inclusion of the Colorado School District/BOCES, Electronic Financial Data Integrity Check Figures as a supplement schedule to the audited financial statements. The Report is based on a prescribed basis of accounting that demonstrates compliance with the financial policies and procedures of the Colorado Department of Education.

**NOTE 12 – PRIOR PERIOD ADJUSTMENT**

During the year, it was determined that pension contributions subsequent to the measurement date and other pension outflows totaling \$113,378 were not included in deferred outflows. To correct this oversight, the beginning net position for governmental activities of a deficit \$97,380, as originally reported, has been increased to \$15,998.

**REQUIRED SUPPLEMENTARY INFORMATION**

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND COVERED PAYROLL**  
**JUNE 30, 2016**

	<u>2013</u>	<u>2014</u>	<u>2015</u>
BOCES' proportion of the net pension liability (asset)	0.0026890159%	0.0039234454%	0.0167584014%
BOCES' proportionate share of the net pension liability (asset)	\$ 342,983	\$ 531,759	\$ 2,563,079
BOCES' covered-employee payroll	\$ 108,403	\$ 164,364	\$ 730,327
BOCES' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	316.40%	323.52%	350.95%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%

\* The amounts presented for each fiscal year were determined as of 12/31.

\* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**SCHEDULE OF EMPLOYER'S STATUTORY PAYROLL CONTRIBUTIONS AND COVERED PAYROLL**  
**JUNE 30, 2016**

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Contractually required contribution	\$ 16,835	\$ 27,005	\$ 126,566
Contributions in relation to the contractually required contribution	<u>(16,835)</u>	<u>(27,005)</u>	<u>(126,566)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
BOCES' covered-employee payroll	\$ 108,403	\$ 164,364	\$ 730,327
Contributions as a percentage of covered-employee payroll	15.53%	16.43%	17.33%

\* The amounts presented for each fiscal year were determined as of 12/31.

\* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local sources				
Other	\$ 189,982	\$ 1,702,884	\$ 435,591	\$ (1,267,293)
Total local sources	<u>189,982</u>	<u>1,702,884</u>	<u>435,591</u>	<u>(1,267,293)</u>
State sources				
Per pupil revenue	17,155,143	15,503,720	15,448,129	(55,591)
BOCES Grant	-	-	165,000	165,000
Other	-	13,588	13,588	-
Total state sources	<u>17,155,143</u>	<u>15,517,308</u>	<u>15,626,717</u>	<u>109,409</u>
Federal sources				
Federal impact aid	-	1,057	1,057	-
Total federal sources	<u>-</u>	<u>1,057</u>	<u>1,057</u>	<u>-</u>
Total revenues	<u>17,345,125</u>	<u>17,221,249</u>	<u>16,063,365</u>	<u>(1,157,884)</u>
<b>EXPENDITURES</b>				
Instruction	14,831,515	14,797,526	13,460,832	1,336,694
Student support	303,764	334,748	436,313	(101,565)
Instructional staff	86,646	196,930	113,518	83,412
General administration	1,339,757	1,054,720	1,159,117	(104,397)
School administration	184,664	279,346	373,120	(93,774)
Business services	35,831	88,324	8,504	79,820
Maintenance and operations	133,000	117,708	60,587	57,121
Central services	175,420	208,725	235,196	(26,471)
Facilities acquisition	-	-	50,002	(50,002)
Other	(45,969)	2	-	2
Total expenditures	<u>17,044,628</u>	<u>17,078,029</u>	<u>15,897,189</u>	<u>1,180,840</u>
Net change in fund balance	300,497	143,220	166,176	22,956
Fund balance, beginning	<u>389,864</u>	<u>389,864</u>	<u>389,864</u>	<u>-</u>
Fund balance, ending	<u>\$ 690,361</u>	<u>\$ 533,084</u>	<u>\$ 556,040</u>	<u>\$ 22,956</u>

See the accompanying independent auditors' report.

**COLORADO DIGITAL BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GOVERNMENTAL DESIGNATED-PURPOSE GRANTS FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local sources				
Other	\$ -	\$ 2,000	\$ -	\$ (2,000)
Total local sources	-	2,000	-	(2,000)
State sources				
Grants	558,691	555,883	529,077	(26,806)
Total state sources	558,691	555,883	529,077	(26,806)
Total revenues	558,691	557,883	529,077	(28,806)
<b>EXPENDITURES</b>				
Instruction	117,556	133,447	132,395	1,052
Student support	99,227	64,213	64,427	(214)
Instructional staff	146,391	135,788	116,070	19,718
General administration	69,150	124,595	94,764	29,831
School administration	5,000	25,853	25,750	103
Central services	121,367	73,987	95,671	(21,684)
Total expenditures	558,691	557,883	529,077	28,806
Net change in fund balance	-	-	-	-
Fund balance, beginning	-	-	-	-
Fund balance, ending	\$ -	\$ -	\$ -	\$ -

See the accompanying independent auditors' report.

## **STATE COMPLIANCE**



**INDEPENDENT AUDITORS' REPORT ON  
COLORADO SCHOOL DISTRICT/BOCES  
AUDITOR'S INTEGRITY REPORT**

To the Board of Education  
Colorado Digital Board of Cooperative Educational Services

We have audited the financial statements of the governmental activities and each major fund of Colorado Digital Board of Cooperative Educational Services, as of and for the year ended June 30, 2016, which collectively comprise Colorado Digital Board of Cooperative Educational Services' basic financial statements, and our report thereon dated February 14, 2017, which expressed an unmodified opinion on those financial statement, appears as listed in the table of contents.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Colorado Digital Board of Cooperative Educational Services' financial statements. The accompanying *Colorado School District/BOCES, Auditor's Integrity Report* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Hoelting & Company, Inc.*

Colorado Springs, Colorado  
February 14, 2017



**Colorado Department of Education**  
**Auditors Integrity Report**  
 District: 9170 - COLORADO DIGITAL BOCES  
 Fiscal Year 2015-16  
 Colorado School District/BOCES

Revenues, Expenditures, & Fund Balance by Fund

Fund Type & Number	Beg Fund Balance & Prior Per Adj (6880*)	1000 - 5999 Total Revenues & Other Sources	0001-0999 Total Expenditures & Other Uses	6700-6799 & Prior Per Adj (6880*) Ending Fund Balance
Governmental	+		-	=
10 General Fund	389,864	16,063,365	15,897,188	556,040
18 Risk Mgmt Sub-Fund of General Fund	0	0	0	0
19 Colorado Preschool Program Fund	0	0	0	0
<b>Sub- Total</b>	<b>389,864</b>	<b>16,063,365</b>	<b>15,897,188</b>	<b>556,040</b>
11 Charter School Fund	0	0	0	0
20,26-29 Special Revenue Fund	0	0	0	0
21 Food Service Spec Revenue Fund	0	0	0	0
22 Govt Designated-Purpose Grants Fund	0	529,077	529,077	0
23 Pupil Activity Special Revenue Fund	0	0	0	0
24 Full Day Kindergarten Mill Levy Override	0	0	0	0
25 Transportation Fund	0	0	0	0
31 Bond Redemption Fund	0	0	0	0
39 Certificate of Participation (COP) Debt Service Fund	0	0	0	0
41 Building Fund	0	0	0	0
42 Special Building Fund	0	0	0	0
43 Capital Reserve Capital Projects Fund	0	0	0	0
<b>Totals</b>	<b>389,864</b>	<b>16,592,442</b>	<b>16,426,265</b>	<b>556,040</b>
<b>Proprietary</b>				
50 Other Enterprise Funds	0	0	0	0
64 (63) Risk-Related Activity Fund	0	0	0	0
60,65-69 Other Internal Service Funds	0	0	0	0
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Fiduciary</b>				
70 Other Trust and Agency Funds	0	0	0	0
72 Private Purpose Trust Fund	0	0	0	0
73 Agency Fund	0	0	0	0
74 Pupil Activity Agency Fund	0	0	0	0
79 GASB 34:Permanent Fund	0	0	0	0
85 Foundations	0	0	0	0
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

FINAL

\*If you have a prior period adjustment in any fund (Balance Sheet 6880), the amount of your priorperiod adjustment is added into both your ending and beginning fund balances on this report.

