

**DENVER LANGUAGE SCHOOL**  
**BASIC FINANCIAL STATEMENTS**

**June 30, 2014**

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## **FINANCIAL SECTION**



**JOHN CUTLER  
& ASSOCIATES**

Board of Directors  
Denver Language School  
Denver, Colorado

**INDEPENDENT AUDITORS' REPORT**

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Denver Language School, component unit of the Denver Public School District, as of and for the year ended June 30, 2014, 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Denver Language School, as of and for the year ended June 30, 2014, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required budgetary information on page 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*John Luttrell & Associates, LLC*

September 10, 2014

## **Management's Discussion and Analysis**

As management of Denver Language School (DLS), we offer readers of Denver Language School's financial statements our narrative overview and analysis of the financial activities of DLS for the fiscal year ended June 30, 2014.

### **Financial Highlights**

The year ended June 30, 2014 is the fourth year of operations for DLS. The assets of Denver Language School exceeded its liabilities at the close of the most recent fiscal year by \$842,616 (net position).

At the close of the fiscal year Denver Language School's governmental funds reported a combined ending fund balance of \$799,756.

### **Overview of Financial Statements**

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

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

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

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

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

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

The government-wide financial statements can be found on pages 1-2 of this report.

### **Fund financial statements**

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Denver Language School maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital reserve fund, because both are considered to be major funds.

Denver Language School adopts an annual appropriated budget for its funds. Budgetary comparison statements have been provided for the funds to demonstrate compliance with the budget.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 6-15.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of Denver Language School, assets exceeded liabilities by \$842,616 in FY 2013-2014.

### Denver Language School's Net Position Governmental Activities

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<b>ASSETS</b>		
Cash and investments	\$ 897,666	\$ 406,503
Cash Held by the District	88,786	64,283
Accounts Receivable	47,064	170,070
Prepaid Expenses	138	3,271
Inventory	-	-
Capital Assets, Net of Accum Depreciation	42,860	47,393
<b>Total Assets</b>	<b>1,076,514</b>	<b>691,520</b>
<b>LIABILITIES</b>		
Accounts Payable	5,259	11,862
Unearned Revenue	33,105	3,750
Accrued Salaries & Benefits	195,534	149,193
<b>Total Liabilities</b>	<b>233,898</b>	<b>164,805</b>
<b>NET POSITION</b>		
Investment in Capital Assets	42,860	47,393
Restricted for Emergencies	128,000	102,000
Unrestricted	671,756	377,322
<b>Total Net Position</b>	<b>\$ 842,616</b>	<b>\$ 526,715</b>

The largest portion of Denver Language School's assets is in cash and investments @ 83% in 2014.



**Denver Language School's Change in Net Position  
Governmental Activities**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Program Revenue:		
Charges for Services	540,216	496,364
Operating Grants and Contributions	235,577	384,973
Capital Grants and Contributions	24,233	29,958
Total Program Revenue	800,026	911,295
General Revenue:		
Per Pupil Revenue	3,219,503	2,533,911
Mill Levy Revenue	512,337	355,713
Investment Earnings	1,266	907
Total General Revenue	3,733,106	2,890,531
<b>Total Revenue</b>	4,533,132	3,801,826
Expenses:		
Current:		
Instruction	2,597,603	2,194,417
Supporting Services	1,619,628	1,328,922
<b>Total Expenses</b>	4,217,231	3,523,339
<b>Increase/(Decrease) in Net Position</b>	315,901	278,487
<b>Net Position, Beginning</b>	526,715	248,228
<b>Net Position, Ending</b>	\$ 842,616	\$ 526,715

The largest portion of Denver Language School's revenues came from per pupil revenue – 86%, respectively in 2014.

**Financial Analysis of the Government's Funds**

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

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

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$799,756, an increase of \$320,434 from prior year.

### **General Fund Budgetary Highlights**

The School approves a final budget in May based on enrollment projections for the school year. In October, after enrollment stabilizes, adjustments are made to the budget. At year-end, the school had some variances between its final budgeted and actual activities. On the revenue side, the school recognized \$3,808 primarily due to a decrease of tuition and fees but an increase of \$19,799 in grants and donations. On the expense side, expenses remained \$316,626 under budget in an effort to remain compliant with Statute and to build the reserve for future growth. One budget amendment was made during the 2013-2014 year.

### **Capital assets & Long-Term Debt**

Denver Language School has investments in capital assets based on tenant improvements made to the current school facility over the last 2 years. See Note 4 for more information. DLS has no long-term debt obligations.

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

The primary factor driving the budget for Denver Language School is student enrollment. Enrollment for the 2013-2014 school year was 510.74 funded students. This information was analyzed as part of the 2014-2015 budget which is projecting a 578.58 funded student count.

### **Requests for Information**

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

Denver Language School  
451 Newport St.  
Denver, CO 80220

## **BASIC FINANCIAL STATEMENTS**

DENVER LANGUAGE SCHOOL

STATEMENT OF NET POSITION

As of June 30, 2014

	Governmental Activities	
	2014	2013
ASSETS		
Cash	\$ 897,666	\$ 406,503
Cash Held by the District	88,786	64,283
Accounts Receivable	47,064	170,070
Prepaid Expenses	138	3,271
Capital Assets, Net of Accumulated Depreciation	42,860	47,393
	<hr/>	<hr/>
TOTAL ASSETS	1,076,514	691,520
	<hr/>	<hr/>
LIABILITIES		
Accounts Payable	5,259	11,862
Unearned Revenues	33,105	3,750
Accrued Salaries and Benefits	195,534	149,193
	<hr/>	<hr/>
TOTAL LIABILITIES	233,898	164,805
	<hr/>	<hr/>
NET POSITION		
Investment in Capital Assets	42,860	47,393
Restricted for Emergencies	128,000	102,000
Unrestricted	671,756	377,322
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TOTAL NET POSITION	\$ 842,616	\$ 526,715
	<hr/>	<hr/>

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

DENVER LANGUAGE SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			Net (Expense) Revenue and Change In Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2014	2013
<b>PRIMARY GOVERNMENT</b>						
<b>Governmental Activities</b>						
Instructional	\$ 2,597,603	\$ 540,216	\$ 235,577	\$ -	\$ (1,821,810)	\$ (1,544,520)
Supporting Services	1,619,628	-	-	24,233	(1,595,395)	(1,067,524)
Total Governmental Activities	<u>\$ 4,217,231</u>	<u>\$ 540,216</u>	<u>\$ 235,577</u>	<u>\$ 24,233</u>	(3,417,205)	(2,612,044)
<b>GENERAL REVENUES</b>						
					3,219,503	2,533,911
Per Pupil Revenue					512,337	355,713
Mill Levy Override					1,266	907
Interest						
TOTAL GENERAL REVENUES					<u>3,733,106</u>	<u>2,890,531</u>
CHANGE IN NET POSITION					315,901	278,487
NET POSITION, Beginning					<u>526,715</u>	<u>248,228</u>
NET POSITION, Ending					<u>\$ 842,616</u>	<u>\$ 526,715</u>

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

DENVER LANGUAGE SCHOOL

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014

	<u>GENERAL FUND</u>	
	<u>2014</u>	<u>2013</u>
ASSETS		
Cash	\$ 897,666	\$ 406,503
Cash Held by District	88,786	64,283
Accounts Receivable	47,064	170,070
Prepaid Expenses	<u>138</u>	<u>3,271</u>
TOTAL ASSETS	<u>\$ 1,033,654</u>	<u>\$ 644,127</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 5,259	\$ 11,862
Unearned Revenues	33,105	3,750
Accrued Salaries and Benefits	<u>195,534</u>	<u>149,193</u>
TOTAL LIABILITIES	<u>233,898</u>	<u>164,805</u>
FUND BALANCES		
Nonspendable	138	3,271
Restricted for Emergencies	128,000	102,000
Unassigned	<u>671,618</u>	<u>374,051</u>
TOTAL FUND BALANCES	<u>799,756</u>	<u>479,322</u>
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	<u>42,860</u>	<u>47,393</u>
Net position of governmental activities	<u>\$ 842,616</u>	<u>\$ 526,715</u>

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

DENVER LANGUAGE SCHOOL

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2014

	<u>GENERAL FUND</u>	
	<u>2014</u>	<u>2013</u>
REVENUES		
Local Sources	\$ 4,368,901	\$ 3,483,520
State and Federal Sources	<u>164,231</u>	<u>318,306</u>
TOTAL REVENUES	<u>4,533,132</u>	<u>3,801,826</u>
EXPENDITURES		
Current		
Instruction	2,597,603	2,194,417
Supporting Services	<u>1,615,095</u>	<u>1,376,315</u>
TOTAL EXPENDITURES	<u>4,212,698</u>	<u>3,570,732</u>
NET CHANGE IN FUND BALANCES	320,434	231,094
FUND BALANCES, Beginning	<u>479,322</u>	<u>248,228</u>
FUND BALANCES, Ending	<u><u>\$ 799,756</u></u>	<u><u>\$ 479,322</u></u>

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

DENVER LANGUAGE SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2014

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

Net change in fund balances - total governmental funds	\$ 320,434
Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net positions and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the depreciation expense for the current period.	<u>(4,533)</u>
Change in net position of governmental activities	<u>\$ 315,901</u>

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



DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

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

The Denver Language School (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Denver Public School District (the “District”) in the State of Colorado. The School began classes in the fall of 2011.

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

**Reporting Entity**

The financial reporting entity consists of the 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 on the application of these criteria, the School does not include additional organizations within its reporting entity. However, the School is a component unit of the Denver Public School District.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the 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 the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

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

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period, not to exceed 60 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

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

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

The School reports the following major governmental fund:

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

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

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

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

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

*Prepaid Expenses* - Payments for goods and services to be received in the near future. An expenditure is reported in the year in which the goods or services are received.

*Inventory* – Payments made to vendors for school uniforms that will be used in future periods are recorded as inventory. An expenditure is reported in the year in which the goods are consumed.

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

Leasehold improvements of the School are depreciated using the straight line method over 20 years.

*Unearned Revenues* – Unearned revenues include grant funds that have been collected but the corresponding expense has not been incurred and advance payments of the next fiscal year's tuition and fees.

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

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures. The School has no long-term debt as of June 30, 2014.

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

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

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

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

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

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

- Nonspendable – This classification includes amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. The School's nonspendable balance at June 30, 2014 are nonspendable in form as prepaid expenses.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.
- Assigned/Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2014.

DENVER LANGUAGE SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014

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

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

- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The School would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned

**Risk Management**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries commercial coverage for these risks of loss. The School has not had any claims that exceeded the insurable limits in the last three years.

**Comparative Data**

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

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

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014

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

**Budgets and Budgetary Accounting**

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

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

**NOTE 3: CASH AND INVESTMENTS**

**Deposits**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2014, State regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group.

The market value of the collateral must be at least equal to 102% of the uninsured deposits. The School has no policy regarding custodial credit risk for deposits.

At June 30, 2014, the School had deposits with financial institutions with a carrying amount of \$897,666. The bank balances with the financial institutions were \$919,349. Of these balances, \$250,000 was covered by federal depository insurance and \$669,349 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

**Pooled Cash with the District**

Cash deposits are pooled with the District's cash and investments which were held by several banking institutions. Pooled investments represent investments in local government investment pools or in money market funds. At June 30, 2014 the School's balance in equity in pooled cash of the District totaled \$88,786.

DENVER LANGUAGE SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014

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

**Investments**

Interest Rate Risk

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

Credit Risk

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

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

The School has no policy for managing credit risk or interest rate risk.

The School had no investments as of June 30, 2014.

**Restricted Cash and Investments**

Cash in the amount of \$88,786 is restricted in the General Fund as an emergency reserve related to the TABOR amendment.

DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2014

**NOTE 4: CAPITAL ASSETS**

Capital Assets activity for the year ended June 30, 2014 is summarized below.

	Balance <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2014</u>
<b>Governmental Activities</b>				
Capital Assets, Depreciated				
Leasehold Improvements	\$ 49,454	\$ -	\$ -	\$ 49,454
Total Capital Assets, Depreciated	<u>49,454</u>	<u>-</u>	<u>-</u>	<u>49,454</u>
Accumulated Depreciation				
Leasehold Improvements	<u>2,061</u>	<u>4,533</u>	<u>-</u>	<u>6,594</u>
Total Accumulated Depreciation	<u>2,061</u>	<u>4,533</u>	<u>-</u>	<u>6,594</u>
Net Capital Assets	<u>\$ 47,393</u>	<u>\$ (4,533)</u>	<u>\$ -</u>	<u>\$ 42,860</u>

Depreciation has been charged to supporting services program of the School.

**NOTE 5: ACCRUED SALARIES AND BENEFITS**

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during a school year of nine months. The salaries and benefits earned, but unpaid, as of June 30, 2014, were \$195,535 in the General Fund.

**NOTE 6: PENSION PLANS**

**Defined Benefit Pension Plan**

**Plan Description.** The School contributes to the Denver Public Schools Retirement System Division of 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 SDTF provides retirement and disability, post-retirement annual increases, and death benefits for members or their beneficiaries. All employees of the School are members of the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS), as amended, assigns the authority to establish benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the SDTF. That report may be obtained online at [www.copera.org](http://www.copera.org) or by writing to Colorado PERA, 1300 Logan Street, Denver, Colorado 80203 or by calling PERA at 303-832-9550 or 1-800-759-PERA (7372).



DENVER LANGUAGE SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 6:** *PENSION PLANS* (Continued)

**Funding Policy.** The School is required to contribute member and employer contributions to PERA at a rate set by statute. The contribution requirements of plan members and the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The contribution rate for members is 8.0 % and for the School it is 4.16 % of the total payroll for the calendar year 2014, (5.64 % of total payroll for the calendar year 2013). If the School rehires a PERA retiree as an employee or under any other work arrangement, it is required to report and pay employer contributions on the amounts paid for the retiree, however no member contributions are required. For the years ending June 30, 2014, 2013 and 2012, the School's employer contributions for the SDTF were \$92,648, \$78,747, and \$46,228 respectively, equal to the required contributions for each year.

**Taxable Pension Certificates of Participation (PCOPs)**

The District issued Taxable Pension Certificates of Participation (PCOPs) on July 17, 1997 to fully fund the unfunded actuarial accrued liability (UAAL) of the Plan. Full funding of the UAAL reduced the employer contribution rate from the full funding rate of 15.75% to the normal cost rate of 4.98%. This rate is based upon actuarially determined contribution requirements, the approval and recommendation of the Plan's Board and approval of the District's Board of Education. The School contributed 10.8%, 11.36% and 12.21% of covered payroll for the fiscal years ended June 30, 2014, 2013 and 2012 respectively, to the District to cover its obligation relating to the PCOPs. During the fiscal years ended June 30, 2014, 2013 and 2012, the School made contributions totaling \$205,682, \$187,256, and \$150,095 respectively, to the District towards its PCOPs obligation.

**NOTE 7:** *COMMITMENTS AND CONTINGENCIES*

**Facilities Use Agreement**

The School has a facility use agreement with the District for use of a District school building. For the year ended June 30, 2014, the District charged the school \$710 per pupil to cover these costs. The cost per student will be recalculated by the District each year.

Total rent expense for the year ended June 30, 2014 for this agreement was \$394,050.

DENVER LANGUAGE SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014

**NOTE 7:**     *COMMITMENTS AND CONTINGENCIES* (Continued)

**Claims and Judgments**

The School participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School may be required to reimburse the grantor government. As of June 30, 2014, significant amounts of grant expenditures have not been audited, but the School 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 tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment.

As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2014, the reserve of \$128,000 was recorded as a restriction of fund balance in the General Fund. The District also holds \$88,786 in pooled cash on behalf of the School for this reserve.

**REQUIRED SUPPLEMENTARY INFORMATION**

DENVER LANGUAGE SCHOOL

GENERAL FUND  
 BUDGETARY COMPARISON SCHEDULE  
 Year Ended June 30, 2014

	2014			VARIANCE	2013 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
<b>REVENUES</b>					
Local Sources					
Per Pupil Revenue	\$ 3,178,084	\$ 3,218,612	\$ 3,219,503	\$ 891	\$ 2,533,911
Mill Levy Override	391,909	512,337	512,337	-	355,713
Tuition and Fees	470,200	551,250	540,216	(11,034)	496,364
Grants and Donations	125,000	75,800	95,579	19,779	96,625
Interest	500	850	1,266	416	907
State and Federal Sources					
Grants and Donations	58,950	170,475	164,231	(6,244)	318,306
<b>TOTAL REVENUES</b>	<b>4,224,643</b>	<b>4,529,324</b>	<b>4,533,132</b>	<b>3,808</b>	<b>3,801,826</b>
<b>EXPENDITURES</b>					
Salaries	2,282,727	2,350,579	2,288,805	61,774	1,833,892
Employee Benefits	501,316	483,724	425,685	58,039	368,866
Purchased Services	1,130,410	1,294,424	1,234,081	60,343	1,019,772
Supplies and Materials	147,700	217,331	174,425	42,906	197,707
Property	79,582	67,000	61,592	5,408	110,689
Other	82,908	116,266	28,110	88,156	39,806
<b>TOTAL EXPENDITURES</b>	<b>4,224,643</b>	<b>4,529,324</b>	<b>4,212,698</b>	<b>316,626</b>	<b>3,570,732</b>
<b>CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>320,434</b>	<b>320,434</b>	<b>231,094</b>
FUND BALANCE, Beginning	248,229	479,324	479,322	(2)	248,228
FUND BALANCE, Ending	<u>\$ 248,229</u>	<u>\$ 479,324</u>	<u>\$ 799,756</u>	<u>\$ 320,432</u>	<u>\$ 479,322</u>

See the accompanying independent auditors' report.