

**STEM SCHOOL AND ACADEMY**

**FINANCIAL STATEMENTS**

**June 30, 2015**

**STEM SCHOOL AND ACADEMY**

**ROSTER OF SCHOOL OFFICIALS**

**June 30, 2015**

**BOARD OF DIRECTORS**

Chair	Matthew Smith
Secretary	Vernon Thorp
Parent Member	Darsh Pandya
Member	Jeffrey Berg
Member	Juliet Garcia
Member	Marc Goldman
Member	Nicole Smith

**SCHOOL MANAGEMENT**

Dr. Penny Eucker, Executive Director

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Board of Directors  
STEM School and Academy  
Highlands Ranch, Colorado

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the STEM School and Academy, component unit of Douglas County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements of the STEM School and Academy, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinions

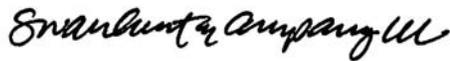
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the STEM School and Academy as of June 30, 2015, 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.

**Emphasis of Matter**

As discussed in Note 9 to the financial statements, in the year ended June 30, 2015, the STEM School and Academy adopted new accounting guidance as required by Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

**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.



October 21, 2015

STEM School and Academy  
Management's Discussion and Analysis  
For the Year Ended June 30, 2015

This section of STEM School and Academy annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the School's financial statements.

**FINANCIAL HIGHLIGHTS**

The year ended June 30, 2015 is the fifth year of operations for STEM School and Academy.

In November of 2014 CECFA issued bonds of \$14,670,000 to combine previous bonds, (2012A of 9,835,000 and 2013A of 3,825,000) lowering the interest rate and to remove the balloon payment. This refinance of previous bonds will save STEM School approximately \$100,000 per year.

The General Fund fund balance increased by \$1,283,335 during the fiscal year ended June 30, 2015 with a total Fund Balance as of June 30, 2015 of \$2,303,232.

The operation of STEM School and Academy is funded primarily by tax revenue under the State School Finance Act. Per pupil revenue for STEM increased 5.8% from \$6,330.72 in 2013-2014 to \$6,696.81 for 2014-2015. STEM School increased pupil count by 240 students which amounted to a \$1,889,673 increase in Per Pupil Revenue for 2014-2015 school year.

**Overview of Financial Statements**

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

**Government-Wide Financial Statements**

Government-wide financial statements are prepared to provide interested parties with a broad overview of the School's financial reporting in similar format to a private-sector business. The statement of net position presents information related to assets and liabilities and remaining assessment of financial value. With historical data, increases and decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School's net position changed during the year. Changes to net position are reported at the primary occurrence, regardless of the timing of related cash flows. Thus, some revenues and expenses are reported in the statement that will only result in cash flows in future periods.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

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

## **Notes to Financial Statements**

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

## **Other Information-Adoption GASB 68**

As noted previously, net position may serve over time as a useful indicator of the School's financial position. With the implementation of **GASB 68** for the year ended June 30, 2015, STEM's total net position was a negative (\$5,614,553) due the net pension liability in the amount of \$9,491,891, representing the School's proportionate share of the School Division Trust Fund (SDTF) pension liability, administered by the Public Employees' Retirement Association of Colorado (PERA). This amount was determined by an independent actuarial valuation of PERA's financial position on December 31, 2013. Standard update procedures were used to roll forward the total pension liability to December 31, 2014. Of STEM's total net position, \$14,002 is the Net Investment in Capital Assets. A negative (\$5,855,555) is unrestricted and \$227,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

## **Government-wide Financial Analysis**

The two summary statements below (pages iv and v) report the fiscal year 2015, and the prior year, fiscal year 2014. Fiscal year 2014 has not been restated in accordance with the implementation of **GASB 68**, because comparable information is not available.

## **Analysis of Operations**

Revenues: Total revenues for the period of July 1, 2014 through June 30, 2015 were \$7,578,165. The majority of income was received in the form of per pupil revenue, allocated to from the State of Colorado through their charter authorizer Douglas County School District. The School had 972 full time students and received \$6,610,545 for per pupil funding. The rate of per pupil funding increased \$366.09 from 2013-2014 to 2014-2015. The School received \$165,991 in Capital Construction funding from the State of Colorado that supported the building lease expense.

Expenses: Total expenses for the period of July 1, 2014 through June 30, 2015 were \$6,037,867, up 31% from the year ended June 30, 2014. The most significant factor contributing to the increase is a 32% increase in student population.

Net Position: For the period of July 1, 2014 through June 30, 2015 STEM reported an increase in net position of \$626,866 in governmental activities.

Net Position Building Corp - For the period of July 1, 2014 through June 30, 2015 the Building Corporation reported a net decrease of \$760,715 or 45% decrease in business type activities. This decrease is due to the issuance costs associated with the bond refunding and the non-capital equipment expenses related to the final completion of the high school addition.

### **Analysis of Budget-General Fund**

The 2014-2015 STEM school budget was approved and finalized by the Board of Directors in September 2014 and included School expenditures of \$6,881,239. The budget revisions and finalization was based on projected October enrollment, therefore STEM's Per Pupil Revenue tied very closely to budget and STEM's actual expenditures were less than the final budgeted amounts by \$336,510 which is mainly attributed to a reduction in expenses. Change in fund balance was budgeted at \$823,993 and the year closed at \$1,283,335.

### **Capital Assets and Long Term Debt**

As previously stated, 2012A and 2013A bonds were refinanced for a total of \$14,670,000 for the purpose of combining, lowering overall interest rate and removing a balloon payment due in 2018. Capital asset additions for 2014-2015 included completion of the high school and front office renovations. Additional information regarding capital assets and long-term debt is provided in Notes 4 and 5 to the financial statements.

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

The primary factor driving the budget for the School is student enrollment. Enrollment for the 2014-15 school year was 980.5 and projected enrollment for the 2015-16 school year is 1,296. The 2015-16 budget was based on level per pupil funding.

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

## Requests for Information

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

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

	Governmental		Condensed Statement of Net Position Business -Type Activities		Totals	
	2014-2015	2013-2014	2014-2015	2013-2014	2014-2015	2013-2014
<b>Current assets:</b>						
Other Assets	\$ 2,766,363	\$ 1,359,093	\$ 1,119,358	\$ 1,269,338	\$ 3,885,721	\$ 2,628,431
Net capital assets	14,002	18,867	10,767,249	10,883,198	10,781,251	10,902,065
<b>TOTAL ASSETS</b>	<b>2,780,365</b>	<b>1,377,960</b>	<b>11,886,607</b>	<b>12,152,536</b>	<b>14,666,972</b>	<b>13,530,496</b>
<b>Deferred Outflows of Resources</b>	<b>1,560,813</b>	<b>-</b>	<b>308,515</b>	<b>-</b>	<b>1,869,328</b>	<b>-</b>
<b>Current liabilities:</b>	463,131	339,196	287,403	194,317	750,534	533,513
<b>Long-term liabilities:</b>	9,491,891	-	14,370,215	13,660,000	23,862,106	13,660,000
<b>TOTAL LIABILITIES</b>	<b>9,955,022</b>	<b>339,196</b>	<b>14,657,618</b>	<b>13,854,317</b>	<b>24,612,640</b>	<b>14,193,513</b>
<b>Deferred Inflows of Resources</b>	<b>709</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>709</b>	<b>-</b>
<b>Net position:</b>						
Net investment in capital assets	14,002	18,867	(3,464,451)	(2,259,746)	(3,450,449)	(2,240,879)
Restricted for Debt Service	-	-	1,001,955	557,965	1,001,955	557,965
Restricted for Emergencies	227,000	163,000	-	-	227,000	163,000
Unrestricted	(5,855,555)	856,897	-	-	(5,855,555)	856,897
<b>TOTAL NET POSITION</b>	<b>\$ (5,614,553)</b>	<b>\$ 1,038,764</b>	<b>\$ (2,462,496)</b>	<b>\$ (1,701,781)</b>	<b>\$ (8,077,049)</b>	<b>\$ (663,017)</b>

	<b>Condensed Statement of Activities</b>					
	<b>Governmental</b>		<b>Business -Type Activities</b>		<b>Totals</b>	
	<u>2014-2015</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2013-2014</u>
<b>Revenues:</b>						
<b>Per Pupil Revenue</b>	\$ 6,610,545	\$ 4,720,872	\$ -	\$ -	\$ 6,610,545	\$ 4,720,872
<b>District Mill Levy</b>	550,164	420,530	-	-	550,164	420,530
<b>Capital Construction</b>	165,991	70,418	-	-	165,991	70,418
<b>Grants and Contributions</b>						
<b>not Restricted</b>	40,599	35,937	-	-	40,599	35,937
<b>Investment Income</b>	2,008	1,188	109	304	2,117	1,492
<b>Other</b>	17,182	9,153	-	-	17,182	9,153
<b>Charges for Services</b>	191,676	151,960	-	-	191,676	151,960
<b>Operating Grants</b>	-	6,776	-	-	-	6,776
<b>Total Revenues</b>	<u>7,578,165</u>	<u>5,416,834</u>	<u>109</u>	<u>304</u>	<u>7,578,274</u>	<u>5,417,138</u>
<b>Expenses:</b>						
<b>Instructional</b>	3,678,992	2,577,722	-	-	3,678,992	2,577,722
<b>Support</b>	2,358,875	2,047,922	-	-	2,358,875	2,047,922
<b>Building Corporation</b>	-	-	1,674,256	1,261,571	1,674,256	1,261,571
<b>Total Expenditures</b>	<u>6,037,867</u>	<u>4,625,644</u>	<u>1,674,256</u>	<u>1,261,571</u>	<u>7,712,123</u>	<u>5,887,215</u>
<b>Transfers</b>	(913,432)	(615,371)	913,432	615,371	-	-
<b>Change in Net Position</b>	626,866	175,819	(760,715)	(645,896)	(133,849)	(470,077)
<b>Net Position, Beginning</b>	<u>(6,241,419)</u>	<u>862,945</u>	<u>(1,701,781)</u>	<u>(1,055,885)</u>	<u>(7,943,200)</u>	<u>(192,940)</u>
<b>Net Position, Ending</b>	<u>(5,614,553)</u>	<u>1,038,764</u>	<u>(2,462,496)</u>	<u>(1,701,781)</u>	<u>(8,077,049)</u>	<u>(663,017)</u>

## **BASIC FINANCIAL STATEMENTS**

## STEM SCHOOL AND ACADEMY

STATEMENT OF NET POSITION

June 30, 2015

	PRIMARY GOVERNMENT			COMPONENT
	GOVERNMENTAL	BUSINESS-TYPE	TOTAL	UNIT
	ACTIVITIES	ACTIVITIES		STEM ACADEMY
<b>ASSETS</b>				
Cash and Investments	\$ 2,349,455	\$ -	\$ 2,349,455	\$ 23,122
Restricted Cash and Investments	-	1,119,358	1,119,358	-
Accounts Receivable	15,625	-	15,625	-
Prepaid Expenses	401,283	-	401,283	-
Capital Assets, Not Being Depreciated	-	2,370,970	2,370,970	-
Capital Assets, Net of Accumulated Depreciation	14,002	8,396,279	8,410,281	32,326
<b>TOTAL ASSETS</b>	<b>2,780,365</b>	<b>11,886,607</b>	<b>14,666,972</b>	<b>55,448</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pensions, Net of Accumulated Amortization	1,560,813	-	1,560,813	-
Loss on Debt Refunding, Net of Accumulated Amortization	-	308,515	308,515	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,560,813</b>	<b>308,515</b>	<b>1,869,328</b>	<b>-</b>
<b>LIABILITIES</b>				
Accounts Payable	125,245	-	125,245	-
Accrued Salaries and Benefits	337,886	-	337,886	-
Accrued Interest Payable	-	117,403	117,403	-
Noncurrent Liabilities				
Due Within One Year	-	170,000	170,000	-
Due in More Than One Year	-	14,370,215	14,370,215	-
Net Pension Liability	9,491,891	-	9,491,891	-
<b>TOTAL LIABILITIES</b>	<b>9,955,022</b>	<b>14,657,618</b>	<b>24,612,640</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pensions, Net of Accumulated Amortization	709	-	709	-
<b>NET POSITION</b>				
Net Investment in Capital Assets	14,002	(3,464,451)	(3,450,449)	32,326
Restricted for Debt Service	-	1,001,955	1,001,955	-
Restricted for Emergencies	227,000	-	227,000	-
Unrestricted	(5,855,555)	-	(5,855,555)	23,122
<b>TOTAL NET POSITION</b>	<b>\$ (5,614,553)</b>	<b>\$ (2,462,496)</b>	<b>\$ (8,077,049)</b>	<b>\$ 55,448</b>

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

STEM SCHOOL AND ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES CHARGES FOR SERVICES</u>
<b>PRIMARY GOVERNMENT</b>		
<b>Governmental Activities</b>		
Instruction	\$ 3,678,992	\$ 161,676
Supporting Services	<u>2,358,875</u>	<u>30,000</u>
Total Governmental Activities	<u>6,037,867</u>	<u>191,676</u>
<b>Business-Type Activities</b>		
Building Corporation	<u>1,674,256</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 7,712,123</u>	<u>\$ 191,676</u>
<b>COMPONENT UNIT</b>		
STEM Academy	<u>\$ 164,883</u>	<u>\$ 123,252</u>
		GENERAL REVENUES
		Per Pupil Revenue
		District Mill Levy
		Capital Construction
		Grants and Contributions not
		Restricted to Specific Programs
		Investment Income
		Other
		TRANSFERS
		TOTAL GENERAL REVENUES AND TRANSFERS
		CHANGE IN NET POSITION
		NET POSITION, Beginning
		NET POSITION, Ending

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

NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION

PRIMARY GOVERNMENT			COMPONENT UNIT
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	STEM ACADEMY
\$ (3,517,316)	\$ -	\$ (3,517,316)	\$ -
<u>(2,328,875)</u>	<u>-</u>	<u>(2,328,875)</u>	<u>-</u>
(5,846,191)	-	(5,846,191)	-
-	(1,674,256)	(1,674,256)	-
<u>(5,846,191)</u>	<u>(1,674,256)</u>	<u>(7,520,447)</u>	<u>-</u>
-	-	-	(41,631)
6,610,545	-	6,610,545	-
550,164	-	550,164	-
165,991	-	165,991	-
40,599	-	40,599	23,718
2,008	109	2,117	-
17,182	-	17,182	-
<u>(913,432)</u>	<u>913,432</u>	<u>-</u>	<u>-</u>
<u>6,473,057</u>	<u>913,541</u>	<u>7,386,598</u>	<u>23,718</u>
626,866	(760,715)	(133,849)	(17,913)
<u>(6,241,419)</u>	<u>(1,701,781)</u>	<u>(7,943,200)</u>	<u>73,361</u>
<u>\$ (5,614,553)</u>	<u>\$ (2,462,496)</u>	<u>\$ (8,077,049)</u>	<u>\$ 55,448</u>

STEM SCHOOL AND ACADEMY

BALANCE SHEET  
GOVERNMENTAL FUND

June 30, 2015

	<u>GENERAL</u>
<b>ASSETS</b>	
Cash and Investments	\$ 2,349,455
Accounts Receivable	15,625
Prepaid Expenditures	<u>401,283</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>2,766,363</u></b>
<b>LIABILITIES AND FUND BALANCE</b>	
<b>LIABILITIES</b>	
Accounts Payable	\$ 125,245
Accrued Salaries and Benefits	<u>337,886</u>
<b>TOTAL LIABILITIES</b>	<b><u>463,131</u></b>
<b>FUND BALANCE</b>	
Nonspendable Prepaid Expenditures	401,283
Restricted for Emergencies	227,000
Unrestricted, Unassigned	<u>1,674,949</u>
<b>TOTAL FUND BALANCE</b>	<b><u>2,303,232</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ <u>2,766,363</u></b>

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

Total Fund Balance of the Governmental Fund	\$ 2,303,232
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	14,002
Long-term liabilities and related items, including net pension liability (\$9,491,891), deferred outflows of resources \$1,560,813, and deferred inflows of resources (\$709), are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(7,931,787)</u>
Total Net Position of Governmental Activities	<b>\$ <u>(5,614,553)</u></b>

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

## STEM SCHOOL AND ACADEMY

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
Year Ended June 30, 2015

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 7,412,174
State Sources	<u>165,991</u>
TOTAL REVENUES	<u>7,578,165</u>
EXPENDITURES	
Instruction	3,225,896
Supporting Services	<u>3,068,934</u>
TOTAL EXPENDITURES	<u>6,294,830</u>
NET CHANGE IN FUND BALANCE	1,283,335
FUND BALANCE, Beginning	<u>1,019,897</u>
FUND BALANCE, Ending	\$ <u><u>2,303,232</u></u>
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Net Change in Fund Balance of the Governmental Fund	\$ 1,283,335
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 amount represents depreciation expense in the current year.	(4,865)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in the net pension liability (\$1,953,696), pension-related deferred outflows of resources \$1,302,801, and pension-related deferred inflows of resources (\$709) in the current year.	<u>(651,604)</u>
Change in Net Position of Governmental Activities	\$ <u><u>626,866</u></u>

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

## STEM SCHOOL AND ACADEMY

STATEMENT OF NET POSITIONPROPRIETARY FUND

June 30, 2015

	<u>BUILDING CORPORATION</u>
ASSETS	
CURRENT ASSETS	
Restricted Cash and Investments	\$ <u>1,119,358</u>
NONCURRENT ASSETS	
Capital Assets, Not Being Depreciated	2,370,970
Capital Assets, Net of Accumulated Depreciation	<u>8,396,279</u>
TOTAL NONCURRENT ASSETS	<u>10,767,249</u>
TOTAL ASSETS	<u>11,886,607</u>
DEFERRED OUTFLOWS OF RESOURCES	
Loss on Debt Refunding, Net of Accumulated Amortization	<u>308,515</u>
LIABILITIES	
CURRENT LIABILITIES	
Accrued Interest Payable	117,403
Loan Payable, Current Portion	<u>170,000</u>
TOTAL CURRENT LIABILITIES	287,403
NONCURRENT LIABILITIES	
Loan Payable	<u>14,370,215</u>
TOTAL LIABILITIES	<u>14,657,618</u>
NET POSITION	
Net Investment in Capital Assets	(3,464,451)
Restricted for Debt Service	<u>1,001,955</u>
TOTAL NET POSITION	<u>\$ (2,462,496)</u>

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

STEM SCHOOL AND ACADEMY  
STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
Year Ended June 30, 2015

	<u>BUILDING CORPORATION</u>
OPERATING REVENUES	
Lease Income	\$ <u>870,453</u>
OPERATING EXPENSES	
Depreciation	401,373
Debt Service	
Interest and Fees	<u>558,266</u>
TOTAL OPERATING EXPENSES	<u>959,639</u>
NET OPERATING LOSS	<u>(89,186)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment Income	109
Equipment	(267,811)
Debt Issuance Costs	<u>(446,806)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(714,508)</u>
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(803,694)
Capital Contributions	<u>42,979</u>
CHANGE IN NET POSITION	(760,715)
NET POSITION, Beginning	<u>(1,701,781)</u>
NET POSITION, Ending	\$ <u><u>(2,462,496)</u></u>

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

## STEM SCHOOL AND ACADEMY

STATEMENT OF CASH FLOWSPROPRIETARY FUND

Increase (Decrease) in Cash and Cash Equivalents  
Year Ended June 30, 2015

	<u>BUILDING CORPORATION</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Lease Payments Received	\$ 870,453
Loan Interest and Fees Paid	<u>(315,427)</u>
Net Cash Provided by Operating Activities	<u>555,026</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Debt Proceeds	14,536,398
Payments to Escrow Agent	(14,122,772)
Construction and Acquisition of Capital Assets	(404,124)
Equipment Purchased	(267,811)
Debt Issuance Costs Paid	<u>(446,806)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(705,115)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income Received	<u>109</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(149,980)
<b>CASH AND CASH EQUIVALENTS, Beginning</b>	<u>1,269,338</u>
<b>CASH AND CASH EQUIVALENTS, Ending</b>	<u>\$ 1,119,358</u>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Net Operating Loss	\$ (89,186)
Adjustments to Reconcile Net Operating Loss to Net Cash Provided by Operating Activities	
Depreciation	401,373
Amortization of Discount	3,817
Amortization of Loss on Refunding	154,257
Changes in Assets and Liabilities	
Accrued Interest Payable	<u>84,765</u>
Net Cash Provided by Operating Activities	<u>\$ 555,026</u>
<b>NONCASH TRANSACTIONS</b>	
Contributed Capital Assets	<u>\$ 42,979</u>

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

STEM SCHOOL AND ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

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

The Science Technology Engineering and Math (STEM) High School, dba the STEM School and Academy (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District (the “District”).

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

**Reporting Entity**

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

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

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

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

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the School and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The primary government is reported separately from the legally separate component unit for which the School is financially accountable.

STEM SCHOOL AND ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

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

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

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

The School reports the following major funds:

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

STEM SCHOOL AND ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

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

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

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

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

*Cash and Investments* - Investments are reported at fair value. Cash equivalents are defined as investments with an original maturity of ninety days or less.

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

*Prepaid Expenses* - Certain payments to vendors reflect costs applicable to future years and are reported as prepaid expenses. This includes rent of \$400,000 paid in advance for elementary classrooms.

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

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

Buildings and Improvements	10 - 40 years
Equipment	2 - 10 years

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

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

STEM SCHOOL AND ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

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

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

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

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

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

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

**Risk Management**

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

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

**Accountability**

At June 30, 2015, the Corporation had a negative net position of \$2,462,496. Management expects this negative balance to be eliminated as the Corporation's debt is paid.

STEM SCHOOL AND ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE 3: CASH AND INVESTMENTS**

Cash and investments at June 30, 2015, consisted of the following:

Deposits	\$ 876,399
Investments	<u>2,592,414</u>
Total	<u><b>\$ 3,468,813</b></u>

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

Cash and Investments	\$ 2,349,455
Restricted Cash and Investments	<u>1,119,358</u>
Total	<u><b>\$ 3,468,813</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, 2015, the School had bank deposits of \$671,604 collateralized with securities held by the financial institution's agent but not in the School's name.

**Investments**

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

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

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

*Credit Risk* - At June 30, 2015, the Corporation had \$1,119,358 invested in a money market fund rated AAAM by Standard and Poor's.

STEM SCHOOL AND ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

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

**Investments** (Continued)

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

*Local Government Investment Pool* - At June 30, 2015, the School had \$1,473,056 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established by State statutes for local government entities in Colorado to pool surplus funds. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7 as promulgated under the Investment Company Act of 1940, as amended. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

**Restricted Cash and Investments**

At June 30, 2015, the Corporation held investments of \$1,119,358 restricted for future debt service.

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015, is summarized below.

	<u>Balances</u> 6/30/14	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 6/30/15
<b>Governmental Activities</b>				
Capital Assets, Being Depreciated				
Equipment	\$ 283,891	\$ -	\$ -	\$ 283,891
Accumulated Depreciation	<u>(265,024)</u>	<u>(4,865)</u>	<u>-</u>	<u>(269,889)</u>
Governmental Activities Capital Assets, Net	<u><b>\$ 18,867</b></u>	<u><b>\$ (4,865)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 14,002</b></u>
<b>Business-Type Activities</b>				
Capital Assets, Not Being Depreciated				
Land	<u>\$ 2,370,970</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,370,970</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	8,776,026	285,424	-	9,061,450
Equipment	<u>100,875</u>	<u>-</u>	<u>-</u>	<u>100,875</u>
Total Capital Assets, Being Depreciated	<u>8,876,901</u>	<u>285,424</u>	<u>-</u>	<u>9,162,325</u>

STEM SCHOOL AND ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE 4: CAPITAL ASSETS (Continued)**

Capital asset activity for the year ended June 30, 2015, is summarized below.

	<u>Balances</u> 6/30/14	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 6/30/15
<b>Business-Type Activities (Continued)</b>				
Less Accumulated Depreciation				
Buildings and Improvements	(354,050)	(379,741)	-	(733,791)
Equipment	<u>(10,623)</u>	<u>(21,632)</u>	-	<u>(32,255)</u>
Total Accumulated Depreciation	<u>(364,673)</u>	<u>(401,373)</u>	-	<u>(766,046)</u>
 Total Capital Assets, Being Depreciated, Net	 <u>8,512,228</u>	 <u>(115,949)</u>	 -	 <u>8,396,279</u>
 Business-Type Activities Capital Assets, Net	 <u><b>\$10,883,198</b></u>	 <u><b>\$ (115,949)</b></u>	 <u><b>\$ -</b></u>	 <u><b>\$10,767,249</b></u>
 <b>Component Unit</b>				
Capital Assets, Being Depreciated				
Equipment	\$ 100,020	\$ -	\$ -	\$ 100,020
Accumulated Depreciation	<u>(41,092)</u>	<u>(26,602)</u>	-	<u>(67,694)</u>
 Component Unit Capital Assets, Net	 <u><b>\$ 58,928</b></u>	 <u><b>\$ (26,602)</b></u>	 <u><b>\$ -</b></u>	 <u><b>\$ 32,326</b></u>

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

**NOTE 5: LONG-TERM DEBT**

Following is a summary of long-term debt transactions for the year ended June 30, 2015.

	<u>Balances</u> 6/30/14	<u>Additions</u>	<u>Payments</u>	<u>Balances</u> 6/30/15	<u>Due Within</u> <u>One Year</u>
<b>Business-Type Activities</b>					
2012 Building Loan	\$ 9,835,000	\$ -	\$ 9,835,000	\$ -	\$ -
2013 Building Loan	3,825,000	-	3,825,000	-	-
2014 Building Loan	-	14,670,000	-	14,670,000	170,000
2014 Loan Discount	<u>-</u>	<u>(133,602)</u>	<u>(3,817)</u>	<u>(129,785)</u>	<u>-</u>
 Total	 <u><b>\$13,660,000</b></u>	 <u><b>\$14,536,398</b></u>	 <u><b>\$13,656,183</b></u>	 <u><b>\$14,540,215</b></u>	 <u><b>\$ 170,000</b></u>

STEM SCHOOL AND ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**NOTE 5: LONG-TERM DEBT (Continued)**

On November 20, 2014, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$14,670,000 Charter School Refunding Revenue Bonds, Series 2014. Bond proceeds were used to refund the outstanding Charter School Revenue Bonds, Series 2012 and 2013, originally issued to acquire land and a building and to construct improvements to the building for use as an educational facility.

Bond proceeds in the amount of \$14,122,772 were placed in an irrevocable trust with an escrow agent to provide for all future debt service requirements of the 2012 and 2013 Bonds. The refunding allowed the Corporation to amortize a balloon payment over multiple years, and resulted in the recognition of an accounting loss of \$462,772.

The School is obligated under a lease agreement to make monthly payments to the Corporation for using the facility. The Corporation is required to make equal loan payments to the Trustee for payment of the bonds. Interest accrues on the bonds at rates ranging from 4% to 5.125% per annum, and is payable semi-annually on May 1 and November 1. Principal payments are due annually on November 1, through 2049.

Future debt service requirements for the bonds are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 170,000	\$ 693,818	\$ 863,818
2017	190,000	686,118	876,118
2018	195,000	678,118	873,118
2019	205,000	669,718	874,718
2020	215,000	661,018	876,018
2021 - 2025	1,200,000	3,211,090	4,411,090
2026 - 2030	1,500,000	2,924,192	4,424,192
2031 - 2035	1,845,000	2,538,812	4,383,812
2036 - 2040	2,340,000	2,030,160	4,370,160
2041 - 2045	2,985,000	1,367,535	4,352,535
2046 - 2050	<u>3,825,000</u>	<u>509,812</u>	<u>4,334,812</u>
Total	<b><u>\$ 14,670,000</u></b>	<b><u>\$ 15,970,391</u></b>	<b><u>\$ 30,640,391</u></b>

**NOTE 6: DEFINED BENEFIT PENSION PLAN**

**General Information**

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

STEM SCHOOL AND ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

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

**General Information** (Continued)

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

Retirees 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 the plan has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year. Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

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

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

*Contributions* - The School and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The School's contribution rate for calendar years 2014 and 2015 was 17.45% and 18.35%, respectively. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 7). The School's contributions to the SDTF for the year ended June 30, 2015, were \$572,134, 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, 2015, the School reported a net pension liability of \$9,491,891, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation at December 31, 2013. Standard update procedures were used to roll forward the total pension liability to December 31, 2014. The School's proportion of the net pension liability was based on the School's contributions to the SDTF for the calendar year ended December 31, 2014, relative to the contributions of all participating employers. At December 31, 2014, the School's proportion was 0.0700334985%, which was an increase of 0.0109334539% from its proportion measured at December 31, 2013.

STEM SCHOOL AND ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**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 the year ended June 30, 2015, the School recognized pension expense of \$1,200,511. At June 30, 2015, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 709
Net difference between projected and actual earnings on plan investments	218,283	-
Change in proportion	1,017,651	-
Contributions subsequent to the measurement date	<u>324,879</u>	<u>-</u>
Total	<u><b>\$ 1,560,813</b></u>	<u><b>\$ 709</b></u>

School contributions subsequent to the measurement date of \$324,879 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

2016	\$ 431,216
2017	431,216
2018	318,222
2019	<u>54,571</u>
Total	<u><b>\$ 1,235,225</b></u>

*Actuarial Assumptions* - The actuarial valuation at December 31, 2013, determined the total pension liability using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

Price inflation	2.8%
Real wage growth	1.1%
Wage inflation	3.9%
Salary increases, including wage inflation	3.9% - 10.1%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.50%
Future post-retirement benefit increases:	
Hired prior to 1/1/07	2%
Hired after 12/31/06	ad hoc

STEM SCHOOL AND ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**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 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.

The actuarial assumptions used in the December 31, 2013, 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.

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 presented to the PERA governing board on November 15, 2013, 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>10 Year Expected Geometric Real Rate of Return</u>
U.S. Equity - Large Cap	26.76%	5.00%
U.S. Equity - Small Cap	4.40%	5.19%
Non U.S. Equity - Developed	22.06%	5.29%
Non U.S. Equity - Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Government/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	<u><u>100.00%</u></u>	

STEM SCHOOL AND ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2015

**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)**

*Discount Rate* - The discount rate used to measure the total pension liability was 7.5%. 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 percent, the employer contribution rate will decrease 1% each year, to a minimum of 10.15%. Based on those assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments to current participants. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In addition, the discount rate did not change from the prior measurement date.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* - The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as the School's proportionate share of the net pension liability if it were calculated using a discount that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate, as follows:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate share of net pension liability	<b><u>\$ 12,515,926</u></b>	<b><u>\$ 9,491,891</u></b>	<b><u>\$ 6,960,723</u></b>

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

**NOTE 7: POSTEMPLOYMENT HEALTHCARE BENEFITS**

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

*Funding Policy* - The School is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2015, 2014 and 2013 was \$32,600, \$27,144 and \$21,130, respectively, equal to the required amounts for each year.

STEM SCHOOL AND ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgments**

The School participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the appropriate government. At June 30, 2015, significant amounts of related expenditures have not been audited but management believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

**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 School believes it is in compliance with the Amendment. As required by the Amendment, the School has established a reserve for emergencies representing 3% of qualifying expenditures. At June 30, 2015, the reserve of \$227,000 was reported as restricted fund balance in the General Fund.

**Lease Agreement**

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

The School prepaid rent for the initial twelve months of the agreement in the amount of \$400,000, which is reported as a prepaid expense in the financial statements.

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

Year Ended June 30,

2016	\$ 333,333
2017	566,667
2018	700,000
2019	744,000
2020	773,760
2021 - 2025	4,358,571
2026	<u>157,912</u>
Total	<u><b>\$ 7,634,243</b></u>

STEM SCHOOL AND ACADEMY  
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June 30, 2015

**NOTE 9: CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2015, the School adopted the standards of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, net position of the governmental activities at June 30, 2014, was restated to reflect the cumulative effect of adopting the standards.

Certain balances of deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2014, were not available and have not been reported in the financial statements.

	<u>Governmental Activities</u>
Net Position, June 30, 2014, as Originally Stated	\$ 1,038,764
Deferred Outflows of Resources	258,012
Net Pension Liability	<u>(7,538,195)</u>
Net Position, June 30, 2014, as Restated	<u><b>\$ (6,241,419)</b></u>

**REQUIRED SUPPLEMENTARY INFORMATION**

STEM SCHOOL AND ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
AND CONTRIBUTIONS

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO SCHOOL DIVISION TRUST FUND

June 30, 2015

	<u>12/31/14</u>	<u>12/31/13</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY		
School's Proportion of the Net Pension Liability	0.0700334985%	0.0591000446%
School's Proportionate Share of the Net Pension Liability	\$ 9,491,891	\$ 7,538,195
School's Covered-Employee Payroll	\$ 2,933,901	\$ 2,382,510
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63%	64%
	<u>6/30/15</u>	<u>6/30/14</u>
SCHOOL CONTRIBUTIONS		
Statutorily Required Contribution	\$ 539,534	\$ 424,023
Contributions in Relation to the Statutorily Required Contribution	<u>(539,534)</u>	<u>(424,023)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>
School's Covered-Employee Payroll	3,196,033	2,653,206
Contributions as a Percentage of Covered-Employee Payroll	16.88%	15.98%

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

See the accompanying Independent Auditors' Report.

## STEM SCHOOL AND ACADEMY

BUDGETARY COMPARISON SCHEDULEGENERAL FUND

Year Ended June 30, 2015

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE Positive (Negative)
<b>REVENUES</b>				
Local Sources				
Per Pupil Revenue	\$ 6,414,400	\$ 6,569,025	\$ 6,610,545	\$ 41,520
District Mill Levy	498,750	543,923	550,164	6,241
Student Fees and Activities	142,840	129,980	161,676	31,696
Contributions and Donations	10,000	22,000	40,599	18,599
Investment Income	700	1,650	2,008	358
Rental Income	10,984	11,305	30,000	18,695
Other	-	-	17,182	17,182
	<u>7,077,674</u>	<u>7,277,883</u>	<u>7,412,174</u>	<u>134,291</u>
State Sources				
Capital Construction	<u>161,500</u>	<u>177,450</u>	<u>165,991</u>	<u>(11,459)</u>
<b>TOTAL REVENUES</b>	<u>7,239,174</u>	<u>7,455,333</u>	<u>7,578,165</u>	<u>122,832</u>
<b>EXPENDITURES</b>				
Salaries	3,486,501	3,389,294	3,569,549	(180,255)
Employee Benefits	974,975	887,449	792,979	94,470
Purchased Services	1,876,754	1,799,248	1,692,548	106,700
Supplies and Materials	310,889	282,571	204,319	78,252
Property	190,000	170,658	23,041	147,617
Other	<u>42,120</u>	<u>102,120</u>	<u>12,394</u>	<u>89,726</u>
<b>TOTAL EXPENDITURES</b>	<u>6,881,239</u>	<u>6,631,340</u>	<u>6,294,830</u>	<u>336,510</u>
<b>NET CHANGE IN FUND BALANCE</b>	357,935	823,993	1,283,335	459,342
FUND BALANCE, Beginning	<u>792,122</u>	<u>1,019,897</u>	<u>1,019,897</u>	<u>-</u>
FUND BALANCE, Ending	<u>\$ 1,150,057</u>	<u>\$ 1,843,890</u>	<u>\$ 2,303,232</u>	<u>\$ 459,342</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2015

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

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

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

**Budgetary Information**

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

The School adheres to the following procedures in establishing 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.