

**CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY**

**FINANCIAL STATEMENTS**

**June 30, 2017**

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Board of Directors  
Chavez/Huerta K-12 Preparatory Academy  
Pueblo, 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 Chavez/Huerta K-12 Preparatory Academy, component unit of Pueblo School District No. 60, 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 Chavez/Huerta K-12 Preparatory 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, and each major fund of the Chavez/Huerta K-12 Preparatory 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.

A handwritten signature in black ink, appearing to read "Snankunt & Company LLC". The signature is written in a cursive, flowing style.

October 6, 2017

# **CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY**

## **MANAGEMENT DISCUSSION AND ANALYSIS**

As management of the Chavez/Huerta K-12 Preparatory Academy, we offer readers of the Chavez/Huerta K-12 Preparatory Academy financial statements this narrative overview and analysis of the financial activities of the organization for the fiscal year ended June 30, 2017.

## **FINANCIAL HIGHLIGHTS**

Chavez/Huerta K-12 Preparatory Academy (also referred to as the “Academy”) was required to implement GASB 68 in 2015 resulting in a net pension liability of \$11,792,396 that increased to \$11,967,471 in 2016. Under GASB 68 the Academy’s proportionate share of the net pension liability of the Colorado state retirement system, the Public Employees Retirement Association is recorded as a liability of the Academy. In 2017 the underlying assumptions were modified as described in Note 7 causing the net pension liability to increase to \$23,488,868.

Deferred outflows increased to \$9,125,097 of which \$7,621,647 is attributed to changes to assumptions and other inputs. Deferred inflows decreased to \$835,186 of which \$729,898 is from the change in the Academy’s proportionate share of the pension liability.

During 2016-17 the net position of the Academy decreased \$3,241,153 of which \$3,912,878 is from recognized pension expense offset by increases from other activities of \$671,725.

The CCA Building Corporation (also referred to as the “Corporation”) was formed for the specific purpose of holding title to real and/or personal property for the Academy and to make the same available for use by the Academy. The Academy pays rent to the Corporation for use of the facilities, which in turn is used to pay the related debt. The Corporation is blended into the Academy’s financial statements as an enterprise fund (proprietary fund type). The net position of the Corporation at June 30, 2017 increased \$120,440 from current activities to (\$905,930) compared to (\$1,026,370) the prior year.

## **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to Chavez/Huerta K-12 Preparatory Academy’s basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements.

## **Government-wide Financial Statements:**

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

The statement of net position presents information on all of the Academy'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 Academy is improving or deteriorating.

The statement of activities presents information showing how the Academy'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 revenues and earned but unpaid salary and benefits).

The government-wide statement of activities distinguishes functions/programs of the Academy supported primarily by per pupil revenue (PPR) passed through from the District. The governmental activities of the Academy 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. Chavez/Huerta K-12 Preparatory Academy, 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 Academy are divided into two categories: governmental funds and 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 Academy'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 Academy's near-term financing decisions. When applicable, 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.

Chavez/Huerta K-12 Preparatory Academy maintains one governmental fund and adopts an annual appropriated budget. Budgetary comparison statements have been provided to demonstrate compliance with the budget.

**Proprietary Fund:** The CCA Building Corporation is considered a component unit of the charter school and presented separately in the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows for Proprietary Funds. Annual budgets are prepared for the proprietary funds. Though budgetary comparisons are not required for these funds for reporting purposes, appropriate comparisons are reported to the Academy's governing body through internal reports to demonstrate compliance with the budget.

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

## GOVERNMENT-WIDE FINANCIAL STATEMENT ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Academy, liabilities exceeded assets by \$13,115,830 as of the close of the 2016-17 fiscal year compared to \$9,874,677 the prior year. The negative balance is due primarily to the adoption of GASB Statement No. 68 whereby the Academy reports its proportionate share of the state retirement plan as a liability on its financial statements. The net pension liability at the end of the current fiscal year is \$23,488,868 compared to \$11,967,471 the prior year.

### Statement of Net Position Governmental and Business Type Activities

	30-Jun-17	30-Jun-16	Net Change
Current and other assets	\$ 4,676,989	\$ 4,794,529	\$ (117,540)
Capital assets	<u>\$ 10,711,825</u>	<u>\$ 10,994,292</u>	<u>\$ (282,467)</u>
TOTAL ASSETS	<u>\$ 15,388,814</u>	<u>\$ 15,788,821</u>	<u>\$ (400,007)</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 9,125,097</u>	<u>\$ 1,523,862</u>	<u>\$ 7,601,235</u>
Current liabilities	\$ 536,154	\$ 579,809	\$ (43,655)
Other liabilities	<u>\$ 36,258,401</u>	<u>\$ 25,103,231</u>	<u>\$ 11,155,170</u>
TOTAL LIABILITIES	<u>\$ 36,794,555</u>	<u>\$ 25,683,040</u>	<u>\$ 11,111,515</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ 835,186</u>	<u>\$ 1,504,320</u>	<u>\$ (669,134)</u>
Net Position			
Net Investment in Capital Assets	\$ (2,057,708)	\$ (2,141,468)	\$ 83,760
Restricted for Debt Service	\$ 1,337,573	\$ 1,315,958	\$ 21,615
Restricted for Repairs & Replacement	\$ 262,495	\$ 260,243	\$ 2,252
Restricted for Emergencies	\$ 245,000	\$ 240,000	\$ 5,000
Unrestricted	<u>\$ (12,903,190)</u>	<u>\$ (9,549,410)</u>	<u>\$ (3,353,780)</u>
TOTAL NET POSITION	<u>\$ (13,115,830)</u>	<u>\$ (9,874,677)</u>	<u>\$ (3,241,153)</u>

Cash and investments make up 29.9% of total assets compared to 29.8% the prior year. 39.9% of cash and investments are restricted in the Corporation for maintenance of capital assets and reserved to repay debt. Capital assets, which reflect the Academy's investment in real and personal property and equipment, currently make up 69.6% of total assets compared to 69.6% the previous year. The remaining assets, primarily grants receivable, make up 0.5% of total assets. Net deferred outflows increased \$7,601,235 while inflows decreased \$669,134 primarily due to changes to the assumptions used to compute the net pension liability. Liabilities increased by \$11,155,170 resulting from various causes including changes from GASB 68 reporting and paying off debt. Assets decreased by \$400,007 primarily due to depreciating capital assets.



**Statement of Activities**  
**For the Years Ended June 30, 2017 and June 30, 2016**

	<u>30-Jun-17</u>	<u>30-Jun-16</u>	<u>Net Change</u>
Program Revenue:			
Charges for Services	\$ 37,050	\$ 50,251	\$ (13,201)
Restricted Grants & Contributions	\$ 818,783	\$ 911,285	\$ (92,502)
Total Program Revenue	<u>\$ 855,833</u>	<u>\$ 961,536</u>	<u>\$ (105,703)</u>
General Revenue:			
Per Pupil Operating Revenue	\$ 7,250,055	\$ 7,223,494	\$ 26,561
Additional At-Risk Funding	\$ 20,552	\$ -	\$ 20,552
Capital Construction Grant	\$ 266,551	\$ 257,277	\$ 9,274
Unrestricted Grants & Contributions	\$ 95,188	\$ 95,602	\$ (414)
Investment Income	\$ 17,107	\$ 5,427	\$ 11,680
Miscellaneous	\$ 2,912	\$ 1,947	\$ 965
Total General Revenue	<u>\$ 7,652,365</u>	<u>\$ 7,583,747</u>	<u>\$ 68,618</u>
Total Revenue	<u>\$ 8,508,198</u>	<u>\$ 8,545,283</u>	<u>\$ (37,085)</u>
Expenses:			
Current:			
Instruction	\$ 5,571,114	\$ 3,405,085	\$ 2,166,029
Supporting Services	\$ 5,331,101	\$ 3,262,787	\$ 2,068,314
Building Corporation	\$ 847,136	\$ 895,470	\$ (48,334)
Total Expenses	<u>\$ 11,749,351</u>	<u>\$ 7,563,342</u>	<u>\$ 4,186,009</u>
CHANGE IN NET POSITION	\$ (3,241,153)	\$ 981,941	\$ (4,223,094)
NET POSTION, Beginning (Restated)	<u>\$ (9,874,677)</u>	<u>\$ (10,856,618)</u>	<u>\$ 981,941</u>
NET POSTION, Ending	<u><u>\$ (13,115,830)</u></u>	<u><u>\$ (9,874,677)</u></u>	<u><u>\$ (3,241,153)</u></u>

Per pupil operating revenue increased \$26,561 due to the net effect of decreased enrollment and increased per pupil funding from the School Finance Act. Grants and contributions decreased by \$92,502 due to decreases in funding from Title I and state and federal funding for exceptional student services offset by a new grant from the Colorado Health Foundation. Additional At-Risk Funding increased \$20,552 as a new source of funding in 2016-17. Overall expenses increased \$4,186,009 of which \$3,320,516 is from the change in recognized pension expense. The remaining portion of increased costs is spending for textbooks and upgrades to security and computer systems.

## ANALYSIS OF THE FUND FINANCIAL STATEMENTS

As noted earlier, Chavez/Huerta K-12 Preparatory Academy uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

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

This is the 17th full year of operations for the Academy, but the fifth year since the two schools were merged. Total revenue for FY 2016-17 was \$8,498,320 compared to \$8,541,021 the prior year. Per pupil operating revenue, makes up 85.3% of Governmental Funds revenue for FY 2016-17 compared to 84.6% the prior year. Funded pupil count for 2016-17 was 961 compared to 989 the prior year, a decrease of 28 students. Per pupil funding increased from \$7,271 in FY 2015-16 to \$7,550 in FY 2016-17, an increase of \$279 per student.

As of the end of the current fiscal year, the Academy reported ending fund balance of \$2,540,767 in its General Fund compared to \$2,638,519 the prior year, a decrease of \$97,752. Reserves are adequate to meet the restricted emergency reserve requirement under TABOR in the amount of \$245,000 and to comply with the unrestricted \$725,000 working capital requirement set forth in a separate agreement with the lender.

**Proprietary Fund:** The net position of the Building Corporation as of June 30, 2017 is (\$905,930) compared to (\$1,026,370) the prior year, an increase of \$120,440, as a result of decreased interest expense as outstanding debt declines.

## BUDGETARY HIGHLIGHTS

The Academy approves a budget in June based on enrollment projections for the following school year. The budget may be amended in December, after enrollment is finalized and per pupil funding can be more accurately projected. For 2016-17 the budget was not amended since spending modified for the decline in enrollment was within the amount appropriated in the adopted budget.

The majority of Academy spending in the General Fund is for salaries and benefits, which make up 56% of total expenditures for FY 2016-17 compared to 61% the prior year. Purchased services made up 28.3% of total expenditures compared to 27.8% the prior year. The primary sources of spending for purchased services are rents paid to the Building Corporation, overhead costs charged by the District, insurance, legal, audit and financial services.

Expenditures did not exceed the amount appropriated for fiscal year 2016-17 and is therefore in compliance with State statute.

## CAPITAL ASSET AND LONG-TERM DEBT

**Capital assets:** CCA Building Corporation owns land with a carrying value of \$1,178,524 and buildings and improvements capitalized at \$11,930,930 at June 30, 2017. Capitalized equipment, including buses, totals \$546,099. The net carrying value of capital assets after subtracting accumulated depreciation is \$10,263,535. Current year depreciation expense was \$269,654. There were no additions or disposals of capital assets in the Building Corporation during 2016-17. Additional information on this investment is provided in Note 4 to the financial statements.

Government Fund purchased certain capital assets, which are reported as governmental activities on the Statement of Net Position. Buildings including modular classrooms and improvements are capitalized at \$1,137,976 at June 30, 2017. Capitalized equipment, including buses, totals \$608,268. The net carrying value of capital assets after subtracting accumulated depreciation is \$448,290. Current year depreciation expense was \$81,208. Current year additions included fencing to enclose a new play area at the elementary school at a cost of \$10,200 and new playground equipment at a cost of \$58,195 replacing old equipment with a carrying value of \$22,355.

**Long-term debt:** In April, 2007, the Building Corporation issued \$15,570,000 in bonds under an agreement with the Colorado Educational and Cultural Facilities Authority (CECFA) at interest costs ranging from 4% to 4.5%. Interest payments are due semi-annually and principal payments are due annually on August 1 beginning in 2009, through 2037. These transactions flow through the State intercept program where the State withholds a portion of the State funding and transfers the funds to a designated trustee that in turn makes the principal and interest payments when due. At June 30, 2017 the outstanding loan balance was \$12,945,000.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The lease payments to the Corporation for principal and interest due on the 2007 bond issue have stabilized and will increase very little in future years. Funded pupil count must be sustained to meet the commitments under this agreement. Enrollment at the Academy continues to fluctuate, which presents a challenge in balancing the budget from year to year. The funded pupil count was 965 for 2014-15, increased to 989 for 2015-16 but decreased to 961 for 2016-17. Enrollment is expected to decrease to 891 for 2017-18. Though appropriate action has been taken to modify operations in light of the changes in the funded pupil count and per pupil funding, the Academy needs to continue to focus on stabilizing its enrollment.

In November of 2000 voters in Colorado approved a provision to the Colorado constitution providing that K-12 funding would increase at pupil growth, plus inflation, plus 1% for 10 years and thereafter, growth plus inflation. As a result of this provision the single most important factor in projecting revenues is estimated future inflation. There was a significant recession during 2008-09 that continued through the 2011-12 fiscal year resulting in deflation (negative growth). In an effort to balance its budget, the State rescinded funding approved for public schools. Per pupil funding declined each year for four years and then stabilized in 2012-13 with base per pupil funding remaining the same

as the prior year. The Academy's per pupil funding increased 2.5% to \$6,574 for 2013-14, 6.7% to \$7,014 for 2014-15, 3.7% to \$7,271 for 2015-16 and 3.8% to \$7,550 for 2016-17. Per pupil funding is expected to increase by 3.5% for 2017-18.

### **SUBSEQUENT EVENT**

There were no significant subsequent events to report as of the date of the release of these financial statements

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of Chavez/Huerta K-12 Preparatory Academy's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be submitted in writing and addressed to Dr. Richard E. Duran, Executive Director, Cesar/Huerta K-12 Preparatory Academy, 2727 W. 18<sup>th</sup> St., Pueblo, CO 81003.

## **BASIC FINANCIAL STATEMENTS**

## CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

STATEMENT OF NET POSITION

June 30, 2017

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS</b>			
Cash and Investments	\$ 2,763,891	\$ -	\$ 2,763,891
Restricted Cash and Investments	-	1,835,292	1,835,292
Accounts Receivable, Net of Allowance for Doubtful Accounts	3,785	-	3,785
Grants Receivable	74,021	-	74,021
Capital Assets, Not Being Depreciated	-	1,178,524	1,178,524
Capital Assets, Net of Accumulated Depreciation	448,290	9,085,011	9,533,301
<b>TOTAL ASSETS</b>	<b>3,289,987</b>	<b>12,098,827</b>	<b>15,388,814</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions, Net of Accumulated Amortization	9,125,097	-	9,125,097
<b>LIABILITIES</b>			
Accounts Payable	219,881	-	219,881
Accrued Liabilities	81,049	-	81,049
Accrued Interest Payable	-	235,224	235,224
Noncurrent Liabilities			
Due Within One Year	-	390,000	390,000
Due in More Than One Year	-	12,379,533	12,379,533
Net Pension Liability	23,488,868	-	23,488,868
<b>TOTAL LIABILITIES</b>	<b>23,789,798</b>	<b>13,004,757</b>	<b>36,794,555</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions, Net of Accumulated Amortization	835,186	-	835,186
<b>NET POSITION</b>			
Net Investment in Capital Assets	448,290	(2,505,998)	(2,057,708)
Restricted for Debt Service	-	1,337,573	1,337,573
Restricted for Repair and Replacements	-	262,495	262,495
Restricted for Emergencies	245,000	-	245,000
Unrestricted	(12,903,190)	-	(12,903,190)
<b>TOTAL NET POSITION</b>	<b>\$ (12,209,900)</b>	<b>\$ (905,930)</b>	<b>\$ (13,115,830)</b>

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

## CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	\$ 5,571,114	\$ 37,050	\$ 501,270	\$ -
Supporting Services	5,331,101	-	117,513	200,000
Total Governmental Activities	10,902,215	37,050	618,783	200,000
Business-Type Activities				
Building Corporation	847,136	-	-	-
TOTAL PRIMARY GOVERNMENT	\$ 11,749,351	\$ 37,050	\$ 618,783	\$ 200,000

## GENERAL REVENUES

Per Pupil Revenue

Additional At-Risk Funding

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

<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>
\$ (5,032,794)	\$ -	\$ (5,032,794)
<u>(5,013,588)</u>	<u>-</u>	<u>(5,013,588)</u>
<u>(10,046,382)</u>	<u>-</u>	<u>(10,046,382)</u>
<u>-</u>	<u>(847,136)</u>	<u>(847,136)</u>
<u>(10,046,382)</u>	<u>(847,136)</u>	<u>(10,893,518)</u>
7,250,055	-	7,250,055
20,552	-	20,552
266,551	-	266,551
95,188	-	95,188
7,229	9,878	17,107
2,912	-	2,912
<u>(957,698)</u>	<u>957,698</u>	<u>-</u>
<u>6,684,789</u>	<u>967,576</u>	<u>7,652,365</u>
(3,361,593)	120,440	(3,241,153)
<u>(8,848,307)</u>	<u>(1,026,370)</u>	<u>(9,874,677)</u>
<u>\$ (12,209,900)</u>	<u>\$ (905,930)</u>	<u>\$ (13,115,830)</u>



CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

BALANCE SHEET  
GOVERNMENTAL FUND  
June 30, 2017

	<u>GENERAL</u>
ASSETS	
Cash and Investments	\$ 2,763,891
Accounts Receivable, Net of Allowance for Doubtful Accounts	3,785
Grants Receivable	<u>74,021</u>
TOTAL ASSETS	<u>\$ 2,841,697</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 219,881
Accrued Liabilities	<u>81,049</u>
TOTAL LIABILITIES	<u>300,930</u>
FUND BALANCE	
Restricted for Emergencies	245,000
Unrestricted, Unassigned	<u>2,295,767</u>
TOTAL FUND BALANCE	<u>2,540,767</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,841,697</u>
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 2,540,767
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	448,290
Long-term liabilities and related items, including net pension liability (\$23,488,868), pension-related deferred outflows of resources \$9,125,097, and pension-related deferred inflows of resources (\$835,186), are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(15,198,957)</u>
Total Net Position of Governmental Activities	<u>\$ (12,209,900)</u>

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

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

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

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 7,595,122
State Sources	555,592
Federal Sources	<u>347,606</u>
TOTAL REVENUES	<u>8,498,320</u>
EXPENDITURES	
Instruction	3,616,456
Supporting Services	<u>4,979,616</u>
TOTAL EXPENDITURES	<u>8,596,072</u>
NET CHANGE IN FUND BALANCE	(97,752)
FUND BALANCE, Beginning	<u>2,638,519</u>
FUND BALANCE, Ending	<u><u>\$ 2,540,767</u></u>
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Net Change in Fund Balance of the Governmental Fund	\$ (97,752)
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 depreciation expense (\$81,208) exceeded capital outlay \$68,395 in the current year.	(12,813)
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 net pension liability (\$11,521,397), pension-related deferred outflows of resources \$7,601,235 and pension-related deferred inflows of resources \$669,134 in the current year.	<u>(3,251,028)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (3,361,593)</u></u>

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

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

STATEMENT OF NET POSITION  
PROPRIETARY FUND  
June 30, 2017

	<u>BUILDING CORPORATION</u>
ASSETS	
CURRENT ASSETS	
Restricted Cash and Investments	\$ 1,835,292
TOTAL CURRENT ASSETS	<u>1,835,292</u>
NONCURRENT ASSETS	
Capital Assets, Not Being Depreciated	1,178,524
Capital Assets, Net of Accumulated Depreciation	<u>9,085,011</u>
TOTAL NONCURRENT ASSETS	<u>10,263,535</u>
TOTAL ASSETS	<u>12,098,827</u>
LIABILITIES	
CURRENT LIABILITIES	
Accrued Interest Payable	235,224
Loan Payable, Current Portion	<u>390,000</u>
TOTAL CURRENT LIABILITIES	625,224
NONCURRENT LIABILITIES	
Loan Payable	<u>12,379,533</u>
TOTAL LIABILITIES	<u>13,004,757</u>
NET POSITION	
Net Investment in Capital Assets	(2,505,998)
Restricted for Debt Service	1,337,573
Restricted for Repair and Replacements	<u>262,495</u>
TOTAL NET POSITION	<u>\$ (905,930)</u>

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

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

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

	<u>BUILDING CORPORATION</u>
OPERATING REVENUES	
Rental Income	<u>\$ 957,698</u>
TOTAL OPERATING REVENUES	<u>957,698</u>
OPERATING EXPENSES	
Depreciation	269,654
Debt Service	
Interest and Fiscal Charges	<u>577,482</u>
TOTAL OPERATING EXPENSES	<u>847,136</u>
NET OPERATING INCOME	110,562
NONOPERATING REVENUES	
Investment Income	<u>9,878</u>
CHANGE IN NET POSITION	120,440
NET POSITION, Beginning	<u>(1,026,370)</u>
NET POSITION, Ending	<u><u>\$ (905,930)</u></u>

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

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

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	\$ 957,698
Loan Principal Paid	(375,000)
Loan Interest Paid	<u>(575,316)</u>
Net Cash Provided by Operating Activities	<u>7,382</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income Received	<u>9,878</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	17,260
CASH AND CASH EQUIVALENTS, Beginning	<u>1,818,032</u>
CASH AND CASH EQUIVALENTS, Ending	<u><u>\$ 1,835,292</u></u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net Operating Income	\$ 110,562
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	269,654
Amortization of Discount	8,773
Changes in Assets and Liabilities	
Accrued Interest Payable	(6,607)
Loan Payable	<u>(375,000)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 7,382</u></u>

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

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

The Chavez/Huerta K-12 Preparatory Academy (the “Academy”) was formed by the merger of Cesar Chavez Academy and Dolores Huerta Preparatory High, effective July 1, 2012. The Academy operates a charter school within Pueblo School District No. 60 (the “District”). The Academy is a non-profit organization as defined in Section 501(c)(3) of the Internal Revenue Code.

The accounting policies of the Academy 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 Academy’s more significant policies.

**Reporting Entity**

The financial reporting entity consists of the Academy, organizations for which the Academy is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the Academy. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the Academy. Legally separate organizations for which the Academy is financially accountable are considered part of the reporting entity. Financial accountability exists if the Academy 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 Academy.

The Academy includes the CCA Building Corporation (the “Building Corporation”) within its reporting entity. The Building Corporation was incorporated to acquire, exchange, lease, hold, use, operate or otherwise deal with property, borrow money and secure the repayment of moneys borrowed for the Building Corporation or the Academy. The Building Corporation is blended into the Academy’s financial statements as an enterprise fund, and does not issue separate financial statements.

The Academy is a component unit of the District. The Academy’s charter was authorized by the District and the majority of the Academy’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 Academy. 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 the *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*.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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

Major individual governmental and proprietary 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 revenue is considered measurable and available only when cash is received by the Academy. 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 proprietary 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 Academy's policy to use restricted resources first, and the unrestricted resources as they are needed.

The Academy reports the following major funds:

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

*Building Corporation* - This fund is used to account for the financial transactions of the Building Corporation, primarily related to capital assets 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)**Assets, Liabilities and Fund Balance/Net Position** (Continued)

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

*Capital Assets* - Capital assets, which include property 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 is calculated using the straight-line method over the following estimated useful lives.

Land Improvements	10 - 40 years
Buildings	10 - 40 years
Building Improvements	10 - 40 years
Equipment	3 - 10 years

*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 financing uses.

Issuance costs, whether or not withheld from the debt proceeds, are reported as current expenses or expenditures.

*Pensions* - The Academy 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.



CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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

*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 Academy 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 Academy uses restricted fund balance first, followed by committed, assigned, and unassigned balances.

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

**Accountability**

At June 30, 2017, the Building Corporation had a negative net position of \$905,930. Management expects this negative balance to be eliminated as the Building Corporation's debt is paid.

**NOTE 3: CASH AND INVESTMENTS**

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

Petty Cash	\$ 150
Deposits	1,757,463
Investments	<u>2,841,570</u>
Total	<u><b>\$ 4,599,183</b></u>

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

Cash and Investments	\$ 2,763,891
Restricted Cash and Investments	<u>1,835,292</u>
Total	<u><b>\$ 4,599,183</b></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 Academy had bank deposits of \$1,695,235 collateralized with securities held by the financial institution's agent but not in the Academy's name.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 3: CASH AND INVESTMENTS (Continued)**

**Investments**

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

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

*Interest Rate Risk* - State statutes generally limit investments to an original maturity of five years 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 to those with specified ratings from nationally recognized statistical rating organizations, depending on the type of investment.

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

*Local Government Investment Pools* - At June 30, 2017, the Academy had \$1,006,278 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), and the Building Corporation had \$1,835,292 invested in the Colorado Surplus Asset Fund Trust (CSAFE), investment vehicles 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 the Pools. The Pools operate in conformity with the Securities and Exchange Commission's Rule 2a-7. The Pools are measured at the net asset value per share, with each share valued at \$1. The Pools are rated AAAm by Standard and Poor's. Investments of the Pools 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 Building Corporation held investments of \$1,835,292 restricted by its loan agreement for future debt service and building repair and replacements.

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 4: CAPITAL ASSETS**

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

	Balances 6/30/16	Additions	Deletions	Balances 6/30/17
<b>Governmental Activities</b>				
Capital Assets, Being Depreciated				
Land Improvements	\$ 122,843	\$ 10,200	\$ -	\$ 133,043
Buildings	641,143	-	-	641,143
Building Improvements	363,790	-	-	363,790
Equipment	<u>572,428</u>	<u>58,195</u>	<u>22,355</u>	<u>608,268</u>
Total Capital Assets, Being Depreciated	<u>1,700,204</u>	<u>68,395</u>	<u>22,355</u>	<u>1,746,244</u>
Less Accumulated Depreciation				
Land Improvements	(19,661)	(6,377)	-	(26,038)
Buildings	(585,111)	(23,903)	-	(609,014)
Building Improvements	(193,798)	(12,899)	-	(206,697)
Equipment	<u>(440,531)</u>	<u>(38,029)</u>	<u>(22,355)</u>	<u>(456,205)</u>
Total Accumulated Depreciation	<u>(1,239,101)</u>	<u>(81,208)</u>	<u>(22,355)</u>	<u>(1,297,954)</u>
Governmental Activities Capital Assets, Net	<u><b>\$ 461,103</b></u>	<u><b>\$ (12,813)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 448,290</b></u>
<b>Business-Type Activities</b>				
Capital Assets, Not Being Depreciated				
Land	<u>\$ 1,178,524</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,178,524</u>
Capital Assets, Being Depreciated				
Land Improvements	89,058	-	-	89,058
Buildings	11,802,663	-	-	11,802,663
Building Improvements	39,209	-	-	39,209
Equipment	<u>546,099</u>	<u>-</u>	<u>-</u>	<u>546,099</u>
Total Capital Assets, Being Depreciated	<u>12,477,029</u>	<u>-</u>	<u>-</u>	<u>12,477,029</u>
Less Accumulated Depreciation				
Land Improvements	(16,621)	(3,562)	-	(20,183)
Buildings	(2,688,811)	(249,548)	-	(2,938,359)
Building Improvements	(6,404)	(800)	-	(7,204)
Equipment	<u>(410,528)</u>	<u>(15,744)</u>	<u>-</u>	<u>(426,272)</u>
Total Accumulated Depreciation	<u>(3,122,364)</u>	<u>(269,654)</u>	<u>-</u>	<u>(3,392,018)</u>
Capital Assets, Being Depreciated, Net	<u>9,354,665</u>	<u>(269,654)</u>	<u>-</u>	<u>9,085,011</u>
Business-Type Activities Capital Assets, Net	<u><b>\$ 10,533,189</b></u>	<u><b>\$ (269,654)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 10,263,535</b></u>
Depreciation expense of the governmental activities was charged to functions/programs as follows.				
Instruction				\$ 9,337
Supporting Services				<u>71,871</u>
Total				<u><b>\$ 81,208</b></u>

## CHAVEZ/HUERTA K-12 PREPARATORY 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> <u>6/30/16</u>	<u>Additions</u>	<u>Payments</u>	<u>Balances</u> <u>6/30/17</u>	<u>Due Within</u> <u>One Year</u>
<b>Business-Type Activities</b>					
Building Loan	\$ 13,320,000	\$ -	\$ 375,000	\$ 12,945,000	\$ 390,000
Discount	<u>(184,240)</u>	<u>-</u>	<u>(8,773)</u>	<u>(175,467)</u>	<u>-</u>
Total	<u><b>\$ 13,135,760</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 366,227</b></u>	<u><b>\$ 12,769,533</b></u>	<u><b>\$ 390,000</b></u>

In April, 2007, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$15,570,000 Charter School Revenue Bonds, Series 2007. Bond proceeds were loaned to the Building Corporation under a mortgage and loan agreement to refinance various existing debt, purchase land, and construct a new high school. The Academy is obligated under a lease agreement to make monthly lease payments to the Building Corporation for using the buildings and equipment. The Building Corporation is required to make equal loan payments to the Trustee, for payment of the bonds. Interest accrues at rates ranging from 4% to 4.5%. Interest payments are due semi-annually on August 1 and February 1. Principal payments are due annually on August 1, through 2037.

Annual debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 390,000	\$ 559,875	\$ 949,875
2019	405,000	543,975	948,975
2020	425,000	527,375	952,375
2021	440,000	510,075	950,075
2022	460,000	491,600	951,600
2023 - 2027	2,610,000	2,138,962	4,748,962
2028 - 2032	3,235,000	1,496,894	4,731,894
2033 - 2037	4,055,000	680,514	4,735,514
2038	<u>925,000</u>	<u>20,813</u>	<u>945,813</u>
Total	<u><b>\$ 12,945,000</b></u>	<u><b>\$ 6,970,083</b></u>	<u><b>\$ 19,915,083</b></u>

**NOTE 6: RISK MANAGEMENT**

The Academy 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 Academy purchases commercial insurance for workers compensation risks. For its risk of property loss or damage and general liability, the Academy participates in the Colorado School Districts Self-Insurance Pool (CSDSIP).

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 6: RISK MANAGEMENT (Continued)**

The CSDSIP is sponsored by the Colorado Association of School Boards (CASB) and operates as a self-insurance pool comprised of various school districts and other related public educational entities within the State of Colorado. The Academy pays an annual premium to the CSDSIP for property and liability insurance coverage. The CSDSIP will be self-sustaining through member premiums and will reinsure through a duly authorized insurer. The reinsurance covers claims against the CSDSIP in excess of specific claim amounts and in the aggregate in an amount and at limits determined by the CSDSIP to be adequate to protect the solvency of the CSDSIP.

**NOTE 7: DEFINED BENEFIT PENSION PLAN****General Information**

*Plan Description* - The Academy 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 Academy participate in the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the SDTF. That report may be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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

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

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

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

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)**

**General Information (Continued)**

*Contributions* - The Academy 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 Academy's contribution rate for calendar years 2016 and 2017 was 19.15% and 19.65% of covered salaries, respectively. However, a portion of the Academy's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 8). The Academy's contributions to the SDTF for the year ended June 30, 2017, were \$689,045, 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 Academy reported a net pension liability of \$23,488,868, 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 Academy's proportion of the net pension liability was based on the Academy'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 Academy's proportion was 0.0788908866%, which was an increase of 0.0006429400% from its proportion measured at December 31, 2015.

For the year ended June 30, 2017, the Academy recognized pension expense of \$3,912,878. At June 30, 2017, the Academy 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	\$ 292,839	\$ 228
Changes of assumptions and other inputs	7,621,647	105,060
Net difference between projected and actual earnings on plan investments	792,923	-
Changes in proportion	69,995	729,898
Contributions subsequent to the measurement date	<u>347,693</u>	<u>-</u>
Total	<u><b>\$ 9,125,097</b></u>	<u><b>\$ 835,186</b></u>

Academy contributions subsequent to the measurement date of \$347,693 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:

## CHAVEZ/HUERTA K-12 PREPARATORY 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	\$ 2,951,539
2019	3,265,712
2020	1,717,133
2021	<u>7,834</u>
Total	<u><b>\$ 7,942,218</b></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.

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%.



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 Academy's proportionate share of the net pension liability calculated using the discount rate of 5.26%, as well as the Academy'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>\$ 29,536,496</u>	<u>\$ 23,488,868</u>	<u>\$ 18,563,293</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](http://www.copera.org/investments/pera-financial-reports).

**NOTE 8: POSTEMPLOYMENT HEALTHCARE BENEFITS**

*Plan Description* - The Academy 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 Academy 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 Academy 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 Academy's apportionment to the HCTF for the years ended June 30, 2017, 2016 and 2015 was \$36,222, \$35,449 and \$35,524, respectively, equal to the required amounts for each year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

**NOTE 9: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgments**

The Academy 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 Academy 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 Academy.

**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 Academy believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the Academy 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 \$245,000.

## **REQUIRED SUPPLEMENTARY INFORMATION**

CHAVEZ/HUERTA K-12 PREPARATORY 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				
Academy's Proportion of the Net Pension Liability	0.0788908866%	0.0782479466%	0.0870071850%	0.0950888738%
Academy's Proportionate Share of the Net Pension Liability	\$ 23,488,868	\$ 11,967,471	\$ 11,792,396	\$ 12,128,560
Academy's Covered Payroll	\$ 3,540,764	\$ 3,404,251	\$ 3,644,977	\$ 3,833,335
Academy's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	663%	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>
ACADEMY CONTRIBUTIONS				
Statutorily Required Contribution	\$ 652,823	\$ 617,622	\$ 587,688	\$ 600,866
Contributions in Relation to the Statutorily Required Contribution	(652,823)	(617,622)	(587,688)	(600,866)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's Covered Payroll	\$ 3,551,099	\$ 3,475,430	\$ 3,482,715	\$ 3,759,983
Contributions as a Percentage of Covered Payroll	18.38%	17.77%	16.87%	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.

CHAVEZ/HUERTA K-12 PREPARATORY ACADEMY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2017

	BUDGET		ACTUAL	VARIANCE Positive (Negative)
	ORIGINAL	FINAL		
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 7,255,800	\$ 7,098,400	\$ 7,250,055	\$ 151,655
Tuition and Fees	-	-	29,652	29,652
Pupil Activities	53,000	53,000	7,398	(45,602)
Grants and Contributions	455,000	391,000	297,876	(93,124)
Investment Income	2,000	2,000	7,229	5,229
Other	5,000	5,000	2,912	(2,088)
State Sources				
Additional At-Risk Funding	-	-	20,552	20,552
Capital Construction	254,300	265,000	266,551	1,551
Transportation	42,700	52,000	52,048	48
Grants	309,900	283,100	216,441	(66,659)
Federal Sources				
Grants	388,600	440,600	347,606	(92,994)
TOTAL REVENUES	8,766,300	8,590,100	8,498,320	(91,780)
EXPENDITURES				
Salaries	3,815,940	3,872,620	3,762,657	109,963
Employee Benefits	1,112,060	1,117,980	1,050,339	67,641
Purchased Services	2,146,060	2,142,160	2,432,995	(290,835)
Supplies and Materials	1,003,620	1,028,820	912,710	116,110
Property	610,000	598,900	411,506	187,394
Other	78,620	129,620	25,865	103,755
Contingency	2,462,300	2,338,500	-	2,338,500
TOTAL EXPENDITURES	11,228,600	11,228,600	8,596,072	2,632,528
NET CHANGE IN FUND BALANCE	(2,462,300)	(2,638,500)	(97,752)	2,540,748
FUND BALANCE, Beginning	2,462,300	2,638,500	2,638,519	19
FUND BALANCE, Ending	\$ -	\$ -	\$ 2,540,767	\$ 2,540,767

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 Academy's contributions and related ratios represent cash contributions and any related accruals that coincide with the Academy'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 Academy on a basis consistent with generally accepted accounting principles (GAAP). The Academy 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.