

STEM SCHOOL AND ACADEMY

FINANCIAL STATEMENTS

June 30, 2017



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STEM SCHOOL AND ACADEMY

ROSTER OF SCHOOL OFFICIALS

June 30, 2017

BOARD OF DIRECTORS

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SCHOOL MANAGEMENT

Dr. Penny Eucker, Executive Director

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Board of Directors
STEM School and Academy
Highlands Ranch, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the STEM School and Academy, 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 STEM School and Academy, 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, the business-type activities, the discretely presented component unit, and each major fund of the STEM School and Academy as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, 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 12, 2017

STEM School and Academy
Management's Discussion and Analysis
For the Year Ended June 30, 2017

This section of STEM School and Academy annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

FINANCIAL HIGHLIGHTS

The year ended June 30, 2017 is the seventh year of operations for STEM School and Academy.

The General Fund balance increased by \$136,491 during the fiscal year ended June 30, 2017 with a total Fund Balance as of June 30, 2017 of \$2,879,072.

The operation of STEM School and Academy is funded primarily by tax revenue under the State School Finance Act. Per pupil revenue for STEM increased approximately 1.6% from \$6974.25 for 2015-2016 to \$7083.04 for 2016-2017 school year. STEM School increased pupil count by 282.5 students which amounted to a \$2,138,933 increase in Per Pupil Revenue for 2016-2017 school year or 24%.

Overview of Financial Statements

The School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

Government-wide financial statements are prepared to provide interested parties with a broad overview of the School's financial reporting in similar format to a private-sector business. The statement of net position presents information related to assets and liabilities and deferred inflows and outflows, and remaining assessment of financial value. With historical data, increases and 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. Changes to net position are reported at the primary occurrence, regardless of the timing of related cash flows. Thus, some revenues and expenses are reported in the statement that will only result in cash flows in future periods.

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 are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the business-type activities financial statements, only in more detail. The proprietary fund financial statements provide separate information for the leasing activities of the Corporation.

Notes to Financial Statements

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

Other Information-GASB 68

As noted previously, net position may serve over time as a useful indicator of the School's financial position. For the year ended June 30, 2017, STEM's total net position was a negative (\$14,102,059), and the negative increase is \$7,467,105 from last year. The net pension liability in the amount of \$35,359,823, represents the School's proportionate share of the School Division Trust Fund (SDTF) pension liability, administered by the Public Employees' Retirement Association of Colorado (PERA). This amount was determined by an independent actuarial valuation of PERA's financial position on December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. Of STEM's total net position, \$292,954 is the Net Investment in Capital Assets. A negative (\$14,790,013) is unrestricted and \$395,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

Government-wide Financial Analysis

The two summary statements below (page iv) report the fiscal year 2017, and the prior year, fiscal year 2016.

Analysis of Fund Operations

Revenues: Total revenues for the period of July 1, 2016 through June 30, 2017 were \$13,030,318. The majority of income was received in the form of per pupil revenue, allocated from the State of Colorado through the School's charter authorizer Douglas County School District. The School had 1579 full time students and received \$7083.04 for per pupil funding. The rate of per pupil funding increased \$108.80 from 2015-2016 to 2016-2017. The School received \$436,338 in Capital Construction funding from the State of Colorado that supported the building lease expense.

Expenses: Total expenses for the period of July 1, 2016 through June 30, 2017 were \$12,828,827 up 16% from the year ended June 30, 2016. The most significant factor contributing to the increase is a 22% increase in student population. In addition, the School continued to have significant building renovation that began in the prior years and continued through the current year to accommodate the K-4 expansion.

General Fund: For the period of July 1, 2016 through June 30, 2017 STEM reported a General Fund Balance of \$2,879,072 or 5% increase from the prior year.

Net Position Building Corp - For the period of July 1, 2016 through June 30, 2017 the Building Corporation reported a net decrease of (\$222,333) in net position. This decrease is due to depreciation and debt service. In prior years the capital contributions from the School related to the final completion of the elementary school and the middle school front offices were all much larger projects, so less transfers were made from the School in year 2016-2017.

Analysis of Budget-General Fund

The 2016-2017 STEM school budget was approved and finalized by the Board of Directors in October 2016 and included School expenditures of \$13,929,642. The budget revisions and finalization was based on projected October enrollment, therefore STEM's Per Pupil Revenue tied very closely to budget and STEM's actual expenditures and transfers out were less than the final budgeted amounts by \$1,035,815 which is mainly attributed to reimbursement of expenses from the Building Corp for capital construction for the K-4 expansion. Change in fund balance was budgeted at a net loss of (\$802,143) and the year closed at a net income of \$136,491.

Capital Assets and Long Term Debt

STEM has two outstanding bonds: Series 2014 for \$14,670,000 and Series 2016 for \$3,000,000. Additional information regarding capital assets and long-term debt for these Series bonds is provided in Notes 4 and 5 to the financial statements. For the year ended 2016-2017 STEM transferred \$247,639 capital improvements to finish the K-4 elementary construction. In addition STEM transferred \$65,000 in cash to the Building Corporation to fund the Repair and Replacement account.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the School is student enrollment. Enrollment for the 2016-17 school year was 1571.5 and projected enrollment for the 2017-18 school year is 1814.5.

The Board and School administration acknowledge that the amount of funding for School operations is contingent upon the state of the economy and current and future legislation. Therefore, the School practices conservative budgeting and closely monitors the budget to actual in order to proactively adjust planned spending when necessary.

Requests for Information

This financial report is provided as a general overview of the STEM School and Academy's finances for persons interested in the School. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Star Ake, CFO
STEM School and Academy
8773 South Ridgeline Boulevard.
Highlands Ranch, CO 80129

Condensed Statement of Net Position						
	Governmental		Business -Type Activities		Combined	
	2016-2017	2015-2016	2016-2017	2015-2016	2016-2017	2015-2016
Current assets:						
Other Assets	\$ 3,715,172	\$ 3,360,635	\$ 1,320,767	\$ 1,841,185	\$ 5,035,940	\$ 5,201,820
Net capital assets	\$ 292,954	\$ 28,398	\$ 13,537,410	\$ 13,321,402	\$ 13,830,364	\$ 13,349,800
Deferred Outflow of Resources						
Loss on debt refunding			\$ -	\$ 154,257	\$ -	\$ 154,257
Pensions, net of Accm Amortization	\$ 18,202,088	\$ 4,014,072			\$ 18,202,088	\$ 4,014,072
TOTAL ASSETS	\$ 22,210,214	\$ 7,403,105	\$ 14,858,177	\$ 15,316,844	\$ 37,068,391	\$ 22,719,949
Current liabilities:	\$ 836,100	\$ 618,054	\$ 426,922	\$ 377,074	\$ 1,263,022	\$ 995,128
Long-term liabilities:	\$ 35,359,823	\$ 13,232,559	\$ 16,847,850	\$ 17,134,032	\$ 52,207,673	\$ 30,366,591
Deferred Inflow of Resources						
Pensions, net of Accm Amortization	\$ 116,350	\$ 187,446			\$ 116,350	\$ 187,446
TOTAL LIABILITIES	\$ 36,312,273	\$ 14,038,059	\$ 17,274,772	\$ 17,511,106	\$ 53,587,045	\$ 31,549,165
Net position:						
Net investment in capital assets	\$ 292,954	\$ 28,398	\$ (3,600,440)	\$ (3,262,984)	\$ (3,307,486)	\$ (3,234,586)
Restricted for Debt Service			\$ 1,087,308	\$ 1,037,221	\$ 1,087,308	\$ 1,037,221
Restricted for TABOR	\$ 395,000	\$ 395,000			\$ 395,000	\$ 395,000
Restricted for other purposes			\$ 96,537	\$ 31,501	\$ 96,537	\$ 31,501
Unrestricted	\$ (14,790,013)	\$ (7,058,352)			\$ (14,790,013)	\$ (7,058,352)
TOTAL NET POSITION	\$ (14,102,059)	\$ (6,634,954)	\$ (2,416,595)	\$ (2,194,262)	\$ (16,518,654)	\$ (8,829,216)
Condensed Statement of Activities						
	Governmental		Business -Type Activities		Combined	
	Actual	Actual	Actual	Actual	Actual	Actual
	2016-2017	2015-2016	2016-2017	2015-2016	2016-2017	2015-2016
Revenue:						
Per Pupil Revenue	\$ 11,186,860	\$ 9,047,927			\$ 11,186,860	\$ 9,047,927
Investments						
Mill Levy/Override	\$ 864,492	\$ 715,180			\$ 864,492	\$ 715,180
Capital Contruction	\$ 436,338	\$ 333,196			\$ 436,338	\$ 333,196
Interest Income	\$ 23,260	\$ 4,890	\$ 550	\$ 126	\$ 23,810	\$ 5,016
Student Participation Fees	\$ 452,084	\$ 194,619			\$ 452,084	\$ 194,619
Rental/Lease	\$ 53,000	\$ 30,000			\$ 53,000	\$ 30,000
Contributions/Donations	\$ 14,284	\$ 367,400			\$ 14,284	\$ 367,400
Categorical Revenue					\$ -	\$ -
Miscellaneous Revenue/Facilities	\$ -	\$ -			\$ -	\$ -
Food Service Catering					\$ -	\$ -
Transfer In from Building Corp						
Local Sources	\$ 13,030,318	\$ 10,693,212	\$ 550	\$ 126	\$ 13,030,868	\$ 10,693,338
Total Revenues	\$ 13,030,318	\$ 10,693,212	\$ 550	\$ 126	\$ 13,030,868	\$ 10,693,338
Expenses:						
Instructional	\$ 12,344,979	\$ 5,832,019			\$ 12,344,979	\$ 5,832,019
Support	\$ 6,727,971	\$ 4,154,869			\$ 6,727,971	\$ 4,154,869
Building Corporation			\$ 1,647,356	\$ 1,458,617	\$ 1,647,356	\$ 1,458,617
Debt Service Expense						
Total Expenses	\$ 19,072,950	\$ 9,986,888	\$ 1,647,356	\$ 1,458,617	\$ 20,720,306	\$ 11,445,505
Transfers	\$ (1,424,473)	\$ (1,726,725)	\$ 1,424,473	\$ 1,726,725	\$ -	\$ -
Change in Net Position	\$ (7,467,105)	\$ (1,020,401)	\$ (222,333)	\$ 268,234	\$ (7,689,438)	\$ (752,167)
Net Position, Beginning	\$ (6,634,954)	\$ (5,614,553)	\$ (2,194,262)	\$ (2,462,496)	\$ (8,829,216)	\$ (8,077,049)
Net Position, Ending	\$ (14,102,059)	\$ (6,634,954)	\$ (2,416,595)	\$ (2,194,262)	\$ (16,518,654)	\$ (8,829,216)

BASIC FINANCIAL STATEMENTS

STEM SCHOOL AND ACADEMY

STATEMENT OF NET POSITION

June 30, 2017

	PRIMARY GOVERNMENT			COMPONENT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	UNIT STEM ACADEMY
ASSETS				
Cash and Investments	\$ 3,682,972	\$ -	\$ 3,682,972	\$ 8,210
Restricted Cash and Investments	-	1,320,767	1,320,767	-
Accounts Receivable	16,850	-	16,850	-
Prepaid Expenses	15,350	-	15,350	-
Capital Assets, Not Being Depreciated	-	2,370,970	2,370,970	-
Capital Assets, Net of Accumulated Depreciation	292,954	11,166,440	11,459,394	2,783
TOTAL ASSETS	4,008,126	14,858,177	18,866,303	10,993
DEFERRED OUTFLOWS OF RESOURCES				
Pensions, Net of Accumulated Amortization	18,202,088	-	18,202,088	-
LIABILITIES				
Accounts Payable	219,415	-	219,415	-
Accrued Salaries and Benefits	616,685	-	616,685	-
Accrued Interest Payable	-	136,922	136,922	-
Noncurrent Liabilities				
Due Within One Year	-	290,000	290,000	-
Due in More Than One Year	-	16,847,850	16,847,850	-
Net Pension Liability	35,359,823	-	35,359,823	-
TOTAL LIABILITIES	36,195,923	17,274,772	53,470,695	-
DEFERRED INFLOWS OF RESOURCES				
Pensions, Net of Accumulated Amortization	116,350	-	116,350	-
NET POSITION				
Net Investment in Capital Assets	292,954	(3,600,440)	(3,307,486)	2,783
Restricted for Debt Service	-	1,087,308	1,087,308	-
Restricted for Repair and Replacement	-	96,537	96,537	-
Restricted for Emergencies	395,000	-	395,000	-
Unrestricted	(14,790,013)	-	(14,790,013)	8,210
TOTAL NET POSITION	\$ (14,102,059)	\$ (2,416,595)	\$ (16,518,654)	\$ 10,993

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

STEM SCHOOL AND ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	EXPENSES	<u>PROGRAM REVENUES</u>	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities			
Instruction	\$ 12,344,979	\$ 452,084	\$ 9,597
Supporting Services	<u>6,727,971</u>	<u>53,000</u>	<u>-</u>
Total Governmental Activities	<u>19,072,950</u>	<u>505,084</u>	<u>9,597</u>
Business-Type Activities			
Building Corporation	<u>1,647,356</u>	<u>-</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 20,720,306</u>	<u>\$ 505,084</u>	<u>\$ 9,597</u>
COMPONENT UNIT			
STEM Academy	<u>\$ 218,712</u>	<u>\$ 154,161</u>	<u>\$ -</u>
GENERAL REVENUES			
Per Pupil Revenue			
District Mill Levy			
Capital Construction			
Grants and Contributions not Restricted to Specific Programs			
Investment Income			
Other			
TRANSFERS			
TOTAL GENERAL REVENUES AND TRANSFERS			
CHANGE IN NET POSITION			
NET POSITION, Beginning			
NET POSITION, Ending			

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

NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION

PRIMARY GOVERNMENT		COMPONENT UNIT	
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	STEM ACADEMY
\$ (11,883,298)	\$ -	\$ (11,883,298)	\$ -
(6,674,971)	-	(6,674,971)	-
(18,558,269)	-	(18,558,269)	-
-	(1,647,356)	(1,647,356)	-
(18,558,269)	(1,647,356)	(20,205,625)	-
-	-	-	(64,551)
11,186,860	-	11,186,860	-
864,492	-	864,492	-
436,338	-	436,338	-
4,387	-	4,387	9,173
23,260	550	23,810	-
300	-	300	-
(1,424,473)	1,424,473	-	-
11,091,164	1,425,023	12,516,187	9,173
(7,467,105)	(222,333)	(7,689,438)	(55,378)
(6,634,954)	(2,194,262)	(8,829,216)	66,371
<u>\$ (14,102,059)</u>	<u>\$ (2,416,595)</u>	<u>\$ (16,518,654)</u>	<u>\$ 10,993</u>

STEM SCHOOL AND ACADEMY

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2017

	GENERAL
ASSETS	
Cash and Investments	\$ 3,682,972
Accounts Receivable	16,850
Prepaid Expenditures	15,350
TOTAL ASSETS	\$ 3,715,172
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 219,415
Accrued Salaries and Benefits	616,685
TOTAL LIABILITIES	836,100
FUND BALANCE	
Nonspendable Prepaid Expenditures	15,350
Restricted for Emergencies	395,000
Unrestricted, Unassigned	2,468,722
TOTAL FUND BALANCE	2,879,072
TOTAL LIABILITIES AND FUND BALANCE	\$ 3,715,172
 Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 2,879,072
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	292,954
Long-term liabilities and related items, including net pension liability (\$35,359,823), pension-related deferred outflows of resources \$18,202,088, and pension-related deferred inflows of resources (\$116,350), are not due and payable in the current year and, therefore, are not reported in governmental funds.	(17,274,085)
Total Net Position of Governmental Activities	\$ (14,102,059)

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

STEM SCHOOL AND ACADEMY

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

	GENERAL
REVENUES	
Local Sources	\$ 12,584,383
State Sources	445,935
	13,030,318
TOTAL REVENUES	
EXPENDITURES	
Instruction	6,697,805
Supporting Services	6,131,022
	12,828,827
TOTAL EXPENDITURES	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	201,491
OTHER FINANCING SOURCES (USES)	
Transfers Out	(65,000)
	136,491
NET CHANGE IN FUND BALANCE	
FUND BALANCE, Beginning	2,742,581
FUND BALANCE, Ending	\$ 2,879,072
 Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Net Change in Fund Balance of the Governmental Fund	\$ 136,491
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 \$280,786 exceeded depreciation expense (\$16,230) in the current year.	264,556
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 (\$22,127,264), pension-related deferred outflows of resources \$14,188,016, and pension-related deferred inflows of resources \$71,096 in the current year.	(7,868,152)
Change in Net Position of Governmental Activities	\$ (7,467,105)

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

STEM SCHOOL AND ACADEMY

STATEMENT OF NET POSITION
PROPRIETARY FUND

June 30, 2017

	<u>BUILDING CORPORATION</u>
ASSETS	
CURRENT ASSETS	
Restricted Cash and Investments	\$ 1,320,767
NONCURRENT ASSETS	
Capital Assets, Not Being Depreciated	2,370,970
Capital Assets, Net of Accumulated Depreciation	<u>11,166,440</u>
TOTAL NONCURRENT ASSETS	<u>13,537,410</u>
TOTAL ASSETS	<u>14,858,177</u>
LIABILITIES	
CURRENT LIABILITIES	
Accrued Interest Payable	136,922
Loans Payable, Current Portion	<u>290,000</u>
TOTAL CURRENT LIABILITIES	426,922
NONCURRENT LIABILITIES	
Loans Payable	<u>16,847,850</u>
TOTAL LIABILITIES	<u>17,274,772</u>
NET POSITION	
Net Investment in Capital Assets	(3,600,440)
Restricted for Debt Service	1,087,308
Restricted for Repair and Replacement	<u>96,537</u>
TOTAL NET POSITION	<u>\$ (2,416,595)</u>

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

STEM SCHOOL AND ACADEMY

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND
 Year Ended June 30, 2017

	<u>BUILDING CORPORATION</u>
OPERATING REVENUES	
Lease Income	<u>\$ 1,111,834</u>
OPERATING EXPENSES	
Depreciation	667,056
Debt Service	
Interest and Fees	<u>980,300</u>
TOTAL OPERATING EXPENSES	<u>1,647,356</u>
NET OPERATING LOSS	(535,522)
NONOPERATING REVENUES	
Investment Income	<u>550</u>
NET LOSS BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	(534,972)
Transfers In	65,000
Capital Contributions	<u>247,639</u>
CHANGE IN NET POSITION	(222,333)
NET POSITION, Beginning	<u>(2,194,262)</u>
NET POSITION, Ending	<u><u>\$ (2,416,595)</u></u>

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

STEM SCHOOL AND ACADEMY

STATEMENT OF CASH FLOWSPROPRIETARY FUND

Increase (Decrease) in Cash and Cash Equivalents

Year Ended June 30, 2017

	<u>BUILDING CORPORATION</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Lease Payments Received	\$ 1,111,834
Loan Principal Paid	(240,000)
Loan Interest and Fees Paid	<u>(822,377)</u>
Net Cash Provided (Used) by Operating Activities	<u>49,457</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Construction and Acquisition of Capital Assets	(1,310,488)
Transfers from the School	<u>65,000</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,245,488)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income Received	<u>550</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,195,481)
CASH AND CASH EQUIVALENTS, Beginning	<u>2,516,248</u>
CASH AND CASH EQUIVALENTS, Ending	<u><u>\$ 1,320,767</u></u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Net Operating Loss	\$ (535,522)
Adjustments to Reconcile Net Operating Loss to Net Cash Provided (Used) by Operating Activities	
Depreciation	667,056
Amortization of Discount	3,818
Amortization of Loss on Refunding	154,257
Changes in Assets and Liabilities	
Accrued Interest Payable	(152)
Loans Payable	<u>(240,000)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 49,457</u></u>
NONCASH CAPITAL TRANSACTIONS	
Contributed Capital Assets	<u><u>\$ 247,639</u></u>

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

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Science Technology Engineering and Math (STEM) High School, dba the STEM School and Academy (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 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.

The School includes the LightHouse Building Corporation (the “Corporation”) within its reporting entity. The Corporation was organized to own property or interests therein to be leased to the School. The Corporation is blended into the School’s financial statements as an enterprise fund, and does not issue separate financial statements.

The School includes the STEM Academy (the “Academy”) within its reporting entity. The Academy is a non-profit entity organized for the purpose of building youth organizations, assisting teens in making healthy decisions and avoiding high-risk behaviors by engaging in high-tech, educational, creative, preventative or fun activities. The Academy provides educational classes, activities and clubs. The Academy is discretely presented in the School’s financial statements and does not issue separate financial statements.

The School is a component unit of the District. The School’s charter was 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 and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from the legally separate component unit for which the School is financially accountable.

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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. Internally dedicated resources are reported as general revenues rather than as program revenues.

Separate financial statements are provided for the governmental fund and the proprietary fund. 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 as is the proprietary fund in the fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days. 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The School reports the following major funds:

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.

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Building Corporation - This fund is used to account for the financial activities of the Corporation, including facilities acquisition and construction, and the related debt service.

Assets, Liabilities and Fund Balance/Net Position

Cash and Investments - For purposes of the statement of cash flows, cash equivalents include investments with original maturities of three months or less.

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

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future years and are reported as prepaid expenses.

Capital Assets - Capital assets, which include land, buildings, and equipment, are reported in the government-wide financial statements and the proprietary fund in the fund 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.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported in the statement of net position in the government-wide financial statements and the proprietary fund in the fund financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method.

Land Improvements	10 years
Buildings	40 years
Building Improvements	15 years
Equipment	2 - 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.

Long-Term Debt - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Debt premiums, discounts and accounting losses resulting from debt refundings are deferred and amortized over the life of the debt using the straight-line method. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the debt proceeds, are reported as current expenses or expenditures.

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Compensated Absences - The School's policy allows eligible employees to use seven days of personal and sick leave annually. Certified employees are compensated for any unused leave at \$80 per day and classified employees at \$50 per day. Upon termination, employees are paid for any unused sick and personal leave. No liability for these compensated absences is reported in the financial statements because employees are compensated for any unused leave prior to the end of each fiscal year.

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 purchases commercial insurance for these risks of loss.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Accountability

At June 30, 2017, the Corporation had a negative net position of \$2,416,595. Management expects this negative balance to be eliminated as the Corporation's debt is paid.

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 3: CASH AND INVESTMENTS

Cash and investments at June 30, 2017, consisted of the following:

Deposits	\$ 393,684
Investments	<u>4,610,055</u>
Total	<u><u>\$ 5,003,739</u></u>

Cash and investments are reported in the financial statements as follows:

Cash and Investments	\$ 3,682,972
Restricted Cash and Investments	<u>1,320,767</u>
Total	<u><u>\$ 5,003,739</u></u>

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. At June 30, 2017, the School had bank deposits of \$281,911 collateralized with securities held by the financial institution's agent but not in the School's name.

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

Fair Value Measurements - At June 30, 2017, the School's investment in Colotrust and the Corporation's investment in a money market fund were reported at the net asset value per share.

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

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

Credit Risk - State statutes limit investments in money market funds to those that maintain a constant share price, with a maximum remaining maturity in accordance with the Securities and Exchange Commission's Rule 2a-7, and either have assets of one billion dollars or the highest rating issued by one or more nationally recognized statistical rating organizations. At June 30, 2017, the Corporation had \$1,320,767 invested in a money market fund rated AAAM by Standard and Poor's.

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

Local Government Investment Pool - At June 30, 2017, the School had \$3,289,288 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established by State statutes for local government entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7, with each share valued at \$1. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

Restricted Cash and Investments

At June 30, 2017, the Corporation held investments of \$1,320,767 restricted for future debt service and building repair and replacement.

STEM SCHOOL AND ACADEMY
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>Balances</u> 6/30/16	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 6/30/17
Governmental Activities				
Capital Assets, Being Depreciated				
Equipment	\$ 305,391	\$ 280,786	\$ -	\$ 586,177
Accumulated Depreciation	<u>(276,993)</u>	<u>(16,230)</u>	<u>-</u>	<u>(293,223)</u>
Governmental Activities Capital Assets, Net	<u>\$ 28,398</u>	<u>\$ 264,556</u>	<u>\$ -</u>	<u>\$ 292,954</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	<u>\$ 2,370,970</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,370,970</u>
Capital Assets, Being Depreciated				
Land Improvements	365,936	-	-	365,936
Buildings	5,220,614	-	-	5,220,614
Building Improvements	6,521,805	883,064	-	7,404,869
Equipment	<u>100,875</u>	<u>-</u>	<u>-</u>	<u>100,875</u>
Total Capital Assets, Being Depreciated	<u>12,209,230</u>	<u>883,064</u>	<u>-</u>	<u>13,092,294</u>
Less Accumulated Depreciation				
Land Improvements	(146,374)	(36,594)	-	(182,968)
Buildings	(522,061)	(130,515)	-	(652,576)
Building Improvements	(535,658)	(480,744)	-	(1,016,402)
Equipment	<u>(54,705)</u>	<u>(19,203)</u>	<u>-</u>	<u>(73,908)</u>
Total Accumulated Depreciation	<u>(1,258,798)</u>	<u>(667,056)</u>	<u>-</u>	<u>(1,925,854)</u>
Total Capital Assets, Being Depreciated, Net	<u>10,950,432</u>	<u>216,008</u>	<u>-</u>	<u>11,166,440</u>
Business-Type Activities Capital Assets, Net	<u>\$ 13,321,402</u>	<u>\$ 216,008</u>	<u>\$ -</u>	<u>\$ 13,537,410</u>
Component Unit				
Capital Assets, Being Depreciated				
Equipment	\$ 100,020	\$ -	\$ -	\$ 100,020
Accumulated Depreciation	<u>(82,649)</u>	<u>(14,588)</u>	<u>-</u>	<u>(97,237)</u>
Component Unit Capital Assets, Net	<u>\$ 17,371</u>	<u>\$ (14,588)</u>	<u>\$ -</u>	<u>\$ 2,783</u>

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

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended June 30, 2017.

	<u>Balances</u> 6/30/16	<u>Additions</u>	<u>Payments</u>	<u>Balances</u> 6/30/17	<u>Due Within</u> <u>One Year</u>
Business-Type Activities					
2014 Building Loan	\$ 14,500,000	\$ -	\$ 190,000	\$ 14,310,000	\$ 195,000
2014 Loan Discount	(125,968)	-	(3,818)	(122,150)	-
2016 Building Loan	<u>3,000,000</u>	<u>-</u>	<u>50,000</u>	<u>2,950,000</u>	<u>95,000</u>
Total	<u>\$ 17,374,032</u>	<u>\$ -</u>	<u>\$ 236,182</u>	<u>\$ 17,137,850</u>	<u>\$ 290,000</u>

On November 20, 2014, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$14,670,000 Charter School Refunding Revenue Bonds, Series 2014. Bond proceeds were used to refund the outstanding Charter School Revenue Bonds, Series 2012 and 2013, originally loaned to the Corporation to acquire land and a building and to construct improvements to the building for use as an educational facility. Interest accrues on the bonds at rates ranging from 4% to 5.125% per annum, and is payable semi-annually on May 1 and November 1. Principal payments are due annually on November 1, through 2049.

On May 13, 2016, CECFA issued \$3,000,000 Charter School Taxable Revenue Bonds, Series 2016. Bond proceeds were loaned to the Corporation for certain renovations, improvements, and equipment relating to the School's educational facility. Interest accrues on the bonds at rates ranging from 4% to 5% per annum, and is payable semi-annually on May 1 and November 1. Principal payments are due annually on November 1, through 2036.

The School is obligated under lease agreements to make monthly payments to the Corporation for using the facilities. The Corporation is required to make equal loan payments to the bond trustee for payment of the bonds.

Future debt service requirements for the bonds are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 290,000	\$ 817,629	\$ 1,107,629
2019	305,000	805,394	1,110,394
2020	320,000	792,536	1,112,536
2021	330,000	779,155	1,109,155
2022	340,000	762,800	1,102,800
2023 - 2027	1,955,000	3,585,351	5,540,351
2028 - 2032	2,420,000	3,094,601	5,514,601
2033 - 2037	3,020,000	2,466,843	5,486,843
2038 - 2042	2,580,000	1,784,410	4,364,410
2043 - 2047	3,290,000	1,052,161	4,342,161
2048 - 2050	<u>2,410,000</u>	<u>189,372</u>	<u>2,599,372</u>
Total	<u>\$ 17,260,000</u>	<u>\$ 16,130,252</u>	<u>\$ 33,390,252</u>

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 6: INTERFUND TRANSACTIONS

During the year ended June 30, 2017, the General Fund transferred \$65,000 to the Corporation to fund the repair and replacement reserve, as required by the Corporation's loan agreement (See Note 5).

NOTE 7: DEFINED BENEFIT PENSION PLAN

General Information

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

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

Retirees 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.

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

General Information (Continued)

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 8). The School's contributions to the SDTF for the year ended June 30, 2017, were \$1,209,875, equal to the required contributions.

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

At June 30, 2017, the School reported a net pension liability of \$35,359,823, 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 0.1187612728%, which was an increase of 0.0322416956% from its proportion measured at December 31, 2015.

For the year ended June 30, 2017, the School recognized pension expense of \$9,040,964. At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 401,600	\$ 184
Changes of assumptions and other inputs	11,473,525	116,166
Net difference between projected and actual earnings on plan investments	848,483	-
Changes in proportion	4,780,612	-
Contributions subsequent to the measurement date	697,868	-
Total	\$ 18,202,088	\$ 116,350

School contributions subsequent to the measurement date of \$697,868 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

STEM SCHOOL AND ACADEMY
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 Related to Pensions (Continued)

Year Ended June 30,

2018	\$ 7,354,818
2019	6,871,852
2020	3,149,407
2021	<u>11,793</u>
Total	<u>\$ 17,387,870</u>

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.

STEM SCHOOL AND ACADEMY
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 Related to Pensions (Continued)

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.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real 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>	

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%.

STEM SCHOOL AND ACADEMY
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 Related to Pensions (Continued)

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:

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	<u>\$ 44,463,842</u>	<u>\$ 35,359,823</u>	<u>\$ 27,944,930</u>

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

NOTE 8: 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 PERA. 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 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 contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. 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 years ended June 30, 2017, 2016 and 2015 was \$63,576, \$46,352, and \$32,600, respectively, equal to the required amounts for each year.

STEM SCHOOL AND ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 9: 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 appropriate government. At June 30, 2017, significant amounts of related expenditures have not been audited but management believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

Litigation

The School is involved in pending litigation. The outcome of this litigation is uncertain but management believes the outcome of any litigation will not have a significant impact on the School's financial position.

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 many interpretations, but the School believes it is in substantial compliance with 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 \$395,000.

Lease Agreement

On May 12, 2015, the School entered into an agreement to lease an adjacent building to be used for elementary classrooms. Monthly rental payments ranging from \$33,333 to \$78,956 commenced on September 1, 2015. The lease expires on August 31, 2025. The agreement includes an option to purchase that may be exercised at any time beginning on August 31, 2020.

Following is a schedule of future minimum payments required by the lease agreement.

Year Ended June 30,

2018	\$ 700,000
2019	744,000
2020	773,760
2021	804,710
2022	836,899
2023 - 2026	<u>2,874,874</u>
Total	<u>\$ 6,734,243</u>

REQUIRED SUPPLEMENTARY INFORMATION

STEM SCHOOL AND ACADEMY

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

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>	<u>12/31/13</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY				
School's Proportion of the Net Pension Liability	0.1187612728%	0.0865195772%	0.0700334985%	0.0591000446%
School's Proportionate Share of the Net Pension Liability	\$ 35,359,823	\$ 13,232,559	\$ 9,491,891	\$ 7,538,195
School's Covered Payroll	\$ 5,328,712	\$ 3,763,936	\$ 2,933,901	\$ 2,382,510
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	664%	352%	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	43%	59%	63%	64%
	<u>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
SCHOOL CONTRIBUTIONS				
Statutorily Required Contribution	\$ 1,146,299	\$ 806,138	\$ 539,534	\$ 424,023
Contributions in Relation to the Statutorily Required Contribution	<u>(1,146,299)</u>	<u>(806,138)</u>	<u>(539,534)</u>	<u>(424,023)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 6,232,956	\$ 4,544,302	\$ 3,196,033	\$ 2,653,206
Contributions as a Percentage of Covered Payroll	18.39%	17.74%	16.88%	15.98%

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.

STEM SCHOOL AND ACADEMY

BUDGETARY COMPARISON SCHEDULEGENERAL FUND

Year Ended June 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 11,005,000	\$ 11,347,409	\$ 11,186,860	\$ (160,549)
District Mill Levy	850,792	882,180	864,492	(17,688)
Tuition	100,000	-	-	-
Student Fees and Activities	312,418	290,520	452,084	161,564
Contributions and Donations	25,000	125,000	4,387	(120,613)
Investment Income	7,897	4,890	23,260	18,370
Rental Income	42,000	54,000	53,000	(1,000)
Other	-	-	300	300
Total Local Sources	12,343,107	12,703,999	12,584,383	(119,616)
State Sources				
Grants	-	-	9,597	9,597
Capital Construction	170,500	423,500	436,338	12,838
Total State Sources	170,500	423,500	445,935	22,435
TOTAL REVENUES	12,513,607	13,127,499	13,030,318	(97,181)
EXPENDITURES				
Salaries	6,301,584	6,853,628	6,843,393	10,235
Employee Benefits	1,795,951	1,724,622	1,668,634	55,988
Purchased Services	3,162,899	2,920,110	2,961,230	(41,120)
Supplies and Materials	597,834	611,394	481,462	129,932
Property	329,469	1,761,088	861,269	899,819
Other	63,538	58,800	12,839	45,961
TOTAL EXPENDITURES	12,251,275	13,929,642	12,828,827	1,100,815
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	262,332	(802,143)	201,491	1,003,634
OTHER FINANCING SOURCES (USES)				
Transfers Out	-	-	(65,000)	(65,000)
NET CHANGE IN FUND BALANCE	262,332	(802,143)	136,491	938,634
FUND BALANCE, Beginning	505,508	2,742,581	2,742,581	-
FUND BALANCE, Ending	\$ 767,840	\$ 1,940,438	\$ 2,879,072	\$ 938,634

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 at 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

Budgetary Information

Budgets are required by State statutes for all funds and are adopted on a basis consistent with generally accepted accounting principles.

The School adheres to the following procedures to establish the budgetary information reflected in the financial statements.

- Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
- Prior to June 30, the budget is adopted by the Board of Directors.
- 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.