

THE CONNECT CHARTER SCHOOL
PUEBLO, COLORADO
BASIC FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

June 30, 2017

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Independent Auditor's Report

January 16, 2018

Board of Education
The Connect Charter School
Pueblo, Colorado

We have audited the accompanying financial statements of the governmental activities of The Connect Charter School, a component unit of Pueblo County School District No. 70, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School'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 judgement, 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 of The Connect Charter School as of June 30, 2017, and the respective changes in financial position 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 on pages 3 through 6, the budgetary comparison information, the schedule of the School's proportionate share, and the schedule of the School's contributions on pages 28 through 30 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.

Harren, Ross & DeNardo, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS
THE CONNECT CHARTER SCHOOL
JUNE 30, 2017

As management of The Connect Charter School (the School), we offer readers to the School's financial statements this narrative and analysis of the financial activities of the School for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the basic financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

The total net position decreased during the current year by \$848,318, from (\$1,701,674) to (\$2,549,992). Of this amount, \$71,737 is invested in capital assets or restricted by law.

The School's General Fund balance increased during the current year by \$141,872 from \$1,528,868 to \$1,670,740. Of this amount, \$56,500 is reserved for emergencies.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to the financial statements. The MD&A provides an analysis of the School's overall financial position and results of the previous year's operations to assist the users of financial statements to assess whether the government's finances have improved or deteriorated. The basic financial statements include two kinds of statements that present different views of the district.

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School, reporting the School's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the financial statements.

Government-wide Financial Statements

The government-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position presents information on all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the School's net position and how it has changed. Net position – the difference between the School's assets and liabilities is one way to measure the School's financial health or position.

- Over time, increases or decreases in the School's net position are an indicator of whether its financial position is improving or deteriorating.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
THE CONNECT CHARTER SCHOOL
JUNE 30, 2017

Fund Financial Statements

The Fund financial statements provide more detailed information about the School's general fund. 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 only has one type of fund – general fund.

Notes to the Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 through 27 of this report.

Budgetary Comparisons

The Connect Charter School adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided on page 28 of this report.

Government-wide Financial Analysis – Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2017, the combined liabilities exceeded assets by \$2,549,992. Of the (\$2,549,992), \$56,500 is restricted to comply with Tabor. An additional \$15,237 is invested in capital assets.

The following table provides a summary of the School's government wide net position for 2017.

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 1,832,067	\$ 1,706,159
Non-current assets	15,237	12,831
Total Assets	<u>1,847,304</u>	<u>1,718,990</u>
 <u>Deferred Outflow of Resources</u>		
Related to Pensions	<u>2,490,919</u>	<u>466,845</u>
 <u>Liabilities</u>		
Current liabilities	161,327	177,291
Long-term liabilities	<u>6,274,888</u>	<u>3,215,095</u>
Total Liabilities	<u>6,436,215</u>	<u>3,392,386</u>
 <u>Deferred Inflow of Resources</u>		
Related to Pensions	<u>452,000</u>	<u>495,123</u>
 <u>Net Position</u>		
Invested in capital assets, net of related debt	15,237	12,831
Restricted for emergency	56,500	50,800
Unrestricted	<u>(2,621,729)</u>	<u>(1,765,305)</u>
Total Net Position	<u>\$ (2,549,992)</u>	<u>\$ (1,701,674)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
THE CONNECT CHARTER SCHOOL
JUNE 30, 2017

Government-wide Financial Analysis (Continued)

The assets of the School are classified as current assets and capital assets. Cash and receivables are current assets. These assets are available to provide resources for the near-term operations of the School. A portion of School's net position reflects its investment in capital assets. These assets include buildings and improvements. Capital assets are discussed in greater detail in the section titled, capital assets, elsewhere in this analysis. In addition to assets there are deferred outflows relating to the pension. Deferred outflows represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources until then.

Current and long-term liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable, accrued salaries and benefits. Long term liabilities include the net pension liability. The liquidation of current liabilities is anticipated to be either from currently available resources, current assets, or new resources that become available during fiscal year 2018. In addition to liabilities there are deferred inflows relating to the pension. Deferred inflows represent an acquisition of net position that applies to a future period and will not be recognized as revenue until then.

The net position is a negative (\$2,549,992). The negative balance is due primarily to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$6,274,888, representing Connect School's proportionate share of PERA's net pension liability.

Changes in Net Position

The following table summarizes the changes in the School's net position for governmental activities for the year ended June 30, 2017

Revenue

	<u>2017</u>	<u>2016</u>
General Revenue		
School finance act	\$ 1,798,927	\$ 1,642,872
Other income	29,120	-
Earnings on investments	3	2
Total Revenue	<u>1,828,050</u>	<u>1,642,874</u>
Program Expenses		
Direct Instruction	1,708,669	1,280,266
Indirect Instruction	774,510	516,569
Custodial and Maintenance	122,495	90,740
Other Support Services	42,939	27,643
General Administration	27,755	23,892
Total Expenses	<u>2,676,368</u>	<u>1,939,110</u>
Change in Net Position	(848,318)	(296,236)
Net position beginning of year	<u>(1,701,674)</u>	<u>(1,405,438)</u>
Net position end of year	<u>\$ (2,549,992)</u>	<u>\$ (1,701,674)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
THE CONNECT CHARTER SCHOOL
JUNE 30, 2017

Financial Analysis of the School's Funds

As noted earlier, The Connect Charter School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview - The focus of the School's general fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the schools' 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 \$1,670,740, an increase of \$141,872.

General Fund Budgetary Highlights

The School's budget is prepared according to Colorado statutes.

For 2017 management appropriated \$3,223,282 for general fund expenditures and other financing uses.

2017 General Fund Budget			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>
Revenues	\$ 1,718,669	\$ 1,703,174	\$ 1,828,050
Expenditures	\$ 3,238,777	\$ 3,223,282	\$ 1,686,178

Actual expenditures were less than the anticipated budget and less than revenues, which caused the ending fund balance to increase \$141,872 over the prior year before transfers.

Capital Assets

The School's investment in capital assets for its governmental activities as of June 30, 2017 totals \$15,237 (net of accumulated depreciation). This investment includes all buildings and improvements.

There were no major capital asset events during the current fiscal year.

Economic Factors and Next Year's Budget and Rates

The primary factor driving the budget for The Connect Charter School is student enrollment. Enrollment for the 2016-17 school year was 269. The enrollment project for the 2017-18 school year is expected to be approximately 270. This factor was considered when preparing the School's budget for 2017-18.

Requests for Information

This financial report is designed to provide a general overview of The Connect Charter School's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in the report or for additional financial information should be addressed to: The Connect Charter School, HR/Finance Director, 104 East 7th Street, Pueblo, CO 81003.

BASIC FINANCIAL STATEMENTS

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

STATEMENT OF NET POSITION
THE CONNECT CHARTER SCHOOL
June 30, 2017

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash in bank and on hand	\$ 639,903
Due from primary government	1,192,164
Capital Assets - net of depreciation	<u>15,237</u>
Total Assets	<u>1,847,304</u>
 <u>Deferred Outflow of Resources</u>	
Related to pensions	<u>2,490,919</u>
 <u>Liabilities</u>	
Accounts payable	8,130
Accrued salaries and P.E.R.A.	153,197
Long term liabilities:	
Net Pension Liability	<u>6,274,888</u>
Total Liabilities	<u>6,436,215</u>
 <u>Deferred Inflow of Resources</u>	
Related to pensions	<u>452,000</u>
 <u>Net Position</u>	
Invested in capital assets - net of debt	15,237
Restricted - Tabor Reserve	56,500
Unrestricted	<u>(2,621,729)</u>
Total Net Position	<u>\$ (2,549,992)</u>

The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF ACTIVITIES
THE CONNECT CHARTER SCHOOL
For the year ended June 30, 2017

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Direct instruction	\$ 1,708,669	\$ -	-	\$ -	(1,708,669)
Indirect instruction	774,510	-	-	-	(774,510)
Custodial and maintenance	122,495	-	-	-	(122,495)
Other support services	42,939	-	-	-	(42,939)
General administration	27,755	-	-	-	(27,755)
Total Governmental Activities	2,676,368	-	-	-	(2,676,368)
General Revenues					
School finance act					1,798,927
Interest income					3
Other income					29,120
Total General Revenues					1,828,050
Changes in Net Position					(848,318)
Net Position - July 1					(1,701,674)
Net Position - June 30					\$ (2,549,992)

The accompanying notes to financial statements are an integral part of this statement.

GOVERNMENTAL FUND
FINANCIAL STATEMENTS

BALANCE SHEET
THE CONNECT CHARTER SCHOOL
June 30, 2017

	<u>General Fund</u>
<u>Assets</u>	
Cash in bank	\$ 639,903
Due from primary government	1,215,584
Total Assets	<u>1,855,487</u>
<u>Liabilities</u>	
Accounts payable	8,130
Accrued salaries and P.E.R.A.	153,197
Due to primary government	23,420
Total Liabilities	<u>184,747</u>
<u>Fund Balances</u>	
Restricted - Tabor Reserve	56,500
Unassigned	1,614,240
Total Fund Balances	<u>1,670,740</u>
Total Liabilities and Fund Balances	<u>\$ 1,855,487</u>

The accompanying notes to financial statements are an integral part of this statement.

RECONCILIATION OF BALANCE SHEET
TO THE STATEMENT OF NET POSITION
THE CONNECT CHARTER SCHOOL
June 30, 2017

Total Fund Balances - General Fund	\$ 1,670,740
Capital assets used by Connect School are not considered current financial resources and, therefore, are not reported in the governmental funds.	15,237
Deferred outflows of resources used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. Contributions subsequent to measurement date, the difference between expected and actual investment earnings.	2,490,919
Deferred inflows of resources used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. Difference between expected and actual experience and the change in proportionate share.	(452,000)
The long-term liability for pension is not due and payable in the current period and, therefore, not reported in the governmental funds.	<u>(6,274,888)</u>
Total Net Position - Government Activities	<u>\$ (2,549,992)</u>

The accompanying notes to financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
THE CONNECT CHARTER SCHOOL
June 30, 2017

	<u>General Fund</u>
Revenues	
Other sources	\$ 29,123
Fund allocations	<u>1,798,927</u>
Total Revenues	<u>1,828,050</u>
Expenditures	
Direct instruction	1,070,470
Indirect instruction	476,731
Custodial and maintenance	72,865
Other support services	33,013
General administration	27,755
Capital outlay	<u>5,344</u>
Total Expenditures	<u>1,686,178</u>
Excess of Revenues Over (Under) Expenditures	141,872
 Fund Balances - July 1	 <u>1,528,868</u>
 Fund Balances - June 30	 <u>\$ 1,670,740</u>

The accompanying notes to financial statements are an integral part of this statement.

RECONCILIATION OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES

THE CONNECT CHARTER SCHOOL

For the year ended June 30, 2017

Total Change in Fund Balances - General Fund	\$ 141,872
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$5,344) exceeds depreciation expense (\$2,938).

2,406

Net pension related items are reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.

(992,596)

Total Change in Net Position - Government Activities	<u>\$ (848,318)</u>
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The accompanying notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS
THE CONNECT CHARTER SCHOOL
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Connect Charter School (the “School”) was formed pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Pueblo County School District No. 70 (the “District”) in the State of Colorado.

The accounting policies of the School conform to generally accepted accounting principles, as applicable to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the more significant policies.

Reporting Entity

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

Based upon the application of this criteria, no additional organizations are included in the School’s reporting entity. The School is a component unit of the Pueblo County School District #70. The School’s charter is 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 of the activities of the School. 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 a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of Accounting, and Financial Statement Presentations

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented 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. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

NOTES TO FINANCIAL STATEMENTS (Continued)
THE CONNECT CHARTER SCHOOL
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 school.

Fund Accounting

The accounts of the School are organized into one fund - the general fund.

General Fund

The General Fund records financial transactions for the current educational operations of the School. All revenues and expenditures are accounted for in this fund.

Cash and Cash Equivalents

The School considers all highly liquid investments with a maturity of three months or less when purchased, net of outstanding checks in excess of bank balance, to be cash equivalents.

Budgets and Budgetary Data

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Formal budgetary accounting is employed by Pueblo County School District No. 70 as a management control for all funds, including The Connect Charter School. Annual operating budgets are adopted each fiscal year through the passage of an annual appropriation resolution. For each legally adopted budget, budgetary control exists at the total fund level.
- b. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- c. All unencumbered budget appropriations lapse at the end of each fiscal year.

Capital Assets

All capital assets are capitalized at cost or estimated historical cost. Donated assets are recorded at fair market value at the time of donation. The costs of normal maintenance, repairs and minor renovations are recorded as expenditures when incurred. Major additions and improvements are capitalized. The proceeds from the sale of assets used in the operations of the governmental fund types are recorded as revenues in the general fund. The School does not capitalize interest on the construction of capital assets. The School maintains a capitalization threshold of \$5,000.

Capital assets are depreciated using the straight-line method over the estimated useful lives of the assets. Depreciation of all capital assets used in governmental activities and by proprietary funds is charged as an expense against their operations. Depreciation is recorded starting in the month the asset is placed in service. Estimated useful lives are as follows:

	<u>ESTIMATED USEFUL LIFE</u>
Buildings and improvements	20 to 50 years
Furniture and fixtures	5 to 20 years
Automotive equipment	5 to 10 years

NOTES TO FINANCIAL STATEMENTS (Continued)
THE CONNECT CHARTER SCHOOL
June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflow / Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position 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 liabilities, the statement of net position 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Accounts Payable

Accounts payable represent obligations due to vendors for goods delivered or services rendered prior to June 30, 2017.

Compensated Absences

The Connect Charter School follows the Pueblo County School District No. 70's policy for compensated absences. The School District affords certain employees sick leave benefits which are vesting, accumulating rights and are carried forward to subsequent years. Payment of unused sick leave, or liability of the School District to the employee, if any, is payable only upon termination of an employee with ten years of continuous service to the District. The benefits are paid at varied rates applied to varied maximum accumulated days, depending on the employee group. The sick pay benefits are recognized at the time of the employee absence (i.e.: days off for sick leave) which is in accordance with generally accepted accounting principles for these on-going benefits.

The School District also affords certain employees vacation benefits. These benefits are earned based upon the length of service and accumulation is limited to a maximum of 40 days. Accrued vacation is paid to employees upon termination of employment.

As of June 30, 2017 Connect Charter School has no employees with accrued leave.

NOTE B - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balances - total governmental funds and net position - governmental activities as reported in the government-wide statement of net position. Additionally, the governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net change in fund balances - total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities.

These reconciliations detail items that require adjustment to convert from the current resources measurement and modified accrual basis for governmental fund statements to the economic resources measurement and full accrual basis used for government-wide statements. However, certain items having no effect on measurement and basis were eliminated from the government fund statements during the consolidation of governmental activities.

NOTES TO FINANCIAL STATEMENTS (Continued)
THE CONNECT CHARTER SCHOOL
June 30, 2017

NOTE C - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Risk Management

The School is exposed to various risks of loss related to torts; theft of; damage to; and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The School carries commercial insurance for such risks, including workers' compensation. There were no settled claims from these risks during the fiscal year.

NOTE D - CASH DEPOSITS AND INVESTMENTS

Deposits

Colorado State statutes govern Connect's deposits of cash. The statutes specify eligible depositories for public cash deposits which must be Colorado institutions and must maintain federal insurance (FDIC or FSLIC) on deposits held. Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets maintained by another institution or held in trust for all of its local government depositors as a group with a market value at least equal to the total uninsured deposits held by that institution. The State Regulatory Commissions for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pool. At June 30, 2017, the Connect School had deposits in excess of \$250,000 in the amount of \$367,287. These deposits are required to be collateralized under State statutes.

Custodial credit risk is the risk that, in the event of a bank failure, the School's deposits may not be returned to it. The Schools's policy for custodial risk parallels Colorado statutes.

A summary of deposits held at year end follows:

	<u>Deposits</u>	<u>Carrying Amount</u>	<u>Less Than One Year</u>	<u>Less Than Five Years</u>
Checking		<u>\$ 639,903</u>	<u>\$ 639,903</u>	<u>\$ -</u>

Investments

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local government entities may invest. The law outlines the types of securities that public entities in Colorado may acquire and hold as investments. These include U.S. government and agency securities, certain bonds of political subdivisions, banker's acceptances, commercial paper, local government investment pools, repurchase agreements, money market funds and guaranteed insurance contracts. The statute also includes a provision limiting any investment to a five year maturity unless the governing body authorizes a longer period.

Interest rate risk - The School's policy of limiting investment maturities as a means of managing its exposure to fair value losses arising from increasing rates parallels Colorado statutes. Specifically, all securities are limited to a maximum maturity of five years from the date of purchase unless the governing body authorizes a longer period.

Credit risk - The School does not have a policy that would further limit its choices beyond the requirements of Colorado statutes. The School had no investments at June 30, 2017.

NOTES TO FINANCIAL STATEMENTS (Continued)
THE CONNECT CHARTER SCHOOL
June 30, 2017

NOTE E - CHANGES IN CAPITAL ASSETS

The following is a summary of the changes in capital assets for the year ended June 30, 2017:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
Depreciable Assets:				
Bldg. and improvements	\$ 54,225	\$ 5,344	\$ -	\$ 59,569
Less Accumulated Depreciation for:				
Bldg. and improvements	<u>41,394</u>	<u>2,938</u>	<u>-</u>	<u>44,332</u>
Total Capital Assets, Net	<u>\$ 12,831</u>	<u>\$ 2,406</u>	<u>\$ -</u>	<u>\$ 15,237</u>

Depreciation expense was charged to functions/ programs of the School as follows:

Custodial and maintenance	<u>\$ 2,938</u>
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NOTE F - ACCRUED SALARIES AND P.E.R.A.

Salaries of certain contractually employed personnel are paid over a twelve month period, but are earned during the school year, a period of approximately nine months. The amounts representing accrued salaries are those earned through June 30, 2017, but not yet paid by the School. Accrued P.E.R.A. represents the School District's 19.65% contribution on the accrued salaries. At June 30, 2017 accrued salaries and P.E.R.A. have been recognized as a liability in the general fund.

The accrued salaries and P.E.R.A. at June 30, 2017 are:

Component Unit - Connect Charter School	<u>\$ 153,197</u>
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NOTE G - DEFINED BENEFIT PENSION PLAN

Summary of Significant Policies

Pensions

The Connect School participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-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 SCHDTF have been determined using the economic resources measurement focus and 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.

NOTES TO FINANCIAL STATEMENTS (Continued)
THE CONNECT CHARTER SCHOOL
June 30, 2017

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan

Plan Description

Eligible employees of the Connect Charter School are provided with pensions through the School Division Trust Fund (SCHDTF) - a cost-sharing multiple 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 PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by the 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 the federal Internal Revenue Code.

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 the 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 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 lessor 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 PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lessor 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 SCHDTF.

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.

NOTES TO FINANCIAL STATEMENTS (Continued)
THE CONNECT CHARTER SCHOOL
June 30, 2017

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

Benefits Provided (Continued)

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 the service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions

Eligible employees and Connect Charter School are required to contribute to the SCHDTF 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. 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 Health Care Trust Fund as specified in C.R.S. § 24-51-208 (1)(f)	(1.02)%	(1.02)%
Amount apportioned to SCHDTF	9.13%	9.13%
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 SCHDTF	18.13%	18.63%

Rates are expressed as a percentage of salary as defined in CRS § 24-51-101(42).

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Connect Charter School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from Connect Charter School were \$181,687 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 Connect Charter School reported a liability of \$6,274,888 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 Connect Charter School's proportion of the net pension liability was based on Connect's contributions to the SCHDTF for calendar year 2016 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2016, the Connect Charter School's proportion was .0210779492 percent, which was an increase of .000509736 percent from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017 the Connect Charter School recognized pension expense of \$992,596. At June 30, 2017, the Connect Charter School reported deferred outflows of the resources and deferred inflows related to pensions from the following sources:

NOTES TO FINANCIAL STATEMENTS (Continued)
THE CONNECT CHARTER SCHOOL
June 30, 2017

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 110,161	\$ 101
Changes of assumptions or other inputs	1,759,650	28,255
Net difference between projected and actual earnings on pension plan investments	521,786	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	5,166	423,644
Contributions subsequent to the measurement date	94,156	-
Total	<u>\$ 2,490,919</u>	<u>\$ 452,000</u>

\$94,156 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	
2018	\$ 505,519
2019	581,361
2020	592,274
2021	265,609
	<u>\$ 1,944,763</u>

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

NOTES TO FINANCIAL STATEMENTS (Continued)
THE CONNECT CHARTER SCHOOL
June 30, 2017

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

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

Based on the 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%
Real wage growth	1.10%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50% - 9.70%
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25%
Discount rate	5.26%
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07;	2.00%
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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 females rates.

NOTES TO FINANCIAL STATEMENTS (Continued)
THE CONNECT CHARTER SCHOOL
June 30, 2017

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

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

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.

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 3.5 percent per year.

Several factors were considered in evaluating the long-term rate of return assumption for the SCHDTF, 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.

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:

NOTES TO FINANCIAL STATEMENTS (Continued)

THE CONNECT CHARTER SCHOOL

June 30, 2017

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

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

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 5.26 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:

- 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 3.5%.
- 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.

NOTES TO FINANCIAL STATEMENTS (Continued)
THE CONNECT CHARTER SCHOOL
June 30, 2017

NOTE G - DEFINED BENEFIT PENSION PLAN (Continued)

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

Based on the above assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.86 percent, resulting in a discount rate of 5.26 percent.

As of the prior measurement date, the projection test indicated the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.50 percent was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use a municipal bond index rate and the discount rate was 7.50 percent, 2.24 percent higher compared to the current measurement date.

Sensitivity of the Connect Charter 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 5.26 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 (4.26%) or 1 percentage point higher (6.26%) than the current rate:

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	\$ 7,890,470	\$ 6,274,888	\$ 4,959,055

Pension Plan Fiduciary Net Position

Detailed information about the SCHDTF'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.

NOTES TO FINANCIAL STATEMENTS (Continued)
THE CONNECT CHARTER SCHOOL
June 30, 2017

NOTE H - DEFINED CONTRIBUTION PENSION PLAN

Voluntary Investment Program

Plan Description

Employees of Connect Charter School that are also members of the SCHDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the Plan. That report can be found at www.copera.org/investments/pera-financial-reports.

Funding Policy

The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. Employees are immediately vested in their own contributions and investment earnings. For the year ended June 30, 2017 program members contributed \$152 for the Voluntary Investment program.

Other Post-Employment Benefits

Health Care Trust Fund

Plan Description

The Connect Charter School contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The 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 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 report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy

The Connect Charter 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 Connect Charter School are established under the Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S. as amended. For the years ending June 30, 2017, 2016 and 2015 the Connect Charter School's contributions to the HCTF were \$10,047, \$9,581 and \$8,533, respectively, equal to their required contributions for each year.

NOTE I - INTERFUND TRANSACTIONS

Due From / To Primary Government:

The amount due from the primary government is \$1,215,584 at June 30, 2017. The amount due to the primary government is \$23,420 at June 30, 2017.

NOTES TO FINANCIAL STATEMENTS (Continued)
THE CONNECT CHARTER SCHOOL
June 30, 2017

NOTE J - FUND BALANCE

Government-wide Net Position:

Government-wide net position is divided into three components:

- Invested in capital assets, net of related debt - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net position - consists of net position that is restricted by the School's creditors (for example, through debt covenants), by state enabling legislation (through restricts on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted - all other net position is reported in this category.

Governmental Fund Balances

Fund balance categories are used to make the nature and extent of the constraints placed on a government's fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

- *Non-spendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as inventory) or is legally or contractually required to be maintained intact.
- *Restricted fund balance* - The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.
- *Committed fund balance* - The portion of fund balance constrained for specific purposes according to limitations imposed by the School's highest level of decision making authority, Board of Directors, prior to the end of the current year. The constraint may be removed or changed only through formal action of the Board of Directors.
- *Assigned fund balance* - The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the Board of Directors or other individuals authorized to assign funds to be used for a specific purpose.
- *Unassigned fund balance* - The residual portion of fund balance that does not meet any of the above criteria. The School will only report a positive unassigned fund balance.

If both restricted and unrestricted amounts of fund balance are available for use when an expenditure is incurred, it is the School's policy to use restricted amounts first. Unrestricted fund balance will be used in the following order; committed, assigned and unassigned.

NOTE K - COMMITMENTS AND CONTINGENCIES

Tax, Revenue, Spending and Debt Limitation

In November, 1992 Colorado voters amended Article X of the Colorado Constitution by adding Section 20, commonly known as the Taxpayer's Bill of Rights (TABOR). TABOR imposes tax raising, revenue, spending and debt limitations on local government entities within the State of Colorado. These limitations became effective for the first fiscal year beginning after December 31, 1992, which for the School was the year ended June 30, 1994.

NOTES TO FINANCIAL STATEMENTS (Continued)
THE CONNECT CHARTER SCHOOL
June 30, 2017

NOTE K - COMMITMENTS AND CONTINGENCIES (Continued)

Tax, Revenue, Spending and Debt Limitation (Continued)

On November 4, 1997, the School passed a referendum regarding the revenue and spending limits imposed by Article X, section 20 of the Colorado constitution. The referendum allows the School, without increasing or adding any taxes of any kind, to collect, retain and expend all revenues and other funds collected during 1997 and thereafter. The School believes it is in compliance with the tax raising, revenue, spending, debt and other limitations.

In addition to the tax raising, revenue, spending and debt limitation provisions of TABOR, there is also a requirement that every entity to which TABOR applies establish an "emergency reserve". To be used for declared emergencies only, each entity must reserve 3% or more of its fiscal year spending excluding bonded debt service. For the year ended June 30, 2017, the School's reserve requirement was approximately \$56,500 which represents 3% of fiscal year spending.

NOTE L - DEFICIT NET POSITION

The net position as reported in the government-wide financial statements is in a deficit position of \$2,549,992 due to the School's share of the net pension liability of \$6,274,888.

REQUIRED SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGET BASIS)
 THE CONNECT CHARTER SCHOOL
 For the year ended June 30, 2017

	<u>Budgeted Amount</u>			Variance With Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Other sources	\$ -	\$ -	\$ 29,123	\$ 29,123
Fund allocations	<u>1,718,669</u>	<u>1,703,174</u>	<u>1,798,927</u>	<u>95,753</u>
Total Revenues	<u>1,718,669</u>	<u>1,703,174</u>	<u>1,828,050</u>	<u>124,876</u>
Expenditures				
Direct instruction	1,360,459	1,407,350	1,070,470	336,880
Indirect instruction	405,204	463,543	476,731	(13,188)
Custodial and maintenance	43,653	42,357	72,865	(30,508)
Other support services	27,346	27,346	33,013	(5,667)
General administration	-	-	27,755	(27,755)
Capital outlay	80,000	80,000	5,344	74,656
Contingency	<u>1,322,115</u>	<u>1,202,686</u>	<u>-</u>	<u>1,202,686</u>
Total Expenditures	<u>3,238,777</u>	<u>3,223,282</u>	<u>1,686,178</u>	<u>1,537,104</u>
Excess of Revenues Over (Under) Expenditures	(1,520,108)	(1,520,108)	141,872	1,661,980
Fund Balances - July 1	<u>1,520,108</u>	<u>1,520,108</u>	<u>1,528,868</u>	<u>8,760</u>
Fund Balances - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,670,740</u>	<u>\$ 1,670,740</u>

SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE
THE CONNECT CHARTER SCHOOL
Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
School's proportion (percentage) of the net pension liability	0.0210779492%	0.0210269756%	0.0203314245%	0.0238526492%
School's proportionate share of the net pension liability	\$ 6,274,888	\$ 3,215,095	\$ 2,755,184	\$ 3,042,399
School's covered-employee payroll	\$ 988,197	\$ 927,496	\$ 888,415	\$ 907,305
School's proportionate share of the net pension liability as a percentage of covered-employee payroll	634.98%	346.64%	310.12%	335.32%
Plan fiduciary net position as a percentage of the total pension liability	43.60%	59.20%	62.80%	64.06%

The amounts presented for each fiscal year were determined as of December 31.

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

SCHEDULE OF SCHOOL'S CONTRIBUTIONS

THE CONNECT CHARTER SCHOOL

Last 10 Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contributions	\$ 181,687	\$ 164,441	\$ 150,035	\$ 144,879
Contributions in relation to the statutorily required contributions	\$ 181,687	\$ 164,441	\$ 150,035	\$ 144,879
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 988,197	\$ 927,496	\$ 888,415	\$ 907,305
Contribution as a percentage of covered-employee payroll	18.39%	17.73%	16.89%	15.97%

The amounts presented for each fiscal year were determined as of June 30.

The schedule is presented to show information for ten years. Until information for the full ten year period is available, information will be presented for the years it is available.