

LOVELAND CLASSICAL SCHOOLS

FINANCIAL STATEMENTS

June 30, 2017



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LOVELAND CLASSICAL SCHOOLS

June 30, 2017

BOARD OF DIRECTORS

| | |
|--------------------------|-----------------|
| President/Chair | Daniel Filler |
| Vice President/Treasurer | N. Joshua Dart |
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| Director | Denise Dicks |

SCHOOL MANAGEMENT

Ian Stout, Principal

Rick Boos, Chief Financial Officer

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Board of Directors
Loveland Classical Schools
Loveland, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Loveland Classical Schools, component unit of Thompson School District R2-J, 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 Loveland Classical Schools, 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, and each major fund of the Loveland Classical Schools 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

November 20, 2017

**LOVELAND CLASSICAL SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2017**

Introduction

As management of Loveland Classical Schools (the School) we offer readers of the School's annual financial report this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2017. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

Financial Highlights

Fiscal year ended June 30, 2017 is the third year reporting net pension liability and deferred inflows and outflows following Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. As such, the School included the Net Pension Liability per GASB Statement No. 68 in the amount of \$15,560,082 for FY 2017 and \$7,716,575 for FY 2016 as noncurrent liability on the Statement of Net Position. For FY 2017 and FY 2016, the liabilities and deferred inflows of resources of the School exceeded its assets and deferred outflows by \$7,418,134 and \$4,950,384 (net position), respectively. The large change in pension liability from FY 2016 to FY 2017 was due to a change in actuarial assumptions used by the pension plan administered by Public Employees' Retirement Association of Colorado (PERA).

At the close of the fiscal year the School's general fund reported an ending fund balance of \$1,638,309, an increase of \$196,553. The operations of the School are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue was \$5,119,064. The School also received \$259,585 in District Incremental Funding revenue.

In August 2016, the Colorado Educational and Cultural Facilities Authority loaned \$20,820,000 to the Corporation. Proceeds were used to acquire the School's existing educational facility which was being leased and to finance the purchase of a second parcel of land and construct a second educational facility thereon. Construction was completed in August 2017. Beginning in FY18 the K-5 program is housed in the existing facility and the middle and high school programs are housed in the second facility. This will allow the School to address the anticipated growth of the School and enhance the educational program.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the School's basic financial statements. The School's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

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

The statement of net position presents information on all of the School's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position.

The statement of activities presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected grant expenses and earned but unpaid salary and benefits).

**LOVELAND CLASSICAL SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2017**

The government-wide statement of activities distinguishes functions/programs of the School supported primarily by per pupil revenue (PPR) or property taxes passed through from the District (Thompson School District R2-J). The governmental activities of the School include instruction and supporting services expense. The government-wide financial statements can be found on pages 1-2 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School are categorized as governmental funds or proprietary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the 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. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the general fund because it is considered to be a major fund.

The School adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the budget.

Proprietary Fund. The Loveland Classical Schools Building Corporation (the "Corporation"), considered a component unit of the charter school, is reported as business-type activities and as a proprietary fund. It is presented with statements of net position, statement of revenues, expenses and changes in net position and cash flows.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 8-20.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

**LOVELAND CLASSICAL SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2017**

In the case of the School, liabilities and deferred inflows of resources exceeded the School's assets and deferred outflows of resources by \$7,418,134 at the close of the most recent fiscal year. The negative balance is due primarily to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$15,560,082, representing its proportionate share of the plan's net pension liability.

Condensed Statement of Net Position

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| Cash and Cash Equivalents | \$1,870,306 | \$1,649,572 |
| Restricted Cash and Investments | 5,774,236 | 0 |
| Accounts Receivable | 11,841 | 2,403 |
| Grants Receivable | 27,816 | 10,446 |
| Other Receivables | 0 | 44,935 |
| Prepaid Expenses | 9,791 | 21,005 |
| Capital Assets, Not Being Depreciated | 12,312,349 | 0 |
| Capital Assets, Net of Accumulated Depreciation | <u>6,014,313</u> | <u>26,313</u> |
| Total assets | <u>26,020,652</u> | <u>1,754,674</u> |
| Deferred Outflows of Resources | | |
| Pensions, Net of Accumulated Amortization | <u>6,453,348</u> | <u>1,407,468</u> |
| Accounts Payable | 1,956,910 | 44,834 |
| Accrued Liabilities | 85,547 | 68,576 |
| Accrued Salaries and Benefits | 192,525 | 157,807 |
| Unearned Revenue | 18,920 | 15,388 |
| Accrued Interest Payable | 499,906 | 0 |
| Noncurrent Liabilities | | |
| Due in More Than One Year | 21,510,380 | 0 |
| Net Pension Liability | <u>15,560,082</u> | <u>7,716,575</u> |
| Total liabilities | <u>39,824,270</u> | <u>8,003,180</u> |
| Deferred Inflows of Resources | | |
| Pensions, Net of Accumulated Amortization | <u>67,864</u> | <u>109,346</u> |
| Net position: | | |
| Net investment in capital assets | (1,303,890) | 26,313 |
| Restricted for Debt Service | 1,422,045 | 0 |
| Restricted Tabor Emergency Reserve | 179,850 | 169,000 |
| Restricted Repair and Replacement | 30,000 | 0 |
| Restricted for Gym Construction | 50,000 | 0 |
| Unrestricted | <u>(7,796,139)</u> | <u>(5,145,697)</u> |
| Total net position | <u>\$ (7,418,134)</u> | <u>\$ (4,950,384)</u> |

A portion of the School's Governmental and Business-Type assets (29.4%) is in cash and investments and (70.4%) are net capital assets. As outlined in Note 6 to the financial statements the School participates in a Defined Benefit Pension Plan and has recorded a Net Pension Liability as of June 30, 2017 of \$15,560,082. The School has also recorded a deferred outflow of resources in the amount of \$6,453,348 and deferred inflow of resources in the amount of 67,864. This resulted in a negative Net Position of \$7,418,134. Of these funds \$179,850 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

**LOVELAND CLASSICAL SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2017**

School's Change in Net Position
For the Years Ended June 30, 2017 and 2016
Governmental Activities and Business-Type Activities

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|----------------------|
| Revenues: | | |
| Per Pupil Revenue | \$5,119,064 | \$4,800,375 |
| Additional At-Risk Funding | 2,099 | 1,785 |
| District Incremental Funding | 259,585 | 259,585 |
| Capital Construction | 201,412 | 178,850 |
| Charges for Services | 145,070 | 168,215 |
| Contributions not Restricted to Specific Programs | 142,598 | 95,035 |
| Operating Grants and Contributions | 107,644 | 103,461 |
| Investment Income | 48,119 | 2,033 |
| Other | <u>400</u> | <u>375</u> |
| Total revenues | <u>6,025,991</u> | <u>5,609,714</u> |
| Expenses: | | |
| Instruction | 5,220,415 | 3,255,976 |
| Supporting Services | 2,405,698 | 2,407,161 |
| Building Corporation | <u>867,628</u> | <u>0</u> |
| Total expenses | <u>8,493,741</u> | <u>5,663,137</u> |
| Change in net position | (2,467,750) | (53,423) |
| Net position, beginning | <u>(4,950,384)</u> | <u>(4,896,961)</u> |
| Net position, ending | <u>\$(7,418,134)</u> | <u>\$(4,950,384)</u> |

Financial Analysis of the School's Funds

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

Governmental Fund. The focus of the School's governmental fund 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, unrestricted, 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.

Overall revenue increased in FY 2017 by \$383,691 primarily due to an increase in student count in FY 2017 and equitable funding representing District Incremental Funding in the amount of \$259,585. PPR increased 6.6% due to an increase in per pupil funding from the state and capital construction grant per pupil funding increased to \$278 resulting in \$22,562 in additional revenue.

Expenditures increased \$2,830,604 from the prior year. This was primarily due to the increase in staffing to address the increase in student count and increase in employee retirement benefits.

As of the end of the current fiscal year, the School's governmental fund reported an ending fund balance of \$1,638,309, an increase of \$196,553.

Proprietary Fund. Loveland Classical Schools Building Corporation net position increased \$44,447 during its first year of operations. With the completion of the new facility these numbers are anticipated to change going forward and reflect a deficit balance until the debt is repaid in future years.

**LOVELAND CLASSICAL SCHOOLS
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED JUNE 30, 2017**

Budgetary Highlights

The School approves a budget in June based on enrollment projections for the following school year. In October after enrollment stabilizes, adjustments are made to the budget. The School approved supplemental budgets during the year to true up the beginning fund balance and adjust to the actual student count. Actual expenditures in the general fund were under budget by \$91,130.

Capital Asset and Debt Administration

Capital Assets

Capital assets include the land and buildings owned by the Corporation reported as business type activities of \$18,252,954 and other capital assets in the governmental activities of \$73,708. Depreciation expense of \$126,396 and \$14,193 was reported in the governmental activities and business type activities, respectively.

Long-term Lease

The School participates in a long-term lease agreement with the Loveland Classical Schools Building Corporation. Monthly principal and interest payments are due under the lease agreement, with interest accruing at rates ranging from 3.75% to 5.00%. The lease ends in July 2046. Annual debt service ranges from \$869,281 to \$1,409,000 with payments that began in calendar year 2017.

Economic Factors and Next Year’s Budget

The School’s enrollment continues to increase as some of the larger lower grades graduate and we graduate some of the smaller grades. Below are the historical enrollment numbers:

| Fiscal Year | PK – 12 Enrollment | PK – 12 FTE |
|--------------------|---------------------------|--------------------|
| 2011 / 2012 | 535 | 509.8 |
| 2012 / 2013 | 643 | 606.5 |
| 2013 / 2014 | 656 | 620.0 |
| 2014 / 2015 | 680 | 648.1 |
| 2015 / 2016 | 728 | 691.9 |
| 2016 / 2017 | 760 | 726.6 |

The funded pupil count is projected for the 2017-18 school year is expected to be 827.98. This factor was considered in preparing the School’s budget for fiscal year 2017-18. The economic outlook for FY 2018 is improving with the increase of \$237.39 per funded FTE or 3.3% in PPR funding. The Capital Construction funding per pupil allocation decreased for FY 2018 to \$254 per funded FTE compared to \$278 per funded FTE in FY 2017. This was caused by an increase in the number of charter school students sharing these funds.

REQUESTS FOR INFORMATION

This financial report is designed to provide readers with a general overview of the School’s finances and to demonstrate the School’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Rick Boos, Chief Financial Officer, Loveland Classical Schools, 3835 14th Street SW, Loveland, CO 80537.

BASIC FINANCIAL STATEMENTS

LOVELAND CLASSICAL SCHOOLS

STATEMENT OF NET POSITION

June 30, 2017

| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
|---|----------------------------|-----------------------------|-----------------------|
| ASSETS | | | |
| Cash and Investments | \$ 1,870,306 | \$ - | \$ 1,870,306 |
| Restricted Cash and Investments | - | 5,774,236 | 5,774,236 |
| Accounts Receivable | 11,841 | - | 11,841 |
| Grants Receivable | 27,816 | - | 27,816 |
| Prepaid Expenses | 9,791 | - | 9,791 |
| Internal Balances | 48,157 | (48,157) | - |
| Capital Assets, Not Being Depreciated | - | 12,312,349 | 12,312,349 |
| Capital Assets, Net of Accumulated Depreciation | 73,708 | 5,940,605 | 6,014,313 |
| TOTAL ASSETS | 2,041,619 | 23,979,033 | 26,020,652 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pensions, Net of Accumulated Amortization | 6,453,348 | - | 6,453,348 |
| LIABILITIES | | | |
| Accounts Payable | 32,610 | 1,924,300 | 1,956,910 |
| Accrued Liabilities | 85,547 | - | 85,547 |
| Accrued Salaries and Benefits | 192,525 | - | 192,525 |
| Unearned Revenues | 18,920 | - | 18,920 |
| Accrued Interest Payable | - | 499,906 | 499,906 |
| Noncurrent Liabilities | | | |
| Due in More Than One Year | - | 21,510,380 | 21,510,380 |
| Net Pension Liability | 15,560,082 | - | 15,560,082 |
| TOTAL LIABILITIES | 15,889,684 | 23,934,586 | 39,824,270 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pensions, Net of Accumulated Amortization | 67,864 | - | 67,864 |
| NET POSITION | | | |
| Net Investment in Capital Assets | 73,708 | (1,377,598) | (1,303,890) |
| Restricted for Debt Service | - | 1,422,045 | 1,422,045 |
| Restricted for Emergencies | 179,850 | - | 179,850 |
| Restricted for Repair and Replacement | 30,000 | - | 30,000 |
| Restricted for Gym Construction | 50,000 | - | 50,000 |
| Unrestricted | (7,796,139) | - | (7,796,139) |
| TOTAL NET POSITION | \$ (7,462,581) | \$ 44,447 | \$ (7,418,134) |

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

LOVELAND CLASSICAL SCHOOLS

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

| FUNCTIONS/PROGRAMS | EXPENSES | PROGRAM REVENUES | |
|---------------------------------|---------------------|---|------------------------------------|
| | | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS |
| PRIMARY GOVERNMENT | | | |
| Governmental Activities | | | |
| Instruction | \$ 5,220,415 | \$ 144,140 | \$ 92,621 |
| Supporting Services | 2,405,698 | 930 | 15,023 |
| Total Governmental Activities | 7,626,113 | 145,070 | 107,644 |
| Business-Type Activities | | | |
| Building Corporation | 867,628 | - | - |
| Total Business-Type Activities | 867,628 | - | - |
| TOTAL PRIMARY GOVERNMENT | \$ 8,493,741 | \$ 145,070 | \$ 107,644 |
| | | GENERAL REVENUES | |
| | | Per Pupil Revenue | |
| | | Additional At-Risk Funding | |
| | | District Incremental Funding | |
| | | Capital Construction | |
| | | 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 (EXPENSES) REVENUES AND
CHANGE IN NET POSITION

| GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
|----------------------------|-----------------------------|----------------|
| \$ (4,983,654) | \$ - | \$ (4,983,654) |
| (2,389,745) | - | (2,389,745) |
| (7,373,399) | - | (7,373,399) |
| - | (867,628) | (867,628) |
| - | (867,628) | (867,628) |
| (7,373,399) | (867,628) | (8,241,027) |
| 5,119,064 | - | 5,119,064 |
| 2,099 | - | 2,099 |
| 259,585 | - | 259,585 |
| 201,412 | - | 201,412 |
| 142,598 | - | 142,598 |
| 15,533 | 32,586 | 48,119 |
| 400 | - | 400 |
| (879,489) | 879,489 | - |
| 4,861,202 | 912,075 | 5,773,277 |
| (2,512,197) | 44,447 | (2,467,750) |
| (4,950,384) | - | (4,950,384) |
| \$ (7,462,581) | \$ 44,447 | \$ (7,418,134) |

LOVELAND CLASSICAL SCHOOLS

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2017

| | GENERAL |
|---|---------------------|
| ASSETS | |
| Cash and Investments | \$ 1,870,306 |
| Accounts Receivable | 11,841 |
| Grants Receivable | 27,816 |
| Prepaid Expenditures | 9,791 |
| Interfund Receivables | 48,157 |
| TOTAL ASSETS | \$ 1,967,911 |
| LIABILITIES AND FUND BALANCE | |
| LIABILITIES | |
| Accounts Payable | \$ 32,610 |
| Accrued Liabilities | 85,547 |
| Accrued Salaries and Benefits | 192,525 |
| Unearned Revenues | 18,920 |
| TOTAL LIABILITIES | 329,602 |
| FUND BALANCE | |
| Nonspendable Prepaid Expenditures | 9,791 |
| Restricted for Emergencies | 179,850 |
| Restricted for Repair and Replacement | 30,000 |
| Restricted for Gym Construction | 50,000 |
| Unrestricted, Unassigned | 1,368,668 |
| TOTAL FUND BALANCE | 1,638,309 |
| TOTAL LIABILITIES AND FUND BALANCE | \$ 1,967,911 |

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

| | |
|--|-----------------------|
| Total Fund Balance of the Governmental Fund | \$ 1,638,309 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. | 73,708 |
| Long-term liabilities and related items, including net pension liability (\$15,560,082), pension-related deferred outflows of resources \$6,453,348, and pension-related deferred inflows of resources (\$67,864), are not due and payable in the current year and, therefore, are not reported in governmental funds. | (9,174,598) |
| Total Net Position of Governmental Activities | \$ (7,462,581) |

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

LOVELAND CLASSICAL SCHOOLS

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

| | GENERAL |
|--------------------------------|------------------|
| REVENUES | |
| Local Sources | \$ 5,682,250 |
| State Sources | 296,132 |
| Federal Sources | 15,023 |
| | 5,993,405 |
| TOTAL REVENUES | 5,993,405 |
| EXPENDITURES | |
| Instruction | 3,292,377 |
| Supporting Services | 2,504,475 |
| | 5,796,852 |
| TOTAL EXPENDITURES | 5,796,852 |
| NET CHANGE IN FUND BALANCE | 196,553 |
| FUND BALANCE, Beginning | 1,441,756 |
| FUND BALANCE, Ending | \$ 1,638,309 |

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

| | |
|---|----------------|
| Net Change in Fund Balance of the Governmental Fund | \$ 196,553 |
| Capital outlays to purchase capital assets are reported in governmental funds as expenditures. However, in the statement of activities the cost of these assets is allocated over the estimated useful lives as annual depreciation expense. This is the amount by which capital outlays \$61,588 exceeded depreciation expense (\$14,193) in the current year. | 47,395 |
| 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 (\$7,843,507), pension-related deferred outflows of resources \$5,045,880, and pension-related deferred inflows of resources \$41,482 in the current year. | (2,756,145) |
| Change in Net Position of Governmental Activities | \$ (2,512,197) |

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

LOVELAND CLASSICAL SCHOOLS

STATEMENT OF NET POSITION
PROPRIETARY FUND

June 30, 2017

| | <u>BUILDING CORPORATION</u> |
|---|---------------------------------|
| ASSETS | |
| CURRENT ASSETS | |
| Restricted Cash and Investments | \$ 5,774,236 |
| NONCURRENT ASSETS | |
| Capital Assets, Not Being Depreciated | 12,312,349 |
| Capital Assets, Net of Accumulated Depreciation | <u>5,940,605</u> |
| TOTAL NONCURRENT ASSETS | <u>18,252,954</u> |
| TOTAL ASSETS | <u>24,027,190</u> |
| LIABILITIES | |
| CURRENT LIABILITIES | |
| Accounts Payable | 1,924,300 |
| Interfund Payables | 48,157 |
| Accrued Interest Payable | <u>499,906</u> |
| TOTAL CURRENT LIABILITIES | 2,472,363 |
| NONCURRENT LIABILITIES | |
| Loan Payable | <u>21,510,380</u> |
| TOTAL LIABILITIES | <u>23,982,743</u> |
| NET POSITION | |
| Net Investment in Capital Assets | (1,377,598) |
| Restricted for Debt Service | <u>1,422,045</u> |
| TOTAL NET POSITION | <u>\$ 44,447</u> |

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

LOVELAND CLASSICAL SCHOOLS

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

| | <u>BUILDING CORPORATION</u> |
|--|---------------------------------|
| OPERATING REVENUES | |
| Lease Revenue | <u>\$ 669,489</u> |
| OPERATING EXPENSES | |
| Depreciation | 126,396 |
| Debt Service | |
| Interest and Fees | <u>346,685</u> |
| TOTAL OPERATING EXPENSES | <u>473,081</u> |
| NET OPERATING INCOME | <u>196,408</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Investment Income | 32,586 |
| Debt Issuance Costs | <u>(394,547)</u> |
| TOTAL NONOPERATING REVENUES (EXPENSES) | <u>(361,961)</u> |
| NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS | (165,553) |
| Contributed Capital Assets | <u>210,000</u> |
| CHANGE IN NET POSITION | 44,447 |
| NET POSITION, Beginning | <u>-</u> |
| NET POSITION, Ending | <u>\$ 44,447</u> |

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

LOVELAND CLASSICAL SCHOOLS

STATEMENT OF CASH FLOWS

PROPRIETARY 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 | \$ 669,489 |
| Loan Interest and Fees Paid | <u>(160,699)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>508,790</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Loan Proceeds | 21,534,186 |
| Acquisition and Construction of Capital Assets | (15,737,460) |
| Interest Paid and Capitalized | (214,385) |
| Interest Earned and Capitalized | 45,066 |
| Debt Issuance Costs Paid | <u>(394,547)</u> |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>5,232,860</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Investment Income Received | <u>32,586</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 5,774,236 |
| CASH AND CASH EQUIVALENTS, Beginning | <u>-</u> |
| CASH AND CASH EQUIVALENTS, Ending | <u><u>\$ 5,774,236</u></u> |
| RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | |
| Net Operating Income | \$ 196,408 |
| Adjustments to Reconcile Net Operating Income to Net Cash Provided (Used) by Operating Activities | |
| Depreciation Expense | 126,396 |
| Amortization of Premium | (23,806) |
| Changes in Assets and Liabilities | |
| Accrued Interest Payable | <u>209,792</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>\$ 508,790</u></u> |
| NONCASH CAPITAL TRANSACTIONS | |
| Contributed Capital Assets | <u><u>\$ 210,000</u></u> |

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

LOVELAND CLASSICAL SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Loveland Classical Schools (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Thompson School District R2-J (the “District”). The School began operations in the Fall of 2011, and currently operates two campuses.

The accounting policies of the School conform to generally accepted accounting principles 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. Following is a summary of the more significant policies.

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 Loveland Classical Schools Building Corporation (the “Corporation”) within its reporting entity. The Corporation was organized to lease and hold title to property and otherwise act to facilitate the operations of 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 is a component unit of the District. The School’s charter was granted 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. 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 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*.

Separate financial statements are provided for the governmental and proprietary funds. Major individual funds are reported as separate columns in the fund financial statements.

LOVELAND CLASSICAL SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary 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. 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.

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 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 governmental fund:

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

Building Corporation - This fund is used to account for the financial activities of the Corporation, which are primarily related to capital assets and the related debt service.

Assets, Liabilities and Net Position/Fund Balance

Cash Equivalents - 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.

LOVELAND CLASSICAL SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Interfund Receivables and Payables - During the course of operations, certain transactions occur between individual funds. The resulting receivables and payables are classified in the fund financial statements as *interfund receivables* and *interfund payables*. Any residual balances outstanding between governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

Capital Assets - Capital assets, which consist of 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. Capital assets are depreciated using the straight-line method over the estimated useful lives, as follows:

| | |
|-----------------------|---------------|
| Buildings | 40 - 50 years |
| Building Improvements | 3 years |
| Equipment | 3 - 5 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.

Unearned Revenues - Unearned revenues represent resources received by the School before it has a legal claim to them, including tuition and fees.

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 and discounts 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 financial uses. Issuance costs are reported as current expenses or expenditures.

LOVELAND CLASSICAL SCHOOLS
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 establishes 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: CASH AND INVESTMENTS

A summary of cash and investments at June 30, 2017, follows:

| | |
|-------------|----------------------------|
| Petty Cash | \$ 240 |
| Deposits | 171,559 |
| Investments | <u>7,472,743</u> |
| Total | <u>\$ 7,644,542</u> |

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

| | |
|---------------------------------|----------------------------|
| Cash and Investments | \$ 1,870,306 |
| Restricted Cash and Investments | <u>5,774,236</u> |
| Total | <u>\$ 7,644,542</u> |

LOVELAND CLASSICAL SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2: CASH AND INVESTMENTS (Continued)

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 financial institution is allowed 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 the maturity of investment securities to 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 certain investments 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 of investment securities, except for corporate securities.

Local Government Investment Pool - At June 30, 2017, the School and Corporation had \$1,698,507 and \$5,774,236, respectively, invested in the Colorado Local Government Liquid Asset Trust (Colotrust). Colotrust is an investment vehicle established 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. Colotrust is measured at the net asset value per share, with each share valued at \$1. Colotrust is rated AAAM by Standard and Poor's. Investments 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.

LOVELAND CLASSICAL SCHOOLS
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 2: CASH AND INVESTMENTS (Continued)

Restricted Cash and Investments

At June 30, 2017, the Corporation had investments of \$5,774,236 restricted by its loan agreement for capital outlay and future debt service.

NOTE 3: INTERFUND BALANCES

At June 30, 2017, the Corporation owed \$48,157 to the School, representing capital costs paid by the School. The Corporation will repay the interfund loan using debt proceeds currently on hand.

NOTE 4: CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2017, are summarized below.

| | <u>Balances</u> <u>6/30/16</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balances</u> <u>6/30/17</u> |
|--|-----------------------------------|-----------------------------|--------------------|-----------------------------------|
| Governmental Activities | | | | |
| Capital Assets, Being Depreciated | | | | |
| Building Improvements | \$ 136,656 | \$ - | \$ - | \$ 136,656 |
| Equipment | <u>63,908</u> | <u>61,588</u> | <u>-</u> | <u>125,496</u> |
| Total Capital Assets, Being Depreciated | <u>200,564</u> | <u>61,588</u> | <u>-</u> | <u>262,152</u> |
| Accumulated Depreciation | | | | |
| Building Improvements | (136,656) | - | - | (136,656) |
| Equipment | <u>(37,595)</u> | <u>(14,193)</u> | <u>-</u> | <u>(51,788)</u> |
| Total Accumulated Depreciation | <u>(174,251)</u> | <u>(14,193)</u> | <u>-</u> | <u>(188,444)</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 26,313</u> | <u>\$ 47,395</u> | <u>\$ -</u> | <u>\$ 73,708</u> |
| Business-Type Activities | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$ - | \$ 1,349,835 | \$ - | \$ 1,349,835 |
| Construction in Progress | <u>-</u> | <u>10,962,514</u> | <u>-</u> | <u>10,962,514</u> |
| Total Capital Assets, Not Being Depreciated | <u>-</u> | <u>12,312,349</u> | <u>-</u> | <u>12,312,349</u> |
| Capital Assets, Being Depreciated | | | | |
| Buildings | - | 6,067,001 | - | 6,067,001 |
| Accumulated Depreciation | <u>-</u> | <u>(126,396)</u> | <u>-</u> | <u>(126,396)</u> |
| Capital Assets, Being Depreciated, Net | <u>-</u> | <u>5,940,605</u> | <u>-</u> | <u>5,940,605</u> |
| Business-Type Activities Capital Assets, Net | <u>\$ -</u> | <u>\$ 18,252,954</u> | <u>\$ -</u> | <u>\$ 18,252,954</u> |

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

LOVELAND CLASSICAL SCHOOLS
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:

| | Balances <u>6/30/16</u> | Additions | Payments | Balances <u>6/30/17</u> | Due Within <u>One Year</u> |
|---------------------------------|----------------------------|----------------------|------------------|----------------------------|-------------------------------|
| Business-Type Activities | | | | | |
| 2016 Building Loan | \$ - | \$ 20,820,000 | \$ - | \$ 20,820,000 | \$ - |
| Premium | - | 714,186 | 23,806 | 690,380 | - |
| Total | <u>\$ -</u> | <u>\$ 21,534,186</u> | <u>\$ 23,806</u> | <u>\$ 21,510,380</u> | <u>\$ -</u> |

On August 1, 2016, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$20,820,000 Charter School Revenue Bonds, Series 2016. Bond proceeds were loaned to the Corporation to acquire the School's existing educational facilities and to finance the purchase of a second parcel of land and construct educational facilities thereon. In conjunction, the School entered into a lease agreement with the Corporation to use the facilities. Interest accrues on the outstanding balance of the bonds at rates ranging from 3.75% to 5% per annum, and is payable semi-annually on January 1 and July 1. Principal is payable annually on July 1, from 2019 through 2046.

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 | \$ - | \$ 999,812 | \$ 999,812 |
| 2019 | - | 999,812 | 999,812 |
| 2020 | 210,000 | 995,875 | 1,205,875 |
| 2021 | 280,000 | 986,688 | 1,266,688 |
| 2022 | 425,000 | 973,469 | 1,398,469 |
| 2023 - 2027 | 2,380,000 | 4,172,813 | 6,552,813 |
| 2028 - 2032 | 2,930,000 | 4,102,750 | 7,032,750 |
| 2033 - 2037 | 3,740,000 | 3,293,500 | 7,033,500 |
| 2038 - 2042 | 4,770,000 | 2,260,000 | 7,030,000 |
| 2043 - 2047 | 6,085,000 | 942,750 | 7,027,750 |
| Total | <u>\$ 20,820,000</u> | <u>\$ 19,727,469</u> | <u>\$ 40,547,469</u> |

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.

LOVELAND CLASSICAL SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

General Information (Continued)

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 \$475,949, 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 \$15,560,082 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.

LOVELAND CLASSICAL SCHOOLS
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 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 0.0522608704%, which was an increase of 0.0018069210% from its proportion measured at December 31, 2015.

For the year ended June 30, 2017, the School recognized pension expense of \$3,212,973. 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 | \$ 192,257 | \$ 122 |
| Changes of assumptions and other inputs | 5,048,922 | 67,742 |
| Net difference between projected and actual earnings on plan investments | 497,094 | - |
| Changes in proportion | 450,016 | - |
| Contributions subsequent to the measurement date | <u>265,059</u> | <u>-</u> |
| Total | <u>\$ 6,453,348</u> | <u>\$ 67,864</u> |

School contributions subsequent to the measurement date of \$265,059 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

| | |
|-------|----------------------------|
| 2018 | \$ 2,511,807 |
| 2019 | 2,440,996 |
| 2020 | 1,162,432 |
| 2021 | <u>5,190</u> |
| Total | <u>\$ 6,120,425</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:

LOVELAND CLASSICAL SCHOOLS
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)

| | <u>Revised</u> <u>Assumptions</u> | <u>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.

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:

LOVELAND CLASSICAL SCHOOLS
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)

| <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%.

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:

LOVELAND CLASSICAL SCHOOLS
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 (4.26%) | Current Discount Rate (5.26%) | 1% Increase (6.26%) |
|--|-----------------------------|-------------------------------------|-----------------------------|
| Proportionate share of the net pension liability | <u>\$ 19,566,303</u> | <u>\$ 15,560,082</u> | <u>\$ 12,297,160</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 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. 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 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 \$25,014, \$23,675, and \$20,607, respectively, equal to the required amounts for each year.

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 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.

LOVELAND CLASSICAL SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

Tabor Amendment

In November 1992, Colorado voters approved 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 management believes the School 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 \$179,850.

REQUIRED SUPPLEMENTARY INFORMATION

LOVELAND CLASSICAL SCHOOLS

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 | 0.0522608704% | 0.0504539494% | 0.0466479602% | 0.0457822304% |
| School's Proportionate Share of the Net Pension Liability | \$ 15,560,082 | \$ 7,716,575 | \$ 6,322,366 | \$ 5,839,511 |
| School's Covered Payroll | \$ 2,345,560 | \$ 2,198,770 | \$ 1,954,215 | \$ 1,845,739 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | 663% | 351% | 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 | \$ 450,935 | \$ 411,319 | \$ 341,247 | \$ 303,298 |
| Contributions in Relation to the Statutorily Required Contribution | <u>(450,935)</u> | <u>(411,319)</u> | <u>(341,247)</u> | <u>(303,298)</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| School's Covered Payroll | \$ 2,452,383 | \$ 2,321,097 | \$ 2,020,301 | \$ 1,896,850 |
| Contributions as a Percentage of Covered Payroll | 18.39% | 17.72% | 16.89% | 15.99% |

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.

LOVELAND CLASSICAL SCHOOLS

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2017

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE Positive (Negative) |
|------------------------------|--------------------|-----------------|--------------|------------------------------------|
| REVENUES | | | | |
| Local Sources | | | | |
| Per Pupil Revenue | \$ 5,190,380 | \$ 5,096,694 | \$ 5,119,064 | \$ 22,370 |
| District Incremental Funding | 259,585 | 259,586 | 259,585 | (1) |
| Tuition | 93,700 | 89,515 | 66,675 | (22,840) |
| Student Fees and Activities | 78,808 | 73,945 | 77,465 | 3,520 |
| Contributions and Donations | 20,000 | 73,426 | 142,598 | 69,172 |
| Investment Income | - | 10,000 | 15,533 | 5,533 |
| Other | 5,000 | 2,000 | 1,330 | (670) |
| Total Local Sources | 5,647,473 | 5,605,166 | 5,682,250 | 77,084 |
| State Sources | | | | |
| Additional At-Risk Funding | - | - | 2,099 | 2,099 |
| Capital Construction | 188,570 | 199,537 | 201,412 | 1,875 |
| Grants | 81,555 | 92,621 | 92,621 | - |
| Total State Sources | 270,125 | 292,158 | 296,132 | 3,974 |
| Federal Sources | | | | |
| Grants | 14,784 | 15,023 | 15,023 | - |
| TOTAL REVENUES | 5,932,382 | 5,912,347 | 5,993,405 | 81,058 |
| EXPENDITURES | | | | |
| Salaries | 2,695,439 | 2,621,221 | 2,602,714 | 18,507 |
| Employee Benefits | 762,362 | 745,068 | 738,707 | 6,361 |
| Purchased Services | 1,981,153 | 1,961,412 | 1,915,633 | 45,779 |
| Supplies and Materials | 258,926 | 269,216 | 219,897 | 49,319 |
| Property | 16,000 | 285,500 | 314,398 | (28,898) |
| Other | 5,589 | 5,565 | 5,503 | 62 |
| TOTAL EXPENDITURES | 5,719,469 | 5,887,982 | 5,796,852 | 91,130 |
| NET CHANGE IN FUND BALANCE | 212,913 | 24,365 | 196,553 | 172,188 |
| FUND BALANCE, Beginning | 1,331,685 | 1,441,756 | 1,441,756 | - |
| FUND BALANCE, Ending | \$ 1,544,598 | \$ 1,466,121 | \$ 1,638,309 | \$ 172,188 |

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

A 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 budget appropriations lapse at fiscal year end.