

ACADEMY OF URBAN LEARNING

BASIC FINANCIAL STATEMENTS

June 30, 2017

TABLE OF CONTENTS

PAGE

INTRODUCTORY SECTION

Title Page

Table of Contents

FINANCIAL SECTION

Independent Auditors' Report

Management's Discussion and Analysis

i - v

Basic Financial Statements

Statement of Net Position

1

Statement of Activities

2

Balance Sheet – All Governmental Funds

3

Statement of Revenues, Expenditures and Changes in Fund Balances –
All Governmental Funds

4

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities

5

Notes to the Financial Statements

6 – 26

Required Supplementary Information

Budgetary Comparison Schedule – General Fund

27

Schedule of the School's Proportional Share

28

Schedule of the School's Contributions

29

FINANCIAL SECTION



JOHN CUTLER & ASSOCIATES

Board of Directors
Academy of Urban Learning
Denver, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Academy of Urban Learning, component unit of the Denver Public School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's 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 auditor's 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Academy of Urban Learning, as of and for the year ended June 30, 2017, and the respective changes in financial position, thereof 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 budgetary information, schedule of the school's proportionate share, and schedule of the school's contributions on pages 27-29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

John Luttrell & Associates, LLC

October 30, 2017

Academy of Urban Learning Management's Discussion and Analysis

As management of Academy of Urban Learning (AUL or the School), we offer readers of Academy of Urban Learning's financial statements our narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2017.

Financial Highlights

The year ended June 30, 2017 is the twelfth year of operations for AUL. As of June 30, 2017, net position decreased by \$(271,534) to \$(473,016). This negative balance is the result of the implementation of regulations under the Governmental Accounting Standards Board Statement (GASB) Number 68. Further information about GASB 68 is provided in Note 6 of the financial statements.

The operations of the School are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue. Such revenue for the year was \$768,220. At the close of the fiscal year, Academy of Urban Learning's governmental funds reported a combined ending fund balance of \$419,960, a decrease of \$(115,234) from prior year. This decrease is the result of a decrease in student enrollment.

Overview of Financial Statements

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

Government-Wide Financial Statements

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

The statement of net position presents information on all of the School's assets, 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.

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).

The government-wide statement of activities distinguishes functions/programs of the school supported primarily by Per Pupil Revenue or other revenues passed through from the authorizer (Denver Public Schools). The governmental activities of the School include instruction and supporting services.

Fund Financial Statements

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

Governmental Funds. The school has one governmental fund. 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 balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The school adopts annually appropriated budgets for any governmental funds. A budgetary comparison schedule for each governmental fund has been provided herein.

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 6-26.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the School’s financial position. In the case of Academy of Urban Learning, liabilities exceeded assets resulting in a net position of \$(473,016) in FY 2016-2017. Again, this is directly related to the new pension liability reporting requirement under GASB 68. Of the School’s total net position, \$35,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR

Amendment. Accordingly, these funds are not available to satisfy the school's general operating expenses.

**Academy of Urban Learning's Net Position
Governmental Activities**

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and investments | \$ 405,210 | \$ 527,937 |
| Accounts Receivable | 70,115 | 54,631 |
| Prepaid Expenses | 2,094 | 2,375 |
| Capital Assets, Net of Accum Depreciation | 22,799 | 27,648 |
| Total Assets | 500,218 | 612,591 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Related to Pensions | 366,299 | 252,659 |
| LIABILITIES | | |
| Accounts Payable | 2,405 | 363 |
| Accrued Salaries & Benefits | 55,054 | 49,386 |
| Compensated Absences | - | - |
| Noncurrent Liability – Net Pension Liability | 1,155,389 | 888,586 |
| Total Liabilities | 1,212,848 | 938,335 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Related to Pensions | 126,685 | 128,397 |
| NET POSITION | | |
| Investment in Capital Assets | 22,799 | 27,648 |
| Restricted for Capital Construction | 2,383 | - |
| Restricted for Emergencies | 35,000 | 43,000 |
| Unrestricted | (533,198) | (272,130) |
| Total Net Position | \$ (473,016) | \$ (201,482) |

The largest portion of the School's assets is in cash and investments, at 81% of total assets in 2017.

**Academy of Urban Learning's Change in Net Position
Governmental Activities**

| | June 30, 2017 | June 30, 2016 |
|--|---------------------|---------------------|
| Program Revenue: | | |
| Charges for Services | - | - |
| Operating Grants and Contributions | 186,632 | 165,634 |
| Capital Grants and Contributions | 15,376 | 9,396 |
| Total Program Revenue | 202,008 | 175,030 |
| General Revenue: | | |
| Per Pupil Revenue | 768,220 | 950,982 |
| Mill Levy Revenue | 383,065 | 313,798 |
| Interest | 1,655 | 730 |
| Other Income | 26,469 | 161,912 |
| Total General Revenue | 1,179,409 | 1,427,422 |
| Total Revenue | 1,381,417 | 1,602,452 |
| Expenses: | | |
| Current: | | |
| Instruction | 795,748 | 916,672 |
| Supporting Services | 857,203 | 636,990 |
| Total Expenses | 1,652,951 | 1,553,662 |
| Increase/(Decrease) in Net Position | (271,534) | 48,790 |
| Net Position, Beginning | (201,482) | (250,272) |
| Net Position, Ending | \$ (473,016) | \$ (201,482) |

The largest portion of the School's revenues came from per pupil revenue – 56%, respectively in 2017.

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the School's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, unreserved fund balance

may serve as a useful measure of the School's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$419,960, a decrease of \$(115,234) from prior year.

General Fund Budgetary Highlights

The School approves a final general fund budget in May based on enrollment projections for the school year. In October, after enrollment stabilizes, adjustments are made to the budget. At year-end, the school had some variances between its final budgeted and actual activities. Overall, the school recognized \$1,404 more revenue than expected and spent \$(209,647) less than planned, when compared to the final budget. One budget amendment was made during FY 2016-2017.

Capital Assets & Long-Term Debt

The School has invested in capital assets for tenant improvements made to the School's facility. Depreciation expenses for capital assets are booked under the Supporting expenses of the School's operations.

The School has no long-term debt obligations.

Economic Factors and Next Year's Budget

The primary factor driving the budget for Academy of Urban Learning is student enrollment. Enrollment for the 2016-2017 school year was 97.00 funded students. This information was analyzed as part of the 2017-2018 budget which is projecting a 110.00 funded student count.

Requests for Information

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

Academy of Urban Learning
2417 W. 29th Ave.
Denver, CO 80211

BASIC FINANCIAL STATEMENTS

ACADEMY OF URBAN LEARNING

STATEMENT OF NET POSITION

As of June 30, 2017

| | Governmental Activities | |
|---|-------------------------|--------------|
| | 2017 | 2016 |
| ASSETS | | |
| Cash | \$ 405,210 | \$ 527,937 |
| Accounts Receivable | 70,115 | 54,631 |
| Prepaid Assets | 2,094 | 2,375 |
| Capital Assets, Depreciated, Net of Accumulated Depreciation | 22,799 | 27,648 |
| TOTAL ASSETS | 500,218 | 612,591 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Related to Pensions | 366,299 | 252,659 |
| LIABILITIES | | |
| Accounts Payable | 2,405 | 363 |
| Accrued Salaries and Benefits | 55,054 | 49,386 |
| Noncurrent Liability - Net Pension Liability | 1,155,389 | 888,586 |
| TOTAL LIABILITIES | 1,212,848 | 938,335 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Related to Pensions | 126,685 | 128,397 |
| NET POSITION | | |
| Investment in Capital Assets | 22,799 | 27,648 |
| Restricted for Capital Construction | 2,383 | - |
| Restricted for Emergencies | 35,000 | 43,000 |
| Unrestricted | (533,198) | (272,130) |
| TOTAL NET POSITION | \$ (473,016) | \$ (201,482) |

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

ACADEMY OF URBAN LEARNING

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

| FUNCTIONS/PROGRAMS | Expenses | PROGRAM REVENUES | | Net Expense (Revenue) and Changes in Net Position | | |
|----------------------------------|---------------------|-------------------------|--|--|-------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | |
| PRIMARY GOVERNMENT | | | | | 2017 | 2016 |
| Governmental Activities | | | | | | |
| Instructional | \$ 795,748 | \$ - | \$ 186,632 | \$ - | \$ (609,116) | \$ (692,785) |
| Supporting Services | 857,203 | - | - | 15,376 | (841,827) | (589,043) |
| Total Governmental Activities | <u>\$ 1,652,951</u> | <u>\$ -</u> | <u>\$ 186,632</u> | <u>\$ 15,376</u> | (1,450,943) | (1,281,828) |
| GENERAL REVENUES | | | | | | |
| Per Pupil Revenue | | | | | 768,220 | 950,982 |
| Mill Levy Override | | | | | 383,065 | 313,798 |
| Interest | | | | | 1,655 | 730 |
| Other Income | | | | | 26,469 | 161,912 |
| TOTAL GENERAL REVENUES | | | | | <u>1,179,409</u> | <u>1,427,422</u> |
| CHANGE IN NET POSITION | | | | | (271,534) | 145,594 |
| NET POSITION, Beginning | | | | | <u>(201,482)</u> | <u>(347,076)</u> |
| NET POSITION, Ending | | | | | <u>\$ (473,016)</u> | <u>\$ (201,482)</u> |

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

ACADEMY OF URBAN LEARNING

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

| | <u>GENERAL FUND</u> | |
|--|---------------------|---------------------|
| | <u>2017</u> | <u>2016</u> |
| ASSETS | | |
| Cash | \$ 405,210 | \$ 527,937 |
| Cash Held by District | - | - |
| Prepaid Assets | 2,094 | 2,375 |
| Accounts Receivable | 70,115 | 54,631 |
| | <u>477,419</u> | <u>584,943</u> |
| TOTAL ASSETS | <u>\$ 477,419</u> | <u>\$ 584,943</u> |
| LIABILITIES AND FUND BALANCES | | |
| LIABILITIES | | |
| Accounts Payable | \$ 2,405 | \$ 363 |
| Accrued Salaries and Benefits | 55,054 | 49,386 |
| | <u>57,459</u> | <u>49,749</u> |
| TOTAL LIABILITIES | <u>57,459</u> | <u>49,749</u> |
| FUND EQUITY | | |
| Fund Balance | | |
| Restricted for Emergencies | 35,000 | 43,000 |
| Restricted for Capital Construction | 2,383 | - |
| Unassigned | 382,577 | 492,194 |
| | <u>419,960</u> | <u>535,194</u> |
| TOTAL FUND EQUITY | <u>419,960</u> | <u>535,194</u> |
| Amounts reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. | 22,799 | 27,648 |
| Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This liability includes net pension liability of (\$1,155,389), deferred outflows related to pensions of \$366,299, and deferred inflows related to pensions of (\$126,685). | <u>(915,775)</u> | <u>(764,324)</u> |
| Net assets of governmental activities | <u>\$ (473,016)</u> | <u>\$ (201,482)</u> |

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

ACADEMY OF URBAN LEARNING

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

| | <u>GENERAL FUND</u> | |
|-----------------------------|---------------------|-------------------|
| | <u>2017</u> | <u>2016</u> |
| REVENUES | | |
| Local Sources | \$ 1,213,559 | \$ 1,449,599 |
| State and Federal Sources | 167,858 | 152,853 |
| | <u>1,381,417</u> | <u>1,602,452</u> |
| EXPENDITURES | | |
| Current | | |
| Instruction | 697,670 | 852,747 |
| Supporting Services | 798,981 | 577,708 |
| | <u>1,496,651</u> | <u>1,430,455</u> |
| TOTAL EXPENDITURES | <u>1,496,651</u> | <u>1,430,455</u> |
| NET CHANGE IN FUND BALANCES | (115,234) | 171,997 |
| FUND BALANCES, Beginning | <u>535,194</u> | <u>363,197</u> |
| FUND BALANCES, Ending | <u>\$ 419,960</u> | <u>\$ 535,194</u> |

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

ACADEMY OF URBAN LEARNING

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

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

| | |
|--|---------------------|
| Net change in fund balances - total governmental funds | \$ (115,234) |
| 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 of current period depreciation. | (4,849) |
| Deferred Charges related to pensions are not recognized in the governmental funds. However, for the government-wide funds that amount is capitalized and amortized. | <u>(151,451)</u> |
| Change in net position of governmental activities | <u>\$ (271,534)</u> |

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

ACADEMY OF URBAN LEARNING

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Academy of Urban Learning (the “Academy”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Denver Public School District (the “District”) in the State of Colorado. The Academy began classes in the fall of 2005.

The accounting policies of the Academy conform to generally accepted accounting principles as applicable to governmental units. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of the Academy and organizations for which the Academy is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the Academy. In addition, any 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 provides benefits to, or imposes financial burdens on the Academy.

Based on the application of these criteria, the Academy does not include additional organizations within its reporting entity. However, the Academy is a component unit of the Denver Public School 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 of the activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

ACADEMY OF URBAN LEARNING
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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 period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Intergovernmental revenues, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

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

When both restricted and unrestricted resources are available for 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 governmental fund:

General Fund – This fund is the general operating fund of the Academy. It is used to account for all financial resources except those required to be accounted for in another fund.

ACADEMY OF URBAN LEARNING

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and balance sheets will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to the liabilities, the statement of financial position and balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position and fund balance that applies to a futures period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Assets, Liabilities and Fund Balance/Net Position

Investments – Investments are reported at fair value.

Receivables – Receivables are reported at their gross value, and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable.

Prepaid Expenses – Payments made to vendors for services that will benefit future periods are recorded as prepaid expense. An expenditure is reported in the year in which the services are consumed.

Unearned Revenues – Unearned revenues include grant funds that have been collected but the corresponding expense has not been incurred.

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$5,000 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 estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Leasehold improvements of the Academy are depreciated using the straight-line method over ten years.

ACADEMY OF URBAN LEARNING

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Long-Term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs are recognized as expense in the period where they are incurred. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Net Position– The government-wide and business-type fund financial statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

- Investment in Capital Assets is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.
- Restricted Net Position are liquid assets, which have third party limitations on their use.
- Unrestricted Net Position represent assets that do not have any third-party limitation on their use. While the Academy’s management may have categorized and segmented portion for various purposes, the Academy Board has the unrestricted right to revisit or alter these managerial decisions.

Fund Balance Classification – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Academy is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The Academy has classified prepaid assets as nonspendable.

ACADEMY OF URBAN LEARNING
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Academy has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The School has also classified funds received for capital construction that were unspent as restricted.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Academy did not have any committed resources as of June 30, 2017.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Academy would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned fund balance.

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 carries commercial coverage for these risks of loss. Settled claims have not exceeded insurance coverage in the last three years.

ACADEMY OF URBAN LEARNING
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Academy's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

A budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles.

Academy management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget is adopted by the Board of Directors prior to June 30. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal yearend.

NOTE 3: CASH AND INVESTMENTS

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

| | |
|-------------|-------------------|
| Deposits | \$ 215,061 |
| Investments | <u>190,149</u> |
| Total | <u>\$ 405,210</u> |

ACADEMY OF URBAN LEARNING
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2017, State regulatory commissioners have indicated that all financial institutions holding deposits for the Academy are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. 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 the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

The Academy has no policy regarding custodial credit risk for deposits.

At June 30, 2017, the Academy had deposits with financial institutions with a carrying amount of \$215,061. The bank balances with the financial institutions were \$227,566. All of this amount was covered by federal depository insurance.

Investments

Interest Rate Risk

The Academy does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Colorado statutes specify in which instruments units of local government may invest, which include:

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

ACADEMY OF URBAN LEARNING

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 3: *CASH AND INVESTMENTS* (Continued)

Investments (Continued)

The above investments are authorized for all funds and fund types used by Colorado municipalities.

Interest Rate and Credit Risk Policies

The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates, or a formal policy to limit credit risk. However, they follow state statutes regarding investments.

Fair Value

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

The Academy had invested \$190,149 in the Colorado Government Liquid Asset Trust (COLOTRUST) which has a credit rating of AAAM by Standard and Poor's. COLOTRUST is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities.

ColoTrust is not a 2a7-like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. The government-investor does not "look through" the pool to report a pro rata share of the pool's investments, receivables, and payables. This investment is valued using Level 2 inputs.

ACADEMY OF URBAN LEARNING

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: CAPITAL ASSETS

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

| | Balance <u>June 30, 2016</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>June 30, 2017</u> |
|---------------------------------|---------------------------------|------------------|------------------|---------------------------------|
| Governmental Activities | | | | |
| Building Improvements | \$ 48,489 | \$ - | \$ - | \$ 48,489 |
| Accumulated Depreciation | | | | |
| Building Improvements | 20,841 | 4,849 | - | 25,690 |
| Net Capital Assets | <u>\$ 27,648</u> | <u>\$ 4,849</u> | <u>\$ -</u> | <u>\$ 22,799</u> |

Depreciation is charged to the supporting services program of the Academy.

NOTE 5: 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 nine months. The salaries and benefits earned, but unpaid, as of June 30, 2017, were \$55,054 in the General Fund.

NOTE 6: DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Policies

Pensions. School participates in the Denver Public Schools Division Trust Fund (DPS Division), a single-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the DPS Division have been determined using the economic resources measurement focus and the accrual basis of accounting.

General Information about the Pension Plan

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.

ACADEMY OF URBAN LEARNING
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 6: DEFINED BENEFIT PENSION PLAN(Continued)

General Information about the Pension Plan (Continued)

Plan description. Eligible employees of the School are provided with pensions through the Denver Public Schools Division Trust Fund (DPS Division)—a single-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) benefit structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

The lifetime retirement benefit for all eligible retiring employees under the PERA benefit structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases the service retirement benefit is limited to 100 percent of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

ACADEMY OF URBAN LEARNING
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

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

General Information about the Pension Plan (Continued)

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the DPS Division.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions. Eligible employees and the School are required to contribute to the DPS Division at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary.

ACADEMY OF URBAN LEARNING
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

The employer contribution requirements are summarized in the table below:

| | For the Year Ended December 31, 2016 | For the Year Ended December 31, 2017 |
|--|---|--|
| Employer contribution rate | 10.15% | 10.15% |
| Amount of employer contribution apportioned to the DPS HCTF as specified in C.R.S. § 24-51-208(1)(f) | (1.02%) | (1.02%) |
| PCOP offset as specified in C.R.S. § 24-51-412 | (15.54%) | (14.56%) |
| Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 | 4.50% | 4.50% |
| Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 | 4.50% | 5.00% |
| Total employer contribution rate to the DPS Division | 2.59% | 4.07% |

¹Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42)

Employer contributions are recognized by the DPS Division in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the DPS Division. Employer contributions recognized by the DPS Division from School were \$31,957 for the year ended June 30, 2017.

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 liability of \$1,155,389 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016. The School proportion of the net pension liability was based on School contributions to the DPS Division for the calendar year 2016 relative to the total contributions of participating employers to the DPS Division.

ACADEMY OF URBAN LEARNING

NOTES TO THE 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)

At December 31, 2016, the School proportion was 0.10547% percent, which was a decrease of 0.00376% from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the School recognized pension expense of \$183,408. 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> |
|---|---------------------------------------|--------------------------------------|
| Difference between expected and actual experience | \$29,001 | \$2,424 |
| Changes of assumptions or other inputs | \$170,047 | \$72,093 |
| Net difference between projected and actual earnings on pension plan investments | \$148,319 | - |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | - | \$52,168 |
| Contributions subsequent to the measurement date | \$18,932 | - |
| Total | \$366,299 | \$126,685 |

\$18,932 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30,: | |
|-----------------------------|----------|
| 2018 | \$77,477 |
| 2019 | \$77,477 |
| 2020 | \$41,672 |
| 2121 | \$24,115 |
| 2022 | \$(59) |

ACADEMY OF URBAN LEARNING

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: DEFINED BENEFIT PENSION PLAN(Continued)

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

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

| | |
|---|---|
| Actuarial cost method | Entry age |
| Price inflation | 2.80 percent |
| Real wage growth | 1.10 percent |
| Wage inflation | 3.90 percent |
| Salary increases, including wage inflation | 3.90 – 10.10 percent |
| Long-term investment rate of return, net of pension plan investment expenses, including price inflation | 7.50 percent |
| Discount rate | 7.50 percent |
| Post-retirement benefit increases: | |
| PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic) | 2.00 percent |
| PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic) | Financed by the Annual Increase Reserve |

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

| | |
|---|---|
| Actuarial cost method | Entry age |
| Price inflation | 2.40 percent |
| Real wage growth | 1.10 percent |
| Wage inflation | 3.50 percent |
| Salary increases, including wage inflation | 3.50 – 9.70 percent |
| Long-term investment rate of return, net of pension plan investment expenses, including price inflation | 7.25 percent |
| Discount rate | 7.25 percent |
| Post-retirement benefit increases: | |
| PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic) | 2.00 percent |
| PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic) | Financed by the Annual Increase Reserve |

ACADEMY OF URBAN LEARNING

NOTES TO THE 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)

Mortality rates used in the December 31, 2015 valuation were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back 2 years for males and set back 2 years for females) was assumed.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

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

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

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

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

ACADEMY OF URBAN LEARNING
NOTES TO THE 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)

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

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

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.
- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.
- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

Several factors were considered in evaluating the long-term rate of return assumption for the DPS Division, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

ACADEMY OF URBAN LEARNING

NOTES TO THE 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)

As of the November 18, 2016 adoption of the current long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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

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

Discount rate. The discount rate used to measure the total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

ACADEMY OF URBAN LEARNING

NOTES TO THE 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)

- Updated economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.

ACADEMY OF URBAN LEARNING

NOTES TO THE 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)

Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the DPS Division’s fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

As of the prior measurement date, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use the municipal bond index rate, and therefore, the discount rate was 7.50 percent, 0.25 percent higher compared to the current measurement date.

Sensitivity of the School proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|--|------------------------|-------------------------------------|------------------------|
| Proportionate share of the net pension liability | \$1,689,841 | \$1,155,389 | \$713,971 |

Pension plan fiduciary net position. Detailed information about the DPS Division’s fiduciary net position is available in PERA’s comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

ACADEMY OF URBAN LEARNING
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

Other Post-Employment Benefits

Denver Public Schools Health Care Trust Fund

Plan Description – The School contributes to the Denver Public Schools Health Care Trust Fund ("DPS HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The DPS HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the DPS HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the DPS HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy – The School is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the DPS HCTF is established under Title 24, Article 51, Section 208(1) (f.5) of the C.R.S., as amended. For the years ending June 30, 2017, 2016 and 2015 the School's contributions to the DPS HCTF were \$7,474, \$6,877 and \$7,187, respectively, equal to their required contributions for each year.

Taxable Pension Certificates of Participation (PCOPs)

The District issued Taxable Pension Certificates of Participation (PCOPs) on July 17, 1997 to fully fund the unfunded actuarial accrued liability (UAAL) of the Plan. Full funding of the UAAL reduced the employer contribution rate from the full funding rate of 15.75% to the normal cost rate of 4.98%. This rate is based upon actuarially determined contribution requirements, the approval and recommendation of the Plan's Board and approval of the District's Board of Education. The Academy contributed 10.02%, 9.95% and 9.84% of covered payroll for the fiscal year ended June 30, 2017, 2016 and 2015, respectively, to the District to cover its obligation relating to the PCOPs.

During the fiscal years ended June 30, 2017, 2016, and 2015 the Academy made contributions totaling \$74,740, \$67,052 and \$69,335, respectively, to the District towards its PCOPs obligation.

ACADEMY OF URBAN LEARNING

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: COMMITMENTS AND CONTINGENCIES

Facilities Use Agreement

The School entered into a Facilities Use Agreement with the District for their building. The School and the District amended the Facilities Use Agreement beginning July 7, 2013. The amended agreement calculates the annual Facilities Use Fee based on number of enrolled students at a rate of \$777 per student. For fiscal year 2017, 25% of the annual fee was payable in July and October of 2016, and the balance was due in January and April of 2017. The new agreement's expiration date is concurrent with the Academy's charter agreement.

Total rent expense for the year ended June 30, 2017 for this lease was \$87,004.

Claims and Judgments

The Academy participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Academy may be required to reimburse the grantor government. As of June 30, 2017, significant amounts of grant expenditures have not been audited, but the Academy 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 tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The Academy believes it has complied with the Amendment.

As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2017, the reserve of \$35,000 was recorded as a reservation of fund balance in the General Fund.

NOTE 8: DEFICIT NET POSITION

The Net Position of the government type activities is in a deficit position of \$473,016 due to the Academy including the Net Pension Liability per GASB No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

ACADEMY OF URBAN LEARNING

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended June 30, 2017

| | 2017 | | | VARIANCE | 2016 ACTUAL |
|--------------------------------|--------------------|-------------------|-------------------|------------------------|-------------------|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | Positive (Negative) | |
| REVENUES | | | | | |
| Local Sources | | | | | |
| Per Pupil Revenue | \$ 975,234 | \$ 768,258 | \$ 768,220 | \$ (38) | \$ 950,982 |
| Mill Levy Override | 306,899 | 386,972 | 383,065 | (3,907) | 313,798 |
| Grants and Donations | - | 33,143 | 34,150 | 1,007 | 22,177 |
| Interest | 300 | 1,500 | 1,655 | 155 | 730 |
| Other | 99,582 | 21,200 | 26,469 | 5,269 | 161,912 |
| State and Federal Sources | | | | | |
| Grants and Donations | 138,577 | 168,940 | 167,858 | (1,082) | 152,853 |
| TOTAL REVENUES | 1,520,592 | 1,380,013 | 1,381,417 | 1,404 | 1,602,452 |
| EXPENDITURES | | | | | |
| Salaries | 732,662 | 764,377 | 758,962 | 5,415 | 689,012 |
| Employee Benefits | 181,525 | 155,312 | 158,970 | (3,658) | 145,935 |
| Purchased Services | 529,438 | 458,701 | 460,695 | (1,994) | 473,368 |
| Supplies and Materials | 45,500 | 52,000 | 52,413 | (413) | 51,201 |
| Property | 10,000 | 18,000 | 13,833 | 4,167 | 35,013 |
| Other | 146,967 | 256,504 | 51,778 | 204,726 | 35,926 |
| TOTAL EXPENDITURES | 1,646,092 | 1,704,894 | 1,496,651 | 208,243 | 1,430,455 |
| CHANGE IN FUND BALANCES | (125,500) | (324,881) | (115,234) | 209,647 | 171,997 |
| FUND BALANCE, Beginning | 363,199 | 535,194 | 535,194 | - | 363,197 |
| FUND BALANCE, Ending | \$ 237,699 | \$ 210,313 | \$ 419,960 | \$ 209,647 | \$ 535,194 |

See the accompanying independent auditors' report.

ACADEMY OF URBAN LEARNING

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
SCHOOL DIVISION TRUST FUND

Years Ended December 31,

| | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|---|-------------|-------------|-------------|--------------|
| School's proportionate share of the Net Pension Liability | 0.1323% | 0.1295% | 0.1092% | 0.1055% |
| School's proportionate share of the Net Pension Liability | \$ 687,964 | \$ 808,695 | \$ 888,586 | \$ 1,155,389 |
| School's covered-employee payroll | \$ 721,390 | \$ 763,096 | \$ 683,745 | \$ 732,747 |
| School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll | 95.4% | 106.0% | 130.0% | 157.7% |
| Plan fiduciary net position as a percentage of the total pension liability | 86.3% | 83.9% | 79.3% | 74.1% |

See the accompanying independent auditors' report.

ACADEMY OF URBAN LEARNING

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DIVISION TRUST FUND

Years Ended June 30,

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|---|---------------|---------------|---------------|---------------|
| Statutorily required contributions | \$ 38,154 | \$ 23,159 | \$ 20,172 | \$ 31,957 |
| Contributions in relation to the Statutorily required contributions | <u>38,154</u> | <u>23,159</u> | <u>20,172</u> | <u>31,957</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| School's covered-employee payroll | \$ 794,069 | \$ 704,614 | \$ 674,167 | \$ 732,747 |
| Contributions as a percentage of covered-employee payroll | 4.80% | 3.29% | 2.99% | 4.36% |

See the accompanying independent auditors' report.