KIPP Montbello College Prep
(A Component Unit of Denver Public Schools)

Independent Auditor’s Report and Financial Statements

June 30, 2015

KIPP Montbello College Prep
(A Component Unit of Denver Public Schools)
June 30, 2015

Contents

BKD LLP
CPAs & Advisors

1700 Lincoln Street, Suite 1400 // Denver, CO 80203-4514
303.861.4545 // fax 303.832.5705 // bkd.com

Independent Auditor's Report

Board of Directors
KIPP Colorado Schools
Denver, Colorado

We have audited the accompanying financial statements of the governmental activities and the major fund of KIPP Montbello College Prep (the School), a component unit of School District Number 1 in the City and County of Denver and State of Colorado, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's 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 an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

Board of Directors
KIPP Colorado Schools

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 the major fund of the School as of June 30, 2015, 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.

Emphasis of Matter

As discussed in Note 9, during the year ended June 30, 2015, the School adopted new accounting guidance, Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary and pension information listed in the table of contents be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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.

BKD, LLP

Denver, Colorado
September 15, 2015

KIPP Montbello College Prep
(A Component Unit of Denver Public Schools)
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2015

As management of KIPP Montbello College Prep, a KIPP Colorado School, we offer readers of the School's financial statements this narrative and analysis of the financial activities of KIPP Montbello College Prep (the School) for the period from July 1, 2014 to June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements and footnotes.

Financial Highlights

- With the implementation of GASB 68, the Government-wide Financial Statements of KIPP Montbello College Prep, like those of all Colorado PERA participants, present a significant change this year. This change consists of the inclusion of a net pension liability as well as deferred inflows, deferred outflows, and expenses related to the pension. Though these amounts are material and reflects a sharp decline in net position, the new GASB standard only impacts the accounting presentation of these pension related items, and the change does not represent an actual change in the funding obligation of KIPP Montbello College Prep. A review of the Governmental Fund Financial Statements presents a more accurate depiction of the flow of funds for the School in the fiscal year. For further information on this change, see the attached statements and Notes 3 and 10 in the Notes to the Financial Statements

- The period from July 1, 2014 through June 30, 2015 covers the fourth year of operation for the School. The net position at the end of the year according to the Government-wide Financial Statements is ($257,653). This deficit is reflective of the implementation of GASB 68 in the fiscal year.

- The total fund balance at the end of the year according to the Governmental Fund Balance Sheet is $862,035, and increase of $198,394 over the prior year.

- The operations of the School are funded primarily by tax revenue received under the State School Finance Act (the Act). Tax revenue for the year from Per Pupil Revenue was $3,083,738 compared to $2,088,620 the prior year.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to the School's financial statements. The statements are comprised of three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements.

Government-wide Financial Statements

The Government-wide Financial Statements are designed to provide readers with a broad overview of the School's finances in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the School's net position changed during the period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods.

Fund Financial Statements

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

Notes to Financial Statements

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

Government-wide Financial Analysis

As noted previously, net position over time may serve as a useful indicator of the School's financial position. For the year ended June 30, 2015, the School's liabilities and deferred inflows exceeded assets and deferred outflows by $257,653 in the Government-wide Financial Statements. Though the fund balance in the Governmental Fund increased by $198,394, the inclusion of the net pension liability in the Government-wide statements creates an overall deficit in the Government-wide presentation of the financials. Of the total net position, $111,723 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. Accordingly, these funds are not available to satisfy general operating expenses of the School.

KIPP Montbello College Prep
(A Component Unit of Denver Public Schools)
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2015

Statement of Net Position

	2015	2014
Assets		
Current (noncapital)	$ 869,326	$ 669,843
Noncurrent (capital)	20,800	-
Cash held by Denver Public Schools	86,631	60,584
Total Assets	976,757	730,427
Deferred Outflow of Resources*	347,393	-
Liabilities		
Current	93,922	66,785
Noncurrent*	1,487,548	-
Total Liabilities	1,581,470	66,785
Deferred Inflow of Resources*	333	-
Net Position		
Net Investment in Capital Assets	20,800	-
Restricted for Emergencies	111,723	83,586
Unrestricted (Deficit)*	(390,176)	580,056
Total Net Position (Deficit)	$ (257,653)	$ 663,642

KIPP Montbello College Prep
(A Component Unit of Denver Public Schools)
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2015

Statement of Activities

	2015	2014
Revenues		
Charges for Services	$ 14,003	$ 8,703
Grants and Contributions	517,716	669,579
Per Pupil Revenue	3,083,738	2,088,620
Mill Levy	313,626	250,524
Investment Earnings	69	68
Miscellaneous Income	199	-
Total Revenue	3,929,351	3,017,494
Expenses		
Instruction*	2,228,637	1,726,538
Support Services*	1,674,239	1,031,715
Total Expenses	3,902,876	2,758,253
Change in Net Position	26,475	259,241
Net Position - July 1, as previously reported	663,642	404,401
Change in accounting principle - GASB 68*	(947,770)	-
Net Position - July 1, as restated	(284,128)	404,401
Net Position, End of Year	$ (257,653)	$ 663,642

* See notes 4 and 9 in Notes to the Financial Statements for further information on GASB 68. Information in this table regarding fiscal year ending June 30th, 2014 has not been restated with the implementation of GASB 68.

The School's total enrollment for the year was 411 students. The increase in Per Pupil Revenue is due to the addition of the 8th grade.

The FYE 2015 increase in expenses is primarily driven by increases to teacher and administrator salaries, a change in KIPP Colorado policy to pay out unused personal time off upon termination of employment, the previously mentioned reflection of the pension expense related to GASB 68, and an increase in the KIPP Colorado management fee to support the centralization of certain expense items, such as liability insurance and technology support.

Financial Analysis of the School's Funds

The focus of the School's governmental 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, unassigned, unrestricted fund balance may serve as a useful measure of the School's net resources available for spending at the end of the fiscal year. Given that the changes required by GASB 68 are not represented in the Governmental Fund Statements, the Governmental Fund Statements are a more accurate depiction of the actual flow of funds for the School in the given fiscal year.

As of June 30, 2015, the School's governmental fund reported a fund balance of $862,035. This amount represents an increase of $198,394 from the previous year.

General Fund Budgetary Highlights

KIPP Montbello College Prep presents and annual budget to the board for monitoring and approval. The School budgeted for expenditures of $3,833,294 for the year ended June 30, 2015. Actual expenditures were $3,730,957.

There were two budget amendments during the year. These amendments were primarily due to the receipt of unexpected revenues (ELPA Excellence Award and Charter Credit).

Capital Asset and Debt Administration

Capital assets

The School's capital assets consist of equipment (transportation vans). Depreciation on equipment in 2014-2015 was $5,200. Total capital asset value at June 30, 2015 net of depreciation was $20,800.

Long-term debt

As of June 30, 2015, the School had no long-term debt.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the School is student enrollment. Enrollment for the 2014-2015 school year was 411. Enrollment for the 2015-2016 school year is anticipated to be 425. The School has budgeted according to the current estimates provided by the Colorado Department of Education and Denver Public Schools for the 2015-2016 fiscal year and anticipates an increase in per pupil operating revenue of approximately 2.7% per student.

Financial Statements

KIPP Montbello College Prep
(A Component Unit of Denver Public Schools)
Statement of Net Position
June 30, 2015

	Governmental Activities
Assets	
Cash and investments	$ 807,412
Grants receivable	60,424
Prepaid expenses	1,490
Emergency reserve held by Denver Public Schools	86,631
Capital assets, net of accumulated depreciation	20,800
Total assets	976,757
Deferred Outflows of Resources	347,393
Liabilities	
Accounts payable	36,313
Accrued liabilities	57,609
Noncurrent liabilities	
Net pension liability	1,487,548
Total liabilities	1,581,470
Deferred Inflows of Resources	333
Net Position	
Net investment in capital assets	20,800
Restricted for emergencies	111,723
Unrestricted (deficit)	(390,176)
Total net position (deficit)	$ (257,653)

KIPP Montbello College Prep
(A Component Unit of Denver Public Schools)
Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position: Governmental Activities
Primary Government					
Governmental activities					
Instruction	$ 2,228,637	$ 14,003	$ 282,639	$ 34,790	$ (1,897,205)
Supporting services	1,674,239	-	5,759	-	(1,668,480)
Total governmental activities	$ 3,902,876	$ 14,003	$ 288,398	$ 34,790	(3,565,685)
General Revenues					
Per pupil revenue					3,083,738
District mill levy					313,626
Grants and contributions not restricted to specific programs					23,307
Investment income					69
Other local revenue					171,420
Total general revenues					3,592,160
Change in Net Position					26,475
Net Position - July 1, as Previously Reported					663,642
Change in Accounting Principle - GASB 68					(947,770)
Net Position (deficit) - July 1, as Restated					(284,128)
Net Position (deficit), Ending					$ (257,653)

KIPP Montbello College Prep
(A Component Unit of Denver Public Schools)
Balance Sheet
Governmental Fund
June 30, 2015

		General Fund
Assets		
Cash and investments	$	807,412
Grants receivable		60,424
Prepaid expenditures		1,490
Emergency reserve held by Denver Public Schools		86,631
Total assets	$	955,957
Liabilities and Fund Balance		
Liabilities		
Accounts payable	$	36,313
Accrued liabilities		57,609
Total liabilities		93,922
Fund Balance		
Nonspendable prepaid expenditures		1,490
Restricted for emergencies		111,723
Unrestricted, Unassigned		748,822
Total fund balance		862,035
Total liabilities and fund balance	$	955,957

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total Fund Balance - Governmental Fund	$	862,035
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds		20,800
Deferred inflows of resources are not available in the current period and, therefore, are not recorded in the funds		(333)
Deferred outflows of resources are not financial resources and, therefore, are not reported in the funds		347,393
The net pension liability is not due and payable in the current period and, therefore, is not reported in the governmental funds		(1,487,548)
Total net position of governmental activities	$	(257,653)

KIPP Montbello College Prep
(A Component Unit of Denver Public Schools)
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
Year Ended June 30, 2015

	General Fund
Revenues	
Local sources	$ 3,606,163
State sources	117,950
Federal sources	205,238
Total revenues	3,929,351
Expenditures	
Instruction	2,073,382
Supporting services	1,631,575
Capital outlay	26,000
Total expenditures	3,730,957
Net Change in Fund Balance	198,394
Fund Balance, Beginning	663,641
Fund Balance, Ending	$ 862,035

Amounts reported for Governmental Activities in the Statement of Net Position are different because:	
Net change in Fund Balance of the Governmental Fund	$ 198,394
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 exceeded depreciation expense in the current period.	
Depreciation expense	(5,200)
Capital outlay	26,000
Excess of capital outlay expense over depreciation	20,800
Some expenses recorded in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	
Pension expense	(192,719)
Change in Net Position of Governmental Activities	$ 26,475

KIPP Montbello College Prep
(A Component Unit of Denver Public Schools)
Notes to Financial Statements
June 30, 2015

Note 1: Summary of Significant Accounting Policies

KIPP Colorado Schools was formed to operate charter schools as provided in the Colorado Charter Schools Act. KIPP Colorado Schools is a non-profit organization as defined by Section 501(c)(3) of the Internal Revenue Code. KIPP Montbello College Prep (the School) is a middle school within KIPP Colorado Schools. These financial statements present only the School and are not intended to be a complete presentation of the financial statements of KIPP Colorado Schools.

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

Reporting Entity

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

The School is a component unit of the Denver Public Schools (the District). The District granted the charter and provides the majority of the funding to the School.

Government-wide and Fund Financial Statements

The government-wide financial statements (*i.e.*, the statement of net position and the statement of activities) report information on all activities of the School. Governmental activities, which normally are supported by taxes and 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 revenues not properly included among program revenues are reported instead as general revenues.

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. Available means collected within the current year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days.

Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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

The School reports the following major governmental fund:

General Fund

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

Assets, Liabilities and Fund Balance/Net Position

Receivables

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

Prepaid Expenses

Payments to vendors for services that will benefit subsequent years are reported as prepaid expenses.

Capital Assets

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

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

Vehicles and Equipment	4 - 5 years

Net Position/Fund Balance

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

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

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; injuries to employees; and natural disasters. The School carries commercial insurance for risks of loss, including liability, property, errors and omissions, and workers' compensation. Settled claims resulting from these risks have not exceeded the School's insurance coverage for fiscal years 2015, 2014 and 2013.

Budgets and Budgetary Accounting

Annually, the Board of Directors adopts a budget for the School on a basis consistent with generally accepted accounting principles.

A proposed budget is submitted to the Board of Directors for the fiscal year commencing the following July 1, for their approval. The budget includes proposed expenditures and the means of financing them. Revisions that alter the total expenditures must be approved by the Board of Directors. All appropriations lapse at fiscal year-end.

Note 2: Cash and Investments

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local governments to deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits.

Investments

The School is required to comply with state statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years. State statutes do not address custodial risk.

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

The following is a summary of the School's cash balances at June 30, 2015:

Description	Carrying Amount	Bank Balance	Amount Covered Under PDPA
Checking	$ 807,412	$ 690,764	$ 690,764

Note 3: Capital Assets

Changes in capital assets for the year ended June 30, 2015, are summarized below.

	Balance at July 1, 2014	Additions	Deletions	Balance at June 30, 2015
Capital assets being depreciated				
Vehicles and equipment	$ -	$ 26,000	$ -	$ 26,000
Less accumulated depreciation				
Vehicles and equipment	-	(5,200)	-	(5,200)
Total capital assets being depreciated, net	$ -	$ 20,800	$ -	$ 20,800

Depreciation expense was charged to the supporting services program.

Note 4: Defined Benefit Pension Plan

Summary of Significant Accounting Policies

The School participates in the Denver Public Schools Division Trust Fund (DPS Division), a single-employer defined benefit pension plan. In accordance with GASB 68, the School accounts for and reports its participation in the plan as if it were a cost-sharing employer. The plan is 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 School have been determined using the same basis as they are reported by the DPS Division, which uses the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan Description

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

Benefits Provided

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

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

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit.

- Fifteen times the first 10 years of service credit plus 20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

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

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 five years of service credit has been obtained and the benefit structure under which contributions were made.

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

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

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

Contributions

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

	For the Year Ended December 31, 2014	For the Year Ended December 31, 2015
Employer Contribution Rate [1]	13.75%	10.15%
Amount of Employer Contribution apportioned to the DPS Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) [1]	(1.02)%	(1.02)%
PCOP Offset as specified in C.R.S. § 24-51-412	(16.89)%	(15.97)%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 [1]	3.80%	4.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 [1]	3.50%	4.00%
Total Employer Contribution Rate to the DPS Division [1]	3.14%	1.36%

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

Employer contributions are recognized by the DPS Division in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the DPS Division. Employer contributions recognized by the DPS Division from the School were $53,553 for the year ended June 30, 2015.

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

At June 30, 2015, the School reported a liability of $1,487,548 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. Standard update procedures were used to roll forward the total pension liability to December 31, 2014. The School's proportion of the net pension liability was based on the School's contributions to the DPS Division for the calendar year 2014 relative to the total contributions of participating employers to the DPS Division.

At December 31, 2014, the School's proportion was 0.24 percent, which was an increase of 0.05 percent from its proportion measured as of December 31, 2013.

For the year ended June 30, 2015, the School recognized pension expense of $246,254. At June 30, 2015, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ —	$ 333
Net difference between projected and actual earnings on pension plan investments	105,615	—
Changes in proportion and differences between contributions recognized and proportionate share of contributions	213,552	—
Differences between contributions recognized and proportionate share of contributions	7,835	—
Contributions subsequent to the measurement date	20,391	—
Total	$ 347,393	$ 333

$20,391 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 ending June 30, 2016. 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 Ending June 30	
2016	$ 64,453
2017	64,453
2018	64,453
2019	64,453
2020	64,453
Thereafter	4,404
Total	$ 326,669

Actuarial Assumptions

The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.10 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to January 1, 2007; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after December 31, 2006 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Mortality rates 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 one year, and Females set back two years.

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

The DPS Division's long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

As of the most recent analysis of the long-term expected rate of return, presented to the PERA Board on November 15, 2013, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	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 7.50 percent

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the fixed statutory rates specified in law, including current and future AED and SAED, until the Actuarial Value Funding Ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Based on those assumptions, the DPS Division's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

Sensitivity of the School's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 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 one-percentage-point lower (6.50 percent) or one-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	$ 2,543,123	$ 1,487,548	$ 610,195

Pension Plan Fiduciary Net Position

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

Note 5: Defined Contribution Pension Plan

In 2010, the School's employees began participating in PERA's elective 401k plan. Employees determine the amount, if any, of their elective contributions to the plan. The School does not contribute to the plan.

Note 6: Pension Certificates of Participation

The District issued Taxable Pension Certificates of Participation (PCOPs) to fully fund the unfunded actuarial accrued liability of its pension plan (see Note 4). For the years ended June 30, 2015, 2014 and 2013, the School contributed 9.84%, 10.80% and 11.36% of covered salaries, respectively, to the District to cover its obligation relating to the PCOPs.

During the years ended June 30, 2015, 2014 and 2013, the School contributed $163,430, $129,815 and $99,876, respectively, to the District for its PCOPs obligation.

Note 7: Postemployment Healthcare Benefits

Plan Description

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

Funding Policy

The School is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the DPS HCTF is established under Title 24, Article 51, Section 208(1)(f.5) of the C.R.S., as amended. For the years ended June 30, 2015, 2014 and 2013, the School's contributions to the DPS HCTF were $16,939, $12,055 and $8,815, respectively, equal to their required contributions for each year.

Note 8: Commitments and Contingencies

Claims and Judgments

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

TABOR Amendment

In November 1992, Colorado voters approved the TABOR Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The TABOR Amendment is subject to many interpretations, but the School believes it is in substantial compliance with the TABOR Amendment. In accordance with the TABOR Amendment, the School has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2015, the District held $86,631 on behalf of the School for this reserve, which was included in the $111,723 restricted net position/fund balance.

Facility Use Agreements

Annually, the School approves facility use agreements with the District to utilize educational facilities owned by the District. For the year ended June 30, 2015, the School paid facility use fees of $742 per student, which for the School totaled $304,843. The agreements require facility use fees of $775 per student for the year ended June 30, 2016.

Note 9: Implementation of New Accounting Standard

The School implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* (Statement No. 68), which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The School provides its employees with pension benefits through the plan described in Note 4. Statement No. 68 requires employers participating in such plans to record their proportionate share, as defined in Statement No. 68, of PERA’s unfunded pension liability. The School has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA. The implementation of GASB 68 resulted in a $947,770 restatement of net position as of July 1, 2014. Information regarding PERA’s current funding status can be found in their Comprehensive Annual Financial Report.

Required Supplementary Information

KIPP Montbello College Prep
(A Component Unit of Denver Public Schools)
Schedule of School's Proportionate Share of the Net Pension Liability
Year Ended June 30, 2015

KIPP Montbello College Prep's proportion of the net pension liability		0.24%
KIPP Montbello College Prep's proportionate share of the net pension liability	$	1,487,548
KIPP Montbello College Prep's covered-employee payroll	$	1,656,012
KIPP Montbello College Prep's proportionate share of the net pension liability as a percentage of its covered-employee payroll		89.83%
Plan fiduciary net position as a percentage of the total pension liability		83.94%

Note: Information is not available prior to 2015. In future reports, additional years will be added until 10 years of historical data are presented.

KIPP Montbello College Prep
(A Component Unit of Denver Public Schools)
Schedule of the School's Contributions
Year Ended June 30, 2015

Contractually required contribution	$	53,835
Contributions in relation to the contractually required contribution		53,835
Contribution deficiency (excess)	$	-
KIPP Montbello College Prep's covered-employee payroll	$	1,656,012
Contributions as a percentage of covered-employee payroll		3.25%

Note: Information is not available prior to 2015. In future reports, additional years will be added until 10 years of historical data are presented.

KIPP Montbello College Prep
(A Component Unit of Denver Public Schools)
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Local sources				
Per pupil revenue	$ 2,906,086	$ 3,083,733	$ 3,083,738	$ 5
District mill levy	313,470	313,120	313,626	506
Student activities	20,000	15,000	14,003	(997)
Grants and contributions	85,000	-	23,307	23,307
Investment income	40	40	69	29
Other local revenue	171,114	149,085	171,420	22,335
Total local sources	3,495,710	3,560,978	3,606,163	45,185
State sources				
Capital construction	18,225	34,319	34,790	471
Grants	1,700	83,160	83,160	-
Total state sources	19,925	117,479	117,950	471
Federal sources				
Grants	186,013	191,415	205,238	13,823
Total revenues	3,701,648	3,869,872	3,929,351	59,479
Expenditures				
Salaries	1,747,929	1,712,849	1,710,690	2,159
Employee benefits	439,786	410,070	363,279	46,791
Purchased professional services	61,750	72,500	64,119	8,381
Purchased property services	24,000	24,000	21,480	2,520
Other purchased services	1,215,979	1,321,054	1,290,438	30,616
Supplies and materials	150,000	185,200	175,902	9,298
Property and equipment	42,000	76,500	75,535	965
Miscellaneous	34,320	31,121	29,514	1,607
Total expenditures	3,715,764	3,833,294	3,730,957	102,337
Net Change in Fund Balance	(14,116)	36,578	198,394	161,816
Fund Balance, Beginning	404,401	663,641	663,641	-
Fund Balance, Ending	$ 390,285	$ 700,219	$ 862,035	$ 161,816
Appropriated Reserves				
Contingency	$ 38,672	$ -	N/A	N/A
Release of prior year fund balance	85,000	-	N/A	N/A
Fund balance reserve	266,613	700,219	N/A	N/A
	$ 390,285	$ 700,219		

KIPP Montbello College Prep
(A Component Unit of Denver Public Schools)
Note to Required Supplementary Information
June 30, 2015

Note 1: Stewardship, Compliance, and Accountability

Budgets and Budgetary Accounting

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

A proposed budget is submitted to the Board of Directors for the fiscal year commencing the following July 1, for their approval. The budget includes proposed expenditures and the means of financing them.

As stipulated in State statutes, expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

All appropriations lapse at fiscal year-end.

BKD LLP
CPAs & Advisors

1700 Lincoln Street, Suite 1400 // Denver, CO 80203-4514
303.861.4545 // fax 303.832.5705 // bkd.com

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
KIPP Colorado Schools
Denver, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of KIPP Montbello College Prep (the School), a component unit of School District Number 1 in the City and County of Denver and State of Colorado, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's financial statements, and have issued our report thereon dated September 15, 2015.

Internal Control Over Financial Reporting

Management of the School is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the School's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Directors
KIPP Colorado Schools

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including the Colorado Department of Education's *Financial Policies and Procedures Handbook*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the School's management in a separate letter dated September 15, 2015.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
September 15, 2015