

**PARKER PERFORMING ARTS SCHOOL**  
**FINANCIAL STATEMENTS**  
**June 30, 2017**



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**PARKER PERFORMING ARTS SCHOOL**

**Board of Directors**

June 30, 2017

President	Jan Payne
Vice-President	Sean Wiggin
Treasurer	Jason Naugle
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Member	Aaron Adamson
Member	Tom Donohoe
Member	Lauren Money
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Board of Directors  
Parker Performing Arts School  
Parker, Colorado

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of the Parker Performing Arts School, component unit of Douglas County School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Parker Performing Arts School, as listed in the table of contents.

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

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

### **Auditors' Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Parker Performing Arts School as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters (Required Supplementary Information)**

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

*Ernst & Young LLP*

October 2, 2017

**Parker Performing Arts School**  
Management's Discussion and Analysis  
Fiscal Year Ending June 30, 2017

As management of Parker Performing Arts School (PPA or the School), we offer readers of Parker Performing Arts School's basic financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

## **Financial Highlights**

The year ended June 30, 2017 is the first full year of operations for PPA. As of June 30, 2017, net position for governmental activities decreased by \$(4,259,078) to \$(4,284,116). Parker Performing Arts School's governmental fund reported an ending fund balance of \$(60,684), a decrease of \$(228,171) from the prior year.

The operations of the School are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue (PPR). Tax revenue for the year from PPR was \$5,440,834.

## **Overview of Financial Statements**

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

### ***Government-Wide Financial Statements***

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

The statement of net position presents information on all of the School's assets and liabilities, and deferred inflows and outflows, with the difference being reported as net position. Over time, the increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year-end).

The government-wide statement of activities distinguishes functions/programs of the School supported primarily by Per Pupil Revenue or other revenues passed through from the School's

authorizer (Douglas County School District). The governmental activities of PPA include instruction and supporting services.

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

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 School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The School maintains one governmental fund, and adopts an annually appropriated budget for the fund. A budgetary comparison statement is included to demonstrate that spending did not exceed the budget.

### ***Notes to the Financial Statements***

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

### **Government-Wide Financial Analysis**

As noted previously, net position may serve over time as a useful indicator of the School's financial position. For the fiscal year ended June 30, 2017, PPA's combined net position was \$(4,284,116). This position includes a net pension liability in the amount of \$15,402,225, representing the School's proportionate share of the School Division Trust Fund pension liability, administered by the Public Employees' Retirement Association of Colorado (PERA). The School reports this net pension liability, and associated deferred inflows and outflows of resources, as required by GASB (Governmental Accounting Standards Board) 68. More information regarding the net pension liability may be found in the notes to the financial statements.

Of the School's total net position, \$335,595 is invested in capital assets net of related debt, and \$194,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

### Parker Performing Arts School's Net Position

	<b>2016-2017</b>
<b>ASSETS</b>	
Cash	\$ 192,207
Grants Receivable	9,997
Capital Assets, Net of Accumulated Depreciation	<u>335,595</u>
<b>TOTAL ASSETS</b>	<u>537,799</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions, Net of Accumulated Amortization	<u>11,093,198</u>
<b>LIABILITIES</b>	
Accounts Payable	8,074
Accrued Salaries and Benefits	254,814
Noncurrent Liabilities	
Due Within One Year	250,000
Net Pension Liability	<u>15,402,225</u>
<b>TOTAL LIABILITIES</b>	<u>15,915,113</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pensions, Net of Accumulated Amortization	<u>-</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	335,595
Restricted for Emergencies	194,000
Unrestricted	<u>(4,813,711)</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ (4,284,116)</u></u>

## Parker Performing Arts School's Change in Net Position

	<b>2016-2017</b>
<b>REVENUES</b>	
Per Pupil Revenue	\$ 5,440,834
District Mill Levy	415,012
Capital Construction	210,769
Charges for Services	298,977
Grants and Contributions not Restricted to Specific Programs	269,093
Other	<u>5,192</u>
<b>TOTAL REVENUE</b>	<u><b>6,639,877</b></u>
<b>EXPENSES</b>	
Instruction	7,849,131
Support Services	3,038,003
Interest on Long-Term Debt	<u>11,821</u>
<b>TOTAL EXPENSES</b>	<u><b>10,898,955</b></u>
<b>CHANGE IN NET POSITION</b>	<b>(4,259,078)</b>
<b>NET POSITION, Beginning</b>	<u><b>(25,038)</b></u>
<b>NET POSITION, Ending</b>	<u><u><b>\$ (4,284,116)</b></u></u>

### Financial Analysis of the Government's Funds

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

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

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$(60,684), a decrease of \$(228,171) from the prior year. This decrease is the result of one-time start-up expenses combined with lower than expected enrollment resulting in a drop of \$763,000 in PPR funding. In addition, the theater at the School wasn't completed until December 2016, resulting in a loss of theater rentals for FY17. Savings in other areas allowed the School to spend overall 99% of budgeted expenses.

## **General Fund Budgetary Highlights**

PPA recognized \$615,660 less revenue than expected and spent \$44,806 less than planned, when compared to the final budget. There were no budget amendments during the year, but the School curtailed expenses when it was determined that PPR revenue would come in significantly less than budgeted. A line of credit was obtained to help offset the revenue loss for the first year of operations.

## **Capital Assets & Long-Term Debt**

The School has invested in capital assets for equipment in support of the School's educational program and improvements in the School's education facility. More information regarding capital assets may be found in Note 4 to the financial statements. Depreciation expenses for capital assets are booked under the Supporting Services program of the School's operations.

The School has long-term debt in the form of a 2016 loan with FirstBank. Proceeds were used to provide cash flow during the start-up phase of the School. More information regarding long-term debt may be found in Note 5 to the financial statements.

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

The primary factor driving the budget for Parker Performing Arts School is student enrollment. Enrollment for the 2016-2017 school year was 759.10 funded students. Enrollment projected for 2017-2018 is 858.00 funded students. This factor was considered when preparing PPA's budget for 2017-2018.

## **Requests for Information**

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

Parker Performing Arts School  
15035 Compark Blvd.  
Parker, CO 80134

## **BASIC FINANCIAL STATEMENTS**

PARKER PERFORMING ARTS SCHOOL

STATEMENT OF NET POSITION

June 30, 2017

	<u>GOVERNMENTAL ACTIVITIES</u>
<b>ASSETS</b>	
Cash	\$ 192,207
Grants Receivable	9,997
Capital Assets, Net of Accumulated Depreciation	<u>335,595</u>
<b>TOTAL ASSETS</b>	<u>537,799</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions, Net of Accumulated Amortization	<u>11,093,198</u>
<b>LIABILITIES</b>	
Accounts Payable	8,074
Accrued Salaries and Benefits	254,814
Noncurrent Liabilities	
Due Within One Year	250,000
Net Pension Liability	<u>15,402,225</u>
<b>TOTAL LIABILITIES</b>	<u>15,915,113</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	335,595
Restricted for Emergencies	194,000
Unrestricted	<u>(4,813,711)</u>
<b>TOTAL NET POSITION</b>	<u>\$ (4,284,116)</u>

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

PARKER PERFORMING ARTS SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES CHARGES FOR SERVICES	NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION GOVERNMENTAL ACTIVITIES
PRIMARY GOVERNMENT			
<b>Governmental Activities</b>			
Instruction	\$ 7,849,131	\$ 294,108	\$ (7,555,023)
Supporting Services	3,038,003	4,869	(3,033,134)
Interest on Long-Term Debt	11,821	-	(11,821)
Total Governmental Activities	<u>\$ 10,898,955</u>	<u>\$ 298,977</u>	<u>(10,599,978)</u>
GENERAL REVENUES			
			5,440,834
			415,012
			210,769
			269,093
			<u>5,192</u>
		TOTAL GENERAL REVENUES	<u>6,340,900</u>
		CHANGE IN NET POSITION	(4,259,078)
		NET POSITION, Beginning	<u>(25,038)</u>
		NET POSITION, Ending	<u>\$ (4,284,116)</u>

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

PARKER PERFORMING ARTS SCHOOL

BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2017

	<u>GENERAL</u>
ASSETS	
Cash	\$ 192,207
Grants Receivable	9,997
	<u>202,204</u>
TOTAL ASSETS	<u>\$ 202,204</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 8,074
Accrued Salaries and Benefits	254,814
	<u>262,888</u>
TOTAL LIABILITIES	<u>262,888</u>
FUND BALANCE	
Restricted for Emergencies	194,000
Unrestricted, Unassigned	(254,684)
	<u>(60,684)</u>
TOTAL FUND BALANCE	<u>(60,684)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 202,204</u>

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

Total Fund Balance of the Governmental Fund	\$ (60,684)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	335,595
Long-term liabilities and related items, including loan payable (\$250,000), net pension liability (\$15,402,225), and pension-related deferred outflows of resources \$11,093,198, are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(4,559,027)</u>
Total Net Position of Governmental Activities	<u>\$ (4,284,116)</u>

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

PARKER PERFORMING ARTS SCHOOL

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
Year Ended June 30, 2017

	GENERAL
REVENUES	
Local Sources	\$ 6,232,611
State Sources	210,769
Federal Sources	196,497
	6,639,877
 TOTAL REVENUES	 6,639,877
 EXPENDITURES	
Instruction	4,441,531
Supporting Services	2,472,171
Debt Service	
Principal	192,525
Interest	11,821
	7,118,048
 TOTAL EXPENDITURES	 7,118,048
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 (478,171)
 OTHER FINANCING SOURCES	
Debt Proceeds	250,000
	250,000
 NET CHANGE IN FUND BALANCE	 (228,171)
 FUND BALANCE, Beginning	 167,487
 FUND BALANCE, Ending	 \$ (60,684)

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

Net Change in Fund Balance of the Governmental Fund	\$ (228,171)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$356,813 exceeded depreciation expense (\$21,218) in the current year.	335,595
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities. Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position and does not affect the statement of activities. This amount represents debt issued (\$587,275) and principal payments \$529,800 in the current year.	(57,475)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in the net pension liability (\$15,402,225) and pension-related deferred outflows of resources \$11,093,198 in the current year.	(4,309,027)
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Change in Net Position of Governmental Activities	\$ (4,259,078)
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The accompanying notes are an integral part of the financial statements.

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

The Parker Performing Arts School (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District (the “District”). The School began operations in the Fall of 2016.

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

**Reporting Entity**

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

The School is a component unit of the District. The School’s charter is authorized by the District and the majority of the School’s funding is provided by the District.

**Government-Wide and Fund Financial Statements**

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

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

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

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

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

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

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

**Assets, Liabilities and Net Position/Fund Balance**

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

*Capital Assets* - Capital assets are reported in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the acquisition value on the date of donation.

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

Equipment	5 - 10 years
Building Improvements	10 years

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

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

*Long-Term Debt* - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources if the debt is not expected to be repaid with current financial resources. Short-term debt borrowed and repaid during the fiscal year is recorded as a liability in the governmental fund financial statements. Issuance costs are reported as current expenses or expenditures.

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

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

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

**Risk Management**

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

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

**Accountability**

At June 30, 2017, the General Fund had a deficit fund balance of \$60,684. The School incurred significant start-up costs during its first year of operations, and management expects this deficit balance to be eliminated from operations in the subsequent fiscal year.

**NOTE 3: CASH AND INVESTMENTS**

**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

**Investments**

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk.

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

*Interest Rate Risk* - State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years.

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

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

The School had no investments at June 30, 2017.

PARKER PERFORMING ARTS SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017, is summarized below.

	<u>Balance</u> <u>6/30/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/17</u>
<b>Governmental Activities</b>				
Capital Assets, Being Depreciated				
Equipment	\$ -	\$ 107,458	\$ -	\$ 107,458
Building Improvements	<u>-</u>	<u>249,355</u>	<u>-</u>	<u>249,355</u>
Total Capital Assets, Being Depreciated	<u>-</u>	<u>356,813</u>	<u>-</u>	<u>356,813</u>
Less Accumulated Depreciation				
Equipment	-	(7,648)	-	(7,648)
Building Improvements	<u>-</u>	<u>(13,570)</u>	<u>-</u>	<u>(13,570)</u>
Total Accumulated Depreciation	<u>-</u>	<u>(21,218)</u>	<u>-</u>	<u>(21,218)</u>
Governmental Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ 335,595</u>	<u>\$ -</u>	<u>\$ 335,595</u>

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

**NOTE 5: LONG-TERM DEBT**

Following is a summary of the School's debt transactions for the year ended June 30, 2017.

	<u>Balance</u> <u>6/30/16</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/17</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental Activities</b>					
FirstBank Loans	<u>\$ 192,525</u>	<u>\$ 587,275</u>	<u>\$ 529,800</u>	<u>\$ 250,000</u>	<u>\$ 250,000</u>

On June 15, 2016, the School entered into a loan agreement with FirstBank. Loan proceeds of up to \$250,000 were available to provide cash flow during the start-up phase of the School. During the year ended June 30, 2017, the School advanced and repaid \$103,000 under the agreement. Additional advances of \$250,000 were outstanding at June 30, 2017. The current loan modification dated June 1, 2017, requires monthly interest payments. Interest accrues at 6.25% per annum until July 1, 2017, at which time interest will accrue at the Wall Street Journal U.S. Prime Rate plus 2%, reset monthly. All principal and unpaid interest is due at maturity on June 1, 2018.

On September 2, 2016, the School approved a second loan agreement with FirstBank. Under this agreement, the School borrowed and repaid \$234,275 for cash flow purposes during the year ended June 30, 2017. Interest was payable monthly and accrued on the outstanding balance of the loan at 5.5% per annum through October 1, 2016, at which time interest accrued at the Wall Street Journal U.S. Prime Rate plus 2%, reset monthly. All principal and accrued interest was paid in full at maturity in March, 2017.

**NOTE 6: DEFINED BENEFIT PENSION PLAN****General Information**

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

*Benefits Provided* - The SDTF provides retirement, disability, and survivor benefits to plan participants or their beneficiaries. Retirement benefits are determined by the amount of service credit earned or purchased, highest average salary, the benefit structure in place, the benefit option selected at retirement, and age at retirement. The retirement benefit is the greater of the a) highest average salary multiplied by 2.5% and then multiplied by years of service credit, or b) the value of the participant's contribution account plus an equal match on the retirement date, annualized into a monthly amount based on life expectancy and other actuarial factors. In no case can the benefit amount exceed the highest average salary or the amount allowed by applicable federal regulations.

Retirees may elect to withdraw their contributions upon termination of employment, and may be eligible to receive a matching amount if five years of service credit is earned and certain other criteria is met. Retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State statutes. Retirees who began employment before January 1, 2007, receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year. Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

Disability benefits are available for plan participants once they reach five years of earned service credit and meet the definition of a disability. The disability benefit amount is based on the retirement benefit formula described previously, considering a minimum of twenty years of service credit.

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

*Contributions* - The School and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The School's contribution rate for calendar years 2016 and 2017 was 19.15% and 19.65% of covered salaries, respectively. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 7). The School's contributions to the SDTF for the year ended June 30, 2017, were \$511,872, equal to the required contributions.

PARKER PERFORMING ARTS SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)**

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

At June 30, 2017, the School reported a net pension liability of \$15,402,225, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at 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 SDTF for the calendar year ended December 31, 2016, relative to the contributions of all participating employers. At December 31, 2016, the School's proportion was 0.0517306831%. The School began participating in the SDTF on July 1, 2016, and therefore, had no measurable proportion of the total pension liability at December 31, 2015.

For the year ended June 30, 2017, the School recognized pension expense of \$4,835,022. 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 Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 127,649	\$ -
Changes of assumptions and other inputs	4,997,700	-
Net difference between projected and actual earnings on plan investments	20,549	-
Change in proportion	5,631,773	-
Contributions subsequent to the measurement date	<u>315,527</u>	<u>-</u>
Total	<b><u>\$ 11,093,198</u></b>	<b><u>\$ -</u></b>

School contributions subsequent to the measurement date of \$315,527 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

2018	\$ 4,360,247
2019	4,360,247
2020	2,052,039
2021	<u>5,138</u>
Total	<b><u>\$ 10,777,671</u></b>

PARKER PERFORMING ARTS SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)**

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

*Actuarial Assumptions* - The actuarial valuation as of December 31, 2015, determined the total pension liability using the following actuarial assumptions and other inputs. On November 18, 2016, PERA's governing board adopted revised economic and demographic assumptions, which were effective on December 31, 2016, and which were reflected in the roll-forward calculation of the total pension liability from December 31, 2015, to December 31, 2016, as follows:

	<u>Assumptions</u>	<u>Revised Assumptions</u>
Price inflation	2.8%	2.4%
Real wage growth	1.1%	1.1%
Wage inflation	3.9%	3.5%
Salary increases, including wage inflation	3.9% - 10.1%	3.5% - 9.7%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.5%	7.25%
Discount rate	7.5%	5.26%
Future post-retirement benefit increases:		
Hired prior to 1/1/07	2%	2%
Hired after 12/31/06	ad hoc	ad hoc

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with males set back one year, and females set back two years. Active member mortality was adjusted to 55 percent of the base rate for males and 40 percent for females. For disabled retirees, the RP-2000 Disabled Retiree Mortality Table was used, set back two years.

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 governing board on November 13, 2012, and an economic assumption study adopted by PERA's governing board on November 15, 2013, and January 17, 2014.

As a result of a 2016 experience analysis, revised economic and demographic actuarial assumptions were adopted by PERA's governing board on November 18, 2016, to more closely reflect PERA's actual experience. The revised assumptions reflected in the roll-forward of the total pension liability included healthy mortality assumptions for active members using the RP-2014 White Collar Employee Mortality Table. The mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates. For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

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

PARKER PERFORMING ARTS SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)**

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

The most recent analysis of the long-term expected rate of return was adopted by PERA's governing board on November 18, 2016, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as follows:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
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	<b>100.00%</b>	

*Discount Rate* - The discount rate used to measure the total pension liability was 5.26%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the employer contributions will be made at the rates specified in State statutes, which currently require annual increases, to a total of 20.15% of covered salaries for the year ended December 31, 2018. When the actuarially determined funding ratio reaches 103%, the employer contribution rate will decrease 0.5% each year, to a minimum of 10.15%.

Based on the assumptions described previously, the SDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate, defined as the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index, was used in the determination of the discount rate. The long-term expected rate of return of 7.25% on plan investments was applied to all periods through 2041, and the municipal bond index rate was applied to periods after 2041 to develop the discount rate. On the measurement date of December 31, 2016, the municipal bond index rate was 3.86%, resulting in a discount rate of 5.26%. The discount rate at the prior measurement date was 7.5%.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* - The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 5.26%, as well as the School's proportionate share of the net pension liability if it were calculated using a discount rate that is one percentage point lower (4.26%) or one percentage point higher (6.26%) than the current rate, as follows:

PARKER PERFORMING ARTS SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)**

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

	1% Decrease <u>(4.26%)</u>	Current Discount Rate <u>(5.26%)</u>	1% Increase <u>(6.26%)</u>
Proportionate share of the net pension liability	<b><u>\$ 19,367,803</u></b>	<b><u>\$ 15,402,225</u></b>	<b><u>\$ 12,172,405</u></b>

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

**NOTE 7: POSTEMPLOYMENT HEALTHCARE BENEFITS**

*Plan Description* - The School contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by the PERA (See Note 6). The HCTF provides a health care premium subsidy to PERA benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained by contacting PERA as described previously.

*Funding Policy* - The School is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the year ended June 30, 2017, was \$26,872, equal to the required amount.

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgments**

The School participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the other government. At June 30, 2017, significant amounts of related expenditures have not been audited but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

PARKER PERFORMING ARTS SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 8: COMMITMENTS AND CONTINGENCIES (Continued)**

**Tabor Amendment**

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to interpretation, but the School believes it is in substantial compliance with the requirements of the Amendment. In accordance with the Amendment, the School has established an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2017, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$194,000.

**Operating Leases**

*Education Facilities* - On April 15, 2016, the School entered into a sublease agreement with a division of HighMark School Development, LLC, the developer of the education facilities used by the School. Beginning on November 1, 2016, the agreement requires monthly payments of \$119,851 for the first 23 months. Beginning on October 1, 2018, and each year thereafter, the lease payments increase by 2%. The initial term of lease is 240 months. The payments are based on construction costs of \$14,750,940 and interest accruing at 9.75% per annum.

The agreement includes a purchase option after the fifth, seventh, tenth, fifteenth, and twentieth anniversaries of the effective date of the lease, September 25, 2016. The purchase prices on these anniversary dates are estimated at \$17,937,040, \$17,219,558, \$16,502,077, \$15,784,595 and \$15,067,114, respectively.

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

Year Ended June 30,

2018	\$ 1,438,217
2019	1,459,790
2020	1,488,986
2021	1,518,765
2022	1,549,141
2023 - 2027	8,223,026
2028 - 2032	9,078,886
2033 - 2036	<u>8,452,415</u>
Total	<u><b>\$ 33,209,226</b></u>

During the year ended June 30, 2017, the School paid \$971,911 under this agreement.

PARKER PERFORMING ARTS SCHOOL

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 7: COMMITMENTS AND CONTINGENCIES (Continued)**

**Operating Leases (Continued)**

*Technology Equipment* - On June 15, 2016, the School entered into a lease agreement with Apple, Inc., for personal computers and other equipment. The agreement required an advance payment of \$149,579, and requires monthly payments of \$18,755 beginning July 1, 2016, through June 30, 2019. During the year ended June 30, 2017, the School paid \$225,060 under this agreement.

Future minimum lease payments required by the agreement are as follows.

Year Ended June 30,

2018	\$ 225,060
2019	<u>225,060</u>
Total	<u><b>\$ 450,120</b></u>

**REQUIRED SUPPLEMENTARY INFORMATION**

PARKER PERFORMING ARTS SCHOOL

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
AND CONTRIBUTIONS  
PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO SCHOOL DIVISION TRUST FUND  
 June 30, 2017

	12/31/16
<b>PROPORTIONATE SHARE OF THE NET PENSION LIABILITY</b>	
School's Proportion of the Net Pension Liability	0.0517306831%
School's Proportionate Share of the Net Pension Liability	\$ 15,402,225
School's Covered Payroll	\$ 1,160,883
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	1327%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	43%
	6/30/17
<b>SCHOOL CONTRIBUTIONS</b>	
Statutorily Required Contribution	\$ 485,000
Contributions in Relation to the Statutorily Required Contribution	(485,000)
Contribution Deficiency (Excess)	\$ -
School's Covered Payroll	\$ 2,634,477
Contributions as a Percentage of Covered Payroll	18.41%

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

See the accompanying Independent Auditors' Report.

PARKER PERFORMING ARTS SCHOOL  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
Year Ended June 30, 2017

	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES			
Local Sources			
Per Pupil Revenue	\$ 6,203,855	\$ 5,440,834	\$ (763,021)
District Mill Levy	493,000	415,012	(77,988)
Tuition and Fees	200,232	294,108	93,876
Food Service Fees	-	4,869	4,869
Contributions	-	72,596	72,596
Miscellaneous	20,000	5,192	(14,808)
Total Local Sources	<u>6,917,087</u>	<u>6,232,611</u>	<u>(684,476)</u>
State Sources			
Capital Construction	<u>141,950</u>	<u>210,769</u>	<u>68,819</u>
Federal Sources			
Grants	<u>196,500</u>	<u>196,497</u>	<u>(3)</u>
TOTAL REVENUES	<u>7,255,537</u>	<u>6,639,877</u>	<u>(615,660)</u>
EXPENDITURES			
Salaries	2,594,600	2,846,412	(251,812)
Employee Benefits	870,247	760,898	109,349
Purchased Services	2,112,860	2,166,626	(53,766)
Supplies and Materials	253,125	518,011	(264,886)
Property	1,182,861	326,433	856,428
Other	149,161	295,322	(146,161)
Debt Service			
Principal	-	192,525	(192,525)
Interest	-	11,821	(11,821)
TOTAL EXPENDITURES	<u>7,162,854</u>	<u>7,118,048</u>	<u>44,806</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	92,683	(478,171)	(570,854)
OTHER FINANCING SOURCES			
Debt Proceeds	<u>-</u>	<u>250,000</u>	<u>250,000</u>
NET CHANGE IN FUND BALANCE	92,683	(228,171)	(320,854)
FUND BALANCE, Beginning	<u>285,270</u>	<u>167,487</u>	<u>(117,783)</u>
FUND BALANCE, Ending	<u>\$ 377,953</u>	<u>\$ (60,684)</u>	<u>\$ (438,637)</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

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

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

**Changes in Assumptions and Other Inputs**

For the year ended June 30, 2017, the total pension liability was determined by an actuarial valuation as of December 31, 2015. In addition, the following revised economic and demographic assumptions were effective as of December 31, 2016, and were reflected in the roll-forward procedures to determine the total pension liability at December 31, 2016.

- Investment rate of return assumption decreased from 7.5% per year, compounded annually, net of investment expenses, to 7.25%.
- Price inflation assumption decreased from 2.8% per year to 2.4%.
- Real rate of investment return assumption increased from 4.7% per year, net of investment expenses, to 4.85%.
- Wage inflation assumption decreased from 3.9% per year to 3.5%.
- Healthy and disabled mortality assumptions are based on the RP-2014 Mortality Tables, updated from the RP-2000 Mortality Tables.

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

**Budgets and Budgetary Accounting**

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

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

Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

All appropriations lapse at fiscal year end.