

**VANGUARD CLASSICAL SCHOOL**

**(A Component Unit of Joint School District No. 28-J  
of the Counties of Adams and Arapahoe, Colorado)**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2017**

**VANGUARD CLASSICAL SCHOOL  
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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Vanguard Classical School  
Denver, Colorado

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Vanguard Classical School, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 School'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 School'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 the General Fund of the Vanguard Classical School as of June 30, 2017, and the respective changes in financial position and budgetary comparison for the General Fund 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 on pages 3 through 7 and the pension schedules on pages 30 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2017, on our consideration of the Vanguard Classical School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Vanguard Classical School's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Broomfield, Colorado  
September 21, 2017

**VANGUARD CLASSICAL SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017**

**History and Nature of Operation**

Vanguard Classical School (formerly known as CP Charter School) was started by Ability Connection of Colorado Inc., (formerly known as Cerebral Palsy of Colorado Inc.), a nonprofit Corporation. Ability Connection of Colorado was incorporated in 1952 to provide educational, social and therapeutic programs and related activities for persons with cerebral palsy and other disabilities. Ability Connection of Colorado is currently providing community based education services for children of all abilities, birth to five years of age, family support services, a full range of employment services, a statewide information referral service, and statewide education/training for people with disabilities and their families.

Vanguard Classical School (the School) received its charter from Aurora Public Schools in December 2006 and opened in July 2007. The charter was amended in January 2014 to include a high school located on the School's east campus at 17101 East Ohio Drive, Aurora, Colorado. Activities of the high school are included in the accompanying financial statements. The School is a separate Colorado nonprofit organization with its own 501(c)(3) corporation (received July 2009), governed by its own board of directors. The School's west campus is co-located with the corporate offices of Ability Connection of Colorado at 801 Yosemite Street, Denver, Colorado.

As management of Vanguard Classical School, we offer readers of the School's basic financial statements this narrative and analysis of the financial activities of the School as of and for the year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information provided in the basic financial statements.

**Financial Highlights**

The School's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$14,587,616 at June 30, 2017. This is largely related to the third year implementation of the Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, the School's net pension liability of \$(28,115,409) is recorded in liabilities. See Note 7 beginning on page 20 for further information.

The School's unrestricted net position for the year ended June 30, 2017 is \$(14,955,920). The total unrestricted net position is made up of \$(15,236,182) that is attributable to the unfunded net pension liability and \$280,262 that is a result of operational revenues exceeding operational expenses.

The School's General Fund reported an ending fund balance of \$648,566, an increase of \$246,258. The total General Fund balance is 6% of the fiscal year 2017 General Fund operating expenditures.

**Overview of Basic Financial Statements**

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

**Government-Wide Financial Statements**

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

**VANGUARD CLASSICAL SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017**

**Government-Wide Financial Statements (Continued)**

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

The statement of activities presents information showing how the School'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 related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flow changes in future fiscal periods (for example, salaries and benefits earned but unpaid and changes in the pension liability).

In the government-wide financial statements, the School's activities are part of one distinct kind of activity.

- Governmental activities – Most of the School's programs and services are reported here including instruction and support services.

The School has no business-type activities.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other local governments, uses fund accounting 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.

The School operates one governmental fund, the General Fund:

- General fund – The School's activities are reported in its General fund, which has a focus on how money flows into and out of that fund. The balance left at year-end is available for spending in future periods. The governmental fund statement provides a detailed short-term view that helps determine whether there are more or less financial resources that can be spent in the near future in financing the School's programs. Because there are differences between governmental activities (shown in the statement of net position and the statement of activities previously discussed) and its governmental fund, a reconciliation is provided in the financial statements.

**Notes to Financial Statements**

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

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of Vanguard Classical School, as of June 30, 2017, combined net position is \$(14,587,616) for its tenth year of operations.

**VANGUARD CLASSICAL SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017**

**Government-Wide Financial Analysis (Continued)**

The following tables summarize the School's statement of net position as of June 30, 2017 and 2016.

**COMPARATIVE STATEMENT OF NET POSITION**

|  | 2017            | 2016           |
|--|-----------------|----------------|
| <b>ASSETS</b>                                |                 |                |
| Cash   | \$ 1,017,516    | \$ 746,568     |
| Restricted Cash                              | 50,000          | 50,000         |
| Accounts Receivable                          | 225             | 101,965        |
| Grants Receivable                            | -               | 169,204        |
| Prepaid Expenses                             | 230,354         | 2,150          |
| Total Assets                                 | 1,298,095       | 1,069,887      |
| <br><b>DEFERRED OUTFLOWS OF RESOURCES</b>    |                 |                |
| Change in Proportionate Share                | 2,167,868       | 2,727,119      |
| Change in Actuarial Assumptions              | 9,122,864       | -              |
| Change in Experience Loss                    | 351,485         | 171,119        |
| Change in Investment Earnings                | 940,120         | 1,092,397      |
| Contributions Subsequent to Measurement Date | 423,924         | 381,896        |
| Total Deferred Outflows of Resources         | 13,006,261      | 4,372,531      |
| <br><b>LIABILITIES</b>                       |                 |                |
| Accounts Payable                             | 34,192          | 159,397        |
| Due to Aurora Public Schools                 | 130,315         | 70,535         |
| Accrued Salaries and Benefits                | 485,022         | 437,647        |
| Net Pension Liability                        | 28,115,409      | 12,958,549     |
| Total Liabilities                            | 28,764,938      | 13,626,128     |
| <br><b>DEFERRED INFLOWS OF RESOURCES</b>     |                 |                |
| Change in Actuarial Assumptions              | 126,786         | 183,127        |
| Change in Experience Gain                    | 248             | 515            |
| Total Deferred Inflows of Resources          | 127,034         | 183,642        |
| <br><b>NET POSITION</b>                      |                 |                |
| Restricted for TABOR                         | 318,304         | 301,879        |
| Restricted for Legal Contingency             | 50,000          | 50,000         |
| Unrestricted                                 | (14,955,920)    | (8,719,231)    |
| Total Net Position                           | \$ (14,587,616) | \$ (8,367,352) |

As of June 30, 2017, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$14,587,616. Per Article X, Section 20 of the Colorado constitution, also known as the 1992 Taxpayer Bill of Rights or the TABOR Amendment, the School is required to establish a separate emergency reserve equaling 3% of applicable expenditures. The School's emergency reserve requirement under TABOR as of June 30, 2017 was \$318,304.

**VANGUARD CLASSICAL SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017**

**Government-Wide Financial Analysis (Continued)**

The following tables summarize the School's statement of activities for the years ended June 30, 2017 and 2016.

**STATEMENT OF ACTIVITIES**

|                                    | Governmental Activities |                       |
|------------------------------------|-------------------------|-----------------------|
|                                    | 2017                    | 2016                  |
| <b>REVENUE</b>                     |                         |                       |
| Program Revenues:                  |                         |                       |
| Charges for Services               | \$ 596,386              | \$ 490,083            |
| Operating Grants and Contributions | 234,649                 | 438,898               |
| Capital Grants and Contributions   | 441,594                 | 289,330               |
| General Revenue:                   |                         |                       |
| State Categorical Revenue          | 8,734,754               | 8,273,166             |
| Revenue from Local Sources         | 614,612                 | 582,737               |
| Other                              | 201                     | 186                   |
| Transfer                           | -                       | -                     |
| Total Revenue                      | 10,622,196              | 10,074,400            |
| <b>EXPENSES</b>                    |                         |                       |
| Instruction                        | 10,806,837              | 6,629,212             |
| Supporting Services                | 6,035,623               | 5,155,817             |
| Total Expenses                     | 16,842,460              | 11,785,029            |
| <b>CHANGE IN NET POSITION</b>      | (6,220,264)             | (1,710,629)           |
| Net Position - Beginning of Year   | (8,367,352)             | (6,656,723)           |
| <b>NET POSITION - END OF YEAR</b>  | <u>\$ (14,587,616)</u>  | <u>\$ (8,367,352)</u> |

The statement of activities reflect growth in several areas. State Categorical Revenue increased due to increased enrollment (FTE) at both the East and West campuses. Instruction and support services expenses primarily increased due to an increase in staffing to respond to the growth in enrollment and because staff received an increase in pay for the year.

**Financial Analysis of the School's Fund**

The School has one governmental fund, the General Fund. The General Fund is considered a major fund and is used to account for the School's general operations. Changes related to the General Fund are very similar to those noted in Governmental Activities.

**Budgetary Highlights**

A budgetary comparison for the General Fund has been provided in the basic financial statements to demonstrate compliance with the budget. The School budgeted expenditures of \$10,761,618 for the year ended June 30, 2017. Actual expenditures were \$10,375,938 for the same period.

**VANGUARD CLASSICAL SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017**

**Facilities**

The School leases its office and School facilities under an operating lease with Ability Connection of Colorado that expires on June 30, 2018.

Annual rent payments under the lease were \$2,414,242 (included in Supporting Services) for the year ended June 30, 2017.

**Capital Assets and Long-Term Liabilities**

The School has no capital assets as of June 30, 2017. The School has a long-term liability of \$15,236,182 for the School's pension liability.

**Economic Factors and Next Year's Budget**

The primary factor driving the budget for the School is student enrollment. Funded Pupil Count (FPC) for the 2017 School year was 467 for the west campus and 687 for the east campus. The FPC projected for the 2018 School year is 463 for the west campus and 758 for the east campus. This is a major factor used in preparing the School's budget for the fiscal year 2018.

**Request for Information**

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

Board President  
Vanguard Classical School  
801 Yosemite Street  
Denver, CO 80230

**VANGUARD CLASSICAL SCHOOL  
STATEMENT OF NET POSITION  
JUNE 30, 2017**

|  | <u>Governmental<br/>Activities</u> |
|--|------------------------------------|
| <b>ASSETS</b>                                |                                    |
| Cash   | \$ 1,017,516                       |
| Restricted Cash                              | 50,000                             |
| Accounts Receivable                          | 225                                |
| Prepaid Expenses                             | 230,354                            |
| Total Assets                                 | <u>1,298,095</u>                   |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>        |                                    |
| Change in Proportionate Share                | 2,167,868                          |
| Change in Actuarial Assumptions              | 9,122,864                          |
| Change in Experience Loss                    | 351,485                            |
| Change in Investment Earnings                | 940,120                            |
| Contributions Subsequent to Measurement Date | 423,924                            |
| Total Deferred Outflows of Resources         | <u>13,006,261</u>                  |
| <b>LIABILITIES</b>                           |                                    |
| Accounts Payable                             | 34,192                             |
| Due to Aurora Public Schools                 | 130,315                            |
| Accrued Salaries and Benefits                | 485,022                            |
| Net Pension Liability                        | 28,115,409                         |
| Total Liabilities                            | <u>28,764,938</u>                  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>         |                                    |
| Change in Actuarial Assumptions              | 126,786                            |
| Change in Experience Gain                    | 248                                |
| Total Deferred Inflows of Resources          | <u>127,034</u>                     |
| <b>NET POSITION</b>                          |                                    |
| Restricted for TABOR                         | 318,304                            |
| Restricted for Legal Contingency             | 50,000                             |
| Unrestricted                                 | <u>(14,955,920)</u>                |
| Total Net Position                           | <u><u>\$ (14,587,616)</u></u>      |

See accompanying Notes to Financial Statements.

**VANGUARD CLASSICAL SCHOOL  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017**

| Functions/Programs               | Expenses             | Program Revenues           |   |   | Net (Expense)                             |
|----------------------------------|----------------------|----------------------------|---|---|---|
|                                  |                      | Charges<br>for<br>Services | Operating<br>Grants<br>and<br>Contributions | Capital<br>Grants<br>and<br>Contributions | Revenue and<br>Changes in<br>Net Position |
|                                  |                      |                            |   |   | Governmental<br>Activities                |
| Governmental Activities:         |                      |                            |   |   |   |
| Instruction                      | \$ 10,806,837        | \$ 171,770                 | \$ 234,649                                  | \$ 441,594                                | \$ (9,958,824)                            |
| Supporting Services              | 6,035,623            | 424,616                    | -   | -   | (5,611,007)                               |
| Total Governmental Activities    | <u>\$ 16,842,460</u> | <u>\$ 596,386</u>          | <u>\$ 234,649</u>                           | <u>\$ 441,594</u>                         | <u>\$ (15,569,831)</u>                    |
| General Revenues:                |                      |                            |   |   |   |
| State Categorical Revenue        |                      |                            |   |   | 8,734,754                                 |
| Revenue from Local Sources       |                      |                            |   |   | 614,612                                   |
| Interest Income                  |                      |                            |   |   | 201                                       |
| Total General Revenues           |                      |                            |   |   | <u>9,349,567</u>                          |
| Change in Net Position           |                      |                            |   |   | (6,220,264)                               |
| Net Position - Beginning of Year |                      |                            |   |   | <u>(8,367,352)</u>                        |
| Net Position - End of Year       |                      |                            |   |   | <u>\$ (14,587,616)</u>                    |

**VANGUARD CLASSICAL SCHOOL  
BALANCE SHEET – GOVERNMENTAL FUND  
JUNE 30, 2017**

|                                     | <u>General Fund</u> |
|-------------------------------------|---------------------|
| <b>ASSETS</b>                       |                     |
| Cash                                | \$ 1,017,516        |
| Restricted Cash                     | 50,000              |
| Accounts Receivable                 | 225                 |
| Prepaid Items                       | 230,354             |
| Total Assets                        | <u>\$ 1,298,095</u> |
| <b>LIABILITIES AND FUND BALANCE</b> |                     |
| <b>LIABILITIES</b>                  |                     |
| Accounts Payable                    | \$ 34,192           |
| Due to Aurora Public Schools        | 130,315             |
| Accrued Salaries and Benefits       | 485,022             |
| Total Liabilities                   | <u>649,529</u>      |
| <b>FUND BALANCE</b>                 |                     |
| Nonspendable                        | 230,354             |
| Restricted for TABOR                | 318,304             |
| Restricted for Legal Contingency    | 50,000              |
| Unassigned                          | 49,908              |
| Total Fund Balance                  | <u>648,566</u>      |
| Total Liabilities and Fund Balance  | <u>\$ 1,298,095</u> |

See accompanying Notes to Financial Statements.

**VANGUARD CLASSICAL SCHOOL  
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUND  
TO THE STATEMENT OF NET POSITION  
YEAR ENDED JUNE 30, 2017**

Amounts reported to governmental activities in the Statement of Net Position are different because:

|  |    |         |
|--|----|---------|
| Total Fund Balances of Governmental Fund | \$ | 648,566 |
|--|----|---------|

Long-term liabilities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the current period, and therefore, are not reported in the governmental fund.

|                       |  |              |
|-----------------------|--|--------------|
| Net Pension Liability |  | (28,115,409) |
|-----------------------|--|--------------|

Deferred outflows of resources used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.

|  |  |           |
|--|--|-----------|
| Change in Proportionate Share                |  | 2,167,868 |
| Change in Actuarial Assumptions              |  | 9,122,864 |
| Change in Experience Loss                    |  | 351,485   |
| Change in Investment Earnings                |  | 940,120   |
| Contributions Subsequent to Measurement Date |  | 423,924   |

Deferred inflows of resources used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.

|                           |  |           |
|---------------------------|--|-----------|
| Change in Assumptions     |  | (126,786) |
| Change in Experience Gain |  | (248)     |

|   |  |                        |
|---|--|------------------------|
| Total Net Position of Governmental Activities |  | <u>\$ (14,587,616)</u> |
|---|--|------------------------|

**VANGUARD CLASSICAL SCHOOL  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES – GOVERNMENTAL FUND  
YEAR ENDED JUNE 30, 2017**

|                                       | <u>General<br/>Fund</u>  |
|---------------------------------------|--------------------------|
| <b>REVENUE</b>                        |                          |
| State of Colorado - Per Pupil Funding | \$ 8,734,754             |
| State of Colorado - Other             | 441,594                  |
| Charges for Services                  | 596,386                  |
| Revenue from Local Sources            | 614,612                  |
| Grant and Contribution Revenue        | 234,649                  |
| Earnings on Investments               | 201                      |
| Total Revenue                         | <u>10,622,196</u>        |
| <b>EXPENDITURES</b>                   |                          |
| Current:                              |                          |
| Instruction                           | 5,030,940                |
| Supporting Services                   | <u>5,344,998</u>         |
| Total Expenditures                    | <u>10,375,938</u>        |
| <b>NET CHANGE IN FUND BALANCES</b>    | 246,258                  |
| Fund Balances - Beginning of Year     | <u>402,308</u>           |
| <b>FUND BALANCES - END OF YEAR</b>    | <u><u>\$ 648,566</u></u> |

See accompanying Notes to Financial Statements.

**VANGUARD CLASSICAL SCHOOL  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017**

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

|  |            |
|--|------------|
| Net Change in Fund Balances of Governmental Fund | \$ 246,258 |
|--|------------|

Some items reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund. The (increases) decreases in these activities consist of:

|   |                       |
|---|-----------------------|
| Pension Expense                                   | <u>(6,466,522)</u>    |
| Change in Net Position of Governmental Activities | <u>\$ (6,220,264)</u> |

**VANGUARD CLASSICAL SCHOOL**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND**  
**YEAR ENDED JUNE 30, 2017**

|   | Original<br>Budget       | Final<br>Budget          | Actual                   | Variance with<br>Budget<br>Positive<br>(Negative) |
|---|--------------------------|--------------------------|--------------------------|---|
| <b>REVENUE</b>                                  |                          |                          |                          |   |
| State of Colorado - Per Pupil Funding           | \$ 9,491,250             | \$ 9,491,250             | \$ 8,734,754             | \$ (756,496)                                      |
| Capital Construction                            | 290,296                  | 290,296                  | 441,594                  | 151,298   |
| Other Income                                    | 1,059,074                | 1,059,074                | 1,211,199                | 152,125   |
| Grants  | -                        | -                        | 234,649                  | 234,649   |
| Total Revenue                                   | <u>10,840,620</u>        | <u>10,840,620</u>        | <u>10,622,196</u>        | <u>(218,424)</u>                                  |
| <b>EXPENDITURES</b>                             |                          |                          |                          |   |
| Salaries  | 4,768,600                | 4,768,600                | 4,414,220                | 354,380   |
| Benefits  | 1,202,000                | 1,202,000                | 1,164,370                | 37,630  |
| Purchased Services                              | 4,511,018                | 4,511,018                | 4,685,207                | (174,189)   |
| Supplies  | 180,000                  | 180,000                  | 112,141                  | 67,859  |
| Other   | 100,000                  | 100,000                  | -                        | 100,000   |
| Total Expenditures                              | <u>10,761,618</u>        | <u>10,761,618</u>        | <u>10,375,938</u>        | <u>385,680</u>                                    |
| <b>EXCESS OF REVENUES OVER<br/>EXPENDITURES</b> | 79,002                   | 79,002                   | 246,258                  | 167,256   |
| Fund Balance - Beginning of Year                | <u>296,728</u>           | <u>296,728</u>           | <u>402,308</u>           | <u>105,580</u>                                    |
| <b>FUND BALANCE - END OF YEAR</b>               | <u><u>\$ 375,730</u></u> | <u><u>\$ 375,730</u></u> | <u><u>\$ 648,566</u></u> | <u><u>\$ 272,836</u></u>                          |

See accompanying Notes to Financial Statements.

**VANGUARD CLASSICAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Vanguard Classical School (the School) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. Following is a summary of the more significant accounting policies:

**Nature of Operations**

The School was formed by Ability Connection Colorado, a nonprofit corporation, with the approval of its governing board of directors and, as such, has an obligation to ensure its success to include financial well being, in addition to providing high quality education for children of all abilities. The School was organized in December 2006 for the purpose of entering into one or more charter school contracts with Colorado school districts and commenced operations July 1, 2007. The School is a component unit of the Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado (the Aurora School District or ASD). It is the administrative position of the Colorado Department of Education that a charter school has the same relationship to a public school district as does any other school program or school building within a District. A charter school is part of a local school district that is a political subdivision of the State of Colorado. In accordance with Colorado state statute, the Aurora School District has approved the charter of the School for a five-year period ending June 30, 2018.

As required by accounting principles generally accepted in the United States of America, these basic financial statements present the financial activities of the School. The School follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining the governmental activities, organizations, and functions that should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, and a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The School is not financially accountable for any other organization. Under current GASB pronouncements, the School has been determined to be a component unit of the Aurora School District – the primary government. As such, the School's financial results are included in the Aurora School District's Comprehensive Annual Financial Report.

In January 2014, the School's existing charter was amended and approved by ASD to include a second school (Vanguard East) whose first year of operations was in the 2015 fiscal year after construction of the new school was complete. Activities of Vanguard East are included in the accompanying financial statements. The new facility is owned by Ability Connection of Colorado, which is leased to Vanguard East.

**Measurement Focus, Basis of Accounting, and Basis of Presentation**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the School's financial activities. Governmental activities are normally supported by taxes and intergovernmental revenue.

**VANGUARD CLASSICAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

**Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. State per pupil funding under the School Finance Act is reported as a general revenue as state categorical revenue.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, the operating statement presents increases and decreases in net current assets and unreserved fund balance is a measure of available spendable resources. This means that generally only current liabilities are included on the governmental fund balance sheet.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Measurable means the amount of the transaction can be determined; available means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, and expected to be paid with current available resources.

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

**Fund Accounting**

The accounts of the School are organized on the basis of funds. The operations of the General Fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures. Resources are allocated to and accounted for in the General Fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The School has one governmental fund, the General Fund. The General Fund is considered a major fund and is presented separately in the fund financial statements.

**Fund Balances – Governmental Funds**

In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as nonspendable at June 30, 2017, by the School are nonspendable in form.

**VANGUARD CLASSICAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

**Fund Balances – Governmental Funds (Continued)**

- Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to the School’s highest level of decision making authority. Commitments may be modified or rescinded only through formal action in the form of a resolution approved by the School’s board of directors.
- Assigned – includes amounts that the School intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the School’s policy, amounts may be assigned by the Executive Director.
- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Vanguard Board has provided otherwise in its commitment or assignment actions.

**Compliance**

*Budget*

An annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America, including accrued salaries and benefits. For financial reporting purposes, salaries and benefits earned but unpaid at year-end are reflected as a liability.

The School prepares the annual budget and presents it to its Board and to the Board of Education of the Aurora School District for approval. During the year ended June 30, 2017, one budget was presented and revised and approved by both Boards for the General Fund. Budgets are required by State statutes for all funds. Total expenditures for each fund may not legally exceed the amount appropriated.

*TABOR Reserve*

To comply with Article X, Section 20 of the Colorado Constitution (TABOR Amendment), the School reports an emergency reserve equal to 3% of the General Fund’s applicable operating revenues less transfers, federal funding and donations. The required reserve was \$318,304 as of June 30, 2017 and is shown as “restricted for TABOR” in the general fund balance sheet.

**Assets, Liabilities and Equity**

*Cash*

Cash is held in checking accounts. The balances in the cash accounts are available to meet current operating needs except for cash set aside or restricted for TABOR and contingency reserves. For purposes of the statement of cash flows, the School considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**VANGUARD CLASSICAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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

**Assets, Liabilities and Equity (Continued)**

*Capital Assets*

Capital assets are utilized for general operations and are capitalized at cost or estimated historical cost if purchased or estimated acquisition cost if donated, at the time of purchase or donation. Capital assets are reported in the government-wide financial statements.

The monetary threshold for capital equipment and vehicles are those items having a useful life greater than one year and having an original item value greater than \$5,000. The School considers capital renovations to be those items that significantly enhance the value of previously existing assets and have a project value greater than \$25,000. In addition, the School considers capital improvements to be those items that add new functionality to existing assets and have a project value greater than \$10,000. Expenditures that significantly enhance the value of an asset whether land, building, or equipment are capitalized according to the School's policies. However, expenditures for repairs, maintenance, and expendable supplies are not capitalized. The School has no capital assets meeting capitalization requirements as of June 30, 2017.

**Compensated Absences**

School policy requires eligible employees to be paid out remaining personal time at the rate of replacement cost at the end of the School year.

**Pensions**

The School 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. See Note 7 for additional information.

**Net Position Restrictions**

Restrictions of net assets represent amounts that are not appropriable or are legally segregated for a specific purpose.

**Revenues and Expenditures**

Revenues for the governmental fund are recorded when they are determined to be both measurable and available. Generally, State of Colorado per-pupil funding, donations and other income are recognized when received. Grants are recognized when qualifying expenditures are incurred. Expenditures for the governmental fund are recorded when the related fund liability is incurred and expected to be paid with current available resources. The School does not utilize encumbrance accounting.

**VANGUARD CLASSICAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 2 CASH**

**Investment Policy and Compliance**

The School's investment policy conforms with State statute for governmental entities. All accounts established at financial institutions should, in the aggregate, total less than \$250,000 so as to provide maximum insurance coverage provided by the FDIC. If, however, deposits exceed the \$250,000 insurance coverage level, the excess must be (1) fully collateralized at face value with government securities, (2) separately segregated in the School's name, and (3) held at a Federal Reserve Bank or another depository.

Colorado State statutes govern the School's deposit of cash. The Colorado Public Deposit Protection Act (PDPA) requires the School to make deposits only in eligible public depositories as defined by the regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The PDPA requires the eligible depository with public deposits in excess of the federal insurance levels to create single institution collateral pools for all public funds. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group.

Up to \$250,000 of daily deposit balances on hand at banking institutions is covered by federal depository insurance. Under the provisions of GASB 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No 3*, deposits are not deemed exposed to custodial credit risk if they are collateralized with securities held by the pledging financial institutions under PDPA, as discussed below. Custodial credit risk is the risk that in the event of bank failure, the School's deposits may not be returned. As of June 30, 2017, the School had \$774,620 not covered by federal depository insurance. The School believes it is not exposed to any significant risk on its cash deposits as the deposits not covered by federal depository insurance are collateralized under PDPA.

**NOTE 3 ACCRUED SALARIES AND BENEFITS**

Salaries and retirement benefits of certain contractually employed personnel are paid over a 12-month period from August through July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid as of June 30, 2017, total \$485,022. Accordingly, the accrued salaries and benefits are reflected as a liability in the accompanying basic financial statements.

**NOTE 4 COMMITMENTS**

The School leases its offices and School buildings under an operating lease with Ability Connection of Colorado, a related party, which expires on June 30, 2018. Total lease expenditures were \$2,414,242 for the year ended June 30, 2017.

Future minimum lease payments are as follows:

| <u>Year Ending June 30,</u> | <u>Amount</u>       |
|-----------------------------|---------------------|
| 2018                        | <u>\$ 2,414,242</u> |

**VANGUARD CLASSICAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 5 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 risks of loss, including liability, property, errors and omissions, and workers' compensation. Settled claims resulting from these risks have not exceeded School insurance coverage in any of the past three years.

**NOTE 6 CONTINGENT LIABILITIES**

Article X, Section 20 of the Colorado Constitution (TABOR Amendment) requires state and local governments to establish an emergency reserve, limits spending to a predefined benchmark and places restrictions on multiple fiscal year debt. The TABOR Amendment is subject to judicial interpretation; however, the School believes it is currently in compliance with the requirements of the Amendment.

**NOTE 7 DEFINED BENEFIT PENSION PLAN**

The School 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.

**General Information about the Pension Plan**

*Plan description.* Eligible employees of the School 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 are 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).

*Benefits provided.* The SCHDTF serves as a defined benefit retirement plan where retirees receive a monthly benefit for their lifetime, and generally, an annual increase each year, as eligible. Members of affiliated employers are eligible to receive a lifetime monthly retirement benefit when certain age and service credit requirements are met. These eligibilities vary by the membership date and consider credited service at key dates.

**VANGUARD CLASSICAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**General Information about the Pension Plan (Continued)**

The benefits are based upon a defined or fixed multiplier, age, years of credited service, and highest average salary (HAS). For most employees, HAS is one-twelfth of the average of the highest annual salaries that are associated with three periods of 12 consecutive months under PERA-covered employment. The basic retirement benefit equals  $2.5\% \times HAS \times \text{Years of Service}$ . If a member reaches early retirement eligibility and wishes to begin benefit payments prior to achieving the full retirement requirements, then the monthly amount is reduced to consider the early receipt of monthly payments.

Alternatively, if greater, a lifetime benefit is available that is calculated by annuitizing the member's account. At benefit commencement, the member can choose from different payment options, some of which can continue after the retiree's death to a named beneficiary, and for which the benefit amount is appropriately adjusted.

In addition to retirement benefits, the SCHDTF provides refund opportunities with matching employer dollars, if eligible, when leaving covered employment, and disability retirement and survivor benefits for those meeting certain criteria.

**Contributions**

Eligible employees of the School 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<br>Year Ended<br>December 31,<br>2017 | For the<br>Year Ended<br>December 31,<br>2016 |
|---|---|---|
| Employer Contribution Rate <sup>1</sup>   | 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) <sup>1</sup> | (1.020%)                                      | (1.020%)                                      |
| Amount Apportioned to the SCHDTF <sup>1</sup>   | 9.13%   | 9.13%   |
| Amortization Equalization Disbursement (AED) as Specified in C.R.S. § 24-51-411 <sup>1</sup>                                    | 4.50%   | 4.50%   |
| Supplemental Amortization Equalization Disbursement (SAED) as Specified in C.R.S. § 24-51-411 <sup>1</sup>                      | 5.00%   | 4.50%   |
| Total Employer Contribution Rate to the SCHDTF <sup>1</sup>   | 18.63%  | 18.13%  |

<sup>1</sup>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 School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF for the School for the year ended June 30, 2017 was \$781,810.

**VANGUARD CLASSICAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources**

At June 30, 2017, the School reported a liability of \$28,115,409 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. The School's proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2016, the School's proportion was 0.0944298214%, which was an increase of 0.0097018239% from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the School recognized pension expense of \$6,466,522. At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|---|---|--|
| Difference Between Expected and Actual Experience   | \$ 351,485                                    | \$ 248                                       |
| Changes of Assumptions or Other Inputs  | 9,122,864                                     | 126,786                                      |
| Net Difference Between Projected and Actual Earnings on<br>Pension Plan Investments                                   | 940,120                                       | -  |
| Changes in Proportion and Differences Between<br>Contributions Recognized and Proportionate Share of<br>Contributions | 2,354,630                                     | 186,762                                      |
| Contributions Subsequent to the Measurement Date  | 423,924                                       | -  |
| Total   | <u>\$ 13,193,023</u>                          | <u>\$ 313,796</u>                            |

\$423,924 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended June 30,</u> | <u>Amount</u>        |
|----------------------------|----------------------|
| 2018                       | \$ 5,615,320         |
| 2019                       | 4,605,057            |
| 2020                       | 2,225,551            |
| 2021                       | 9,375                |
| 2022                       | -                    |
| Thereafter                 | -                    |
| Total                      | <u>\$ 12,455,303</u> |

**VANGUARD CLASSICAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

*Actuarial assumptions.* The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions and other inputs:

|  | Actuarial<br>Assumptions                |
|--|---|
| Price Inflation  | 2.80%                                   |
| Real Wage Growth   | 1.10%                                   |
| Wage Inflation   | 3.90%                                   |
| Salary Increases, Including Wage Inflation   | 3.90 - 10.10%                           |
| Long-Term Investment Rate of Return, Net of Pension<br>Plan Investment Expenses, Including Price Inflation | 7.50%                                   |
| Discount Rate  | 7.50%                                   |
| Future Post-Retirement Benefit Increase:   |   |
| PERA Benefit Structure Hired Prior to January 1, 2007<br>and DPS Benefit Structure (Automatic)             | 2.00%                                   |
| PERA Benefit Structure Hired Prior to 12/30/06<br>(Ad Hoc, Substantively Automatic)                        | Financed by the Annual Increase Reserve |

Based on the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA's Board on November 18, 2016 and were effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015 to December 31, 2016:

|  | Actuarial<br>Assumptions                |
|--|---|
| Price Inflation  | 2.40%                                   |
| Real Wage Growth   | 1.10%                                   |
| Wage Inflation   | 3.50%                                   |
| Salary Increases, Including Wage Inflation   | 3.50 - 9.70%                            |
| Long-Term Investment Rate of Return, Net of Pension<br>Plan Investment Expenses, Including Price Inflation | 7.25%                                   |
| Discount Rate  | 5.26%                                   |
| Future Post-Retirement Benefit Increase:   |   |
| PERA Benefit Structure Hired Prior to January 1, 2007<br>and DPS Benefit Structure (Automatic)             | 2.00%                                   |
| PERA Benefit Structure Hired Prior to 12/30/06<br>(Ad Hoc, Substantively Automatic)                        | Financed by the Annual Increase Reserve |

Mortality rates used in the December 31, 2015 valuation 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. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back 2 years for males and set back 2 years for females) was assumed.

**VANGUARD CLASSICAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

The actuarial assumptions used in the December 31, 2015 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.

As a result of the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic actuarial assumptions including withdrawal rates, retirement rates for early reduced and unreduced retirement, disability rates, administrative expense load, and pre- and post-retirement and disability mortality rates were adopted by PERA's Board on November 18, 2016 to more closely reflect PERA's actual experience. As the revised economic and demographic assumptions are effective as of the measurement date, December 31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions reflect the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016. As a result of the October 28, 2016 actuarial assumptions workshop and the November 18, 2016 PERA Board meeting, the economic assumptions changed, effective December 31, 2016, as follows:

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.
- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.

**VANGUARD CLASSICAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

Several factors were considered in evaluating the long-term rate of return assumption for the SCHDTF, including long-term historical data, estimates inherent in current market data, and 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 by the investment consultant 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.

As of the November 18, 2016 adoption of the current 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:

| Asset Class:                      | <u>Target<br/>Allocation</u> | <u>30 Yr Expected<br/>Geometric Real<br/>Rate of Return</u> |
|-----------------------------------|------------------------------|---|
| U.S. Equity - Large Cap           | 21.20%                       | 4.30%   |
| U.S. Equity - Small Cap           | 7.42%                        | 4.80%   |
| Non U.S. Equity - Developed       | 18.55%                       | 5.20%   |
| Non U.S. Equity - Emerging        | 5.83%                        | 5.40%   |
| Core Fixed Income                 | 19.32%                       | 1.20%   |
| High Yield                        | 1.38%                        | 4.30%   |
| Non U.S. Fixed Income - Developed | 1.84%                        | 0.60%   |
| Emerging Market Debt              | 0.46%                        | 3.90%   |
| Core Real Estate                  | 8.50%                        | 4.90%   |
| Opportunity Fund                  | 6.00%                        | 3.80%   |
| Private Equity                    | 8.50%                        | 6.60%   |
| Cash                              | 1.00%                        | 0.20%   |
| Total                             | <u><u>100.00%</u></u>        |   |

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

**VANGUARD CLASSICAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

*Discount rate.* The discount rate used to measure the total pension liability was 6.26 percent. The projection of cash flows used to determine the discount rate applied to actuarial method and assumptions outlined above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present and 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 3.50%.
- 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 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 and effective as of the measurement date, 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.
- 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 each month.

**VANGUARD CLASSICAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 7 DEFINED BENEFIT PENSION PLAN (CONTINUED)**

Based on the above assumptions and methods, the GASB Statement No. 67 projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate was used in the determination of the discount rate.

The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.86 percent, resulting in a discount rate of 5.26 percent.

As of the prior measurement date, the GASB Statement No. 67 projection test indicated the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.50 percent was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use a municipal bond index rate and the discount rate was 7.50 percent.

*Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate.* The following presents the proportionate share of the net pension liability calculated using the discount rate of 5.26 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 (4.26 percent) or 1-percentage-point higher (6.26 percent):

|   | 1% Decrease<br>(4.26%) | Current Discount<br>(5.26%) | 1% Increase<br>(6.26%) |
|---|------------------------|-----------------------------|------------------------|
| Proportionate Share of the Net<br>Pension Liability | \$ 35,354,224          | \$ 28,115,409               | \$ 22,219,657          |

*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).

**VANGUARD CLASSICAL SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 8 POSTEMPLOYMENT HEALTH CARE BENEFITS**

**Health Care Trust Fund**

The School 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 School 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 School (see note 7) 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, 2017, 2016 and 2015, the School's employer contributions to the HCTF were \$43,419, \$38,458, and \$27,570, respectively, equal to their required contribution.

**NOTE 9 RELATED PARTY TRANSACTIONS**

The School's west campus is co-located with Ability Connection of Colorado (ACCO) offices and ACCO owns the building at the School's east campus. The School has a contract with ACCO in order to gain economies of scale and share space and services under a contract negotiated at arm's length. ACCO charged \$2,870,424 in rent, professional and administrative services for the year ended June 30, 2017. As of June 30, 2017, the School had no accounts payable related to ACCO for services provided.

The School has an agreement with the District for services relating to the charter school liaison, student database costs and administration costs. The total expenses to the District for these services was \$389,790 during the year ended June 30, 2017. As of June 30, 2017, the school had accounts payable of \$130,315 the District for services provided. As of June 30, 2017, the School had accounts receivable due from the District of \$225.

The School has an agreement with ACCO, a related party, for management services. The School's commitment under this agreement is \$350,000 per year through June 30, 2018.

**REQUIRED SUPPLEMENTARY INFORMATION**

**VANGUARD CLASSICAL SCHOOL  
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
LAST TEN FISCAL YEARS\*  
(SEE INDEPENDENT AUDITORS' REPORT)**

|  | Measurement Date  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | December 31, 2016 | December 31, 2015 | December 31, 2014 | December 31, 2013 |
| School's Proportion (Percentage) of the Collective Net Pension Liability                     | 0.0944298214%     | 0.0847279975%     | 0.0806885584%     | 0.0409293599%     |
| School's Proportionate Share of the Collective Pension Liability                             | \$ 28,115,409     | \$ 12,958,549     | \$ 10,936,010     | \$ 5,220,529      |
| Covered Payroll  | \$ 4,089,953      | \$ 3,563,270      | \$ 2,495,710      | \$ 1,695,487      |
| School's Proportionate Share of Net Pension Liability as a Percentage of its Covered Payroll | 687.43%           | 363.67%           | 438.19%           | 307.91%           |
| Plan Fiduciary Net Pension as a Percentage of the Total Pension Liability                    | 43.10%            | 59.16%            | 62.80%            | 64.06%            |

\*The amounts presented for each fiscal year were determined as of December 31 based on the measurement date of the Plan. Information earlier than 2013 was not available.

**VANGUARD CLASSICAL SCHOOL  
SCHEDULE OF CONTRIBUTIONS AND RELATED RATIOS  
LAST TEN FISCAL YEARS\*  
(SEE INDEPENDENT AUDITORS' REPORT)**

| As of June 30,  | <u>2017</u>    | <u>2016</u>    | <u>2015</u>    | <u>2014</u>    | <u>2013</u>    | <u>2012</u>    |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Statutorily Required Contributions                                    | \$ 781,810     | \$ 669,371     | \$ 468,427     | \$ 274,872     | \$ 252,157     | \$ 245,288     |
| Contributions in Relation to the<br>Statutorily Required Contribution | <u>781,810</u> | <u>669,371</u> | <u>468,427</u> | <u>274,872</u> | <u>252,157</u> | <u>245,288</u> |
| Contribution Deficiency (Excess)                                      | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ -</u>    |
| Covered Payroll   | \$ 4,256,746   | \$ 3,770,434   | \$ 2,775,041   | \$ 1,725,088   | \$ 1,697,311   | \$ 1,743,228   |
| Contribution as a Percentage of<br>Covered Payroll                    | 18.37%         | 17.75%         | 16.88%         | 15.93%         | 14.86%         | 14.07%         |

\*The amounts presented for each fiscal year were determined as of June 30.  
Information earlier than 2012 was not available.

## **SUPPLEMENTARY INFORMATION**

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Vanguard Classical School  
and Board of Education  
Joint School District 28-J of the Counties  
of Adams and Arapahoe, Colorado  
Denver, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of Vanguard Classical School (the School) (a component unit of Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 21, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the School’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Broomfield, Colorado  
September 21, 2017

**VANGUARD CLASSICAL SCHOOL  
SUMMARY SCHEDULE OF CURRENT AND PRIOR YEAR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2017**

**Financial Statement Findings – Current Year**

There were no findings required to be reported under *Governmental Auditing Standards* for the fiscal year ended June 30, 2017.

**Financial Statement Findings – Prior Year**

There were no findings required to be reported under *Government Auditing Standards* for the fiscal year ended June 30, 2016.