

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM
FOR TEACHERS TRUST
Denver County, Colorado**

**FINANCIAL STATEMENTS
June 30, 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Denver Public Schools Professional Compensation System for Teachers Trust
Denver, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Denver Public Schools Professional Compensation System for Teachers Trust, a component unit of School District No. 1 in the City and County of Denver and State of Colorado, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the entity'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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the major fund of the Denver Public Schools Professional Compensation System for Teachers Trust as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund, on pages III-VI and page 13 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2016, on our consideration of the Denver Public Schools Professional Compensation System for Teachers Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Denver Public Schools Professional Compensation System for Teachers Trust's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Greenwood Village, Colorado
November 4, 2016

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

As Denver Public Schools staff that provide contracted administrative services for Denver Public Schools Professional Compensation System for Teachers Trust (the Trust), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Trust for fiscal year ended June 30, 2016.

Financial Highlights

The assets of the Trust exceeded its liabilities at the close of the most recent fiscal year by \$18,678,906 (net position).

At the close of the fiscal year, the Trust's general fund, its only governmental fund, reported an ending fund balance of \$18,345,331.

Overview of Financial Statements

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

Government-wide Financial Statements

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

The statement of net position presents information on all of the Trust's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Trust is improving or deteriorating.

The statement of activities presents information showing how the Trust'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. property taxes receivable).

The government-wide statement of activities distinguishes functions of the Trust supported primarily by property taxes passed through from Denver Public Schools. The governmental activities of the Trust included instruction and supporting services.

Fund Financial Statements

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

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

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 Trust'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 Trust's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Trust maintains one individual governmental fund. A budgetary comparison statement has been provided for the general fund 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.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the Trust's financial position. In the case of the Trust, net position was \$18,678,906 and \$31,642,479 as of June 30, 2016 and June 30, 2015, respectively.

The following is a summary of the Trust's statement of net position as of June 30, 2016, and June 30, 2015, respectively.

Condensed Statements of Net Position

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Assets:		
Current	\$ 45,012,621	\$ 41,110,802
Total assets	<u>45,012,621</u>	<u>41,110,802</u>
Liabilities:		
Current	26,333,715	9,468,323
Total liabilities	<u>26,333,715</u>	<u>9,468,323</u>
Net position:		
Restricted	18,678,906	31,642,479
Total net position	<u>\$ 18,678,906</u>	<u>\$ 31,642,479</u>

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

The following is a summary of the Trust's change in net position during the years ended June 30, 2016 and June 30, 2015, respectively.

Condensed Statements of Activities

	<u>Year Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Revenues:		
General revenues	\$ 31,718,637	\$ 31,141,583
Total revenues	<u>31,718,637</u>	<u>31,141,583</u>
Expenses:		
Instructional	43,420,663	43,093,587
Support Services	<u>1,261,547</u>	<u>1,421,357</u>
Total expenses	<u>44,682,210</u>	<u>44,514,944</u>
Total change in net position	(12,963,573)	(13,373,361)
Net position - Beginning of year	<u>31,642,479</u>	<u>45,015,840</u>
Net position - End of year	<u>\$ 18,678,906</u>	<u>\$ 31,642,479</u>

In June 2014, Denver Classroom Teachers Association and Denver Public Schools (DPS) collectively bargained a memorandum of understanding that extended the agreement through August 31, 2016. Following are the changes for the year ended June 30, 2016.

- The Index, or starting base pay, increased from \$38,767 to \$39,851.
- Hard-to-Serve and Hard-to-Staff market incentives remained at 6.4% of the Index, or \$2,550.
- The Top Performing Schools incentive remained at 6.4% of the Index, or \$2,550.
- The High Growth Schools incentive remained unchanged at 6.4% of the Index, or \$2,550.
- The CSAP Exceeds Expectations incentive remained unchanged at 6.4% of the Index, or \$2,550.
- Student Loans remained unchanged as a reimbursable expense in the Tuition Reimbursement incentive category. The lifetime maximum for Tuition Reimbursement and Student Loan Repayment was increased to \$4,000. The maximum reimbursement in each year is \$1,000.

For the year ended June 30, 2015, the Trust had investment earnings of \$7,219. For the year ended June 30, 2016, the Trust had investment losses in the amount of \$462,866. The loss for the year ended June 30, 2016 was experienced both in the mid-term and long-term investment categories based on primarily equity investments. Because the Trust now has fewer assets on hand to be invested, all funds are being kept in a pooled investment account for the foreseeable future. This will reduce the risk of investment loss in future years and lower costs by eliminating investment advisory fees.

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Financial Analysis of the Trust's Fund

The Trust uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

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

Budgetary Highlights. The Trust adopted a budget in June 2015. The Denver voters approved the Denver Public Schools referred measure to levy \$25 million in taxes for 2006 collection to be adjusted annually in future years for inflation as measured by the Denver-Boulder-Greeley consumer price index. The projected tax revenue reflected in the final budget for the months of July 2015 through June 2016 as received by the Denver Public Schools from the Denver County Treasurer from September 2015, through August 2016, was \$31.4 million. The actual amount of property tax collection was \$32.1 million. Interest earnings from investment of Trust assets were lower than the amount projected due to market fluctuations. The projected payroll and benefits of teachers who were paid subject to the Professional Compensation System for Teachers Agreement was approximately \$43.2 million. The actual amount of such expenditures was \$43.4 million. Such payments were made in accordance with the Professional Compensation System for Teachers Agreement. Other expenditures of the Trust were less than the amount budgeted.

Capital Asset Administration

The Trust does not own any capital assets.

Economic Factors and Next Year's Budget

In November 2005, the Denver voters approved the Denver Public Schools referred measure to levy \$25 million in taxes for 2006 collection to be adjusted annually in future years for inflation as measured by the Denver-Boulder-Greeley consumer price index. In September 2016, there were approximately 4,941 teachers that were being compensated pursuant to the Professional Compensation System for Teachers Agreement. In May 2016, the Trust Board adopted a budget for the twelve-month period ending June 30, 2017, based on the expected payroll expenditures of \$34,608,533 and expected revenue projection of \$31,940,939.

Requests for Information

This financial report is designed to provide a general overview of the Denver Public Schools Professional Compensation System for Teachers Trust finances for all those with an interest in the Trust's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Denver Public Schools
Chief Financial Officer
1860 Lincoln Street
Denver, CO 80203

BASIC FINANCIAL STATEMENTS

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
STATEMENT OF NET POSITION
June 30, 2016**

ASSETS

Investments	\$ 43,849,477
Property tax receivable	1,163,143
Interest receivable	<u>1</u>
Total assets	<u>45,012,621</u>

LIABILITIES

Accounts payable	3,672,240
Salaries and benefits payable	6,883,827
Due to Denver Public Schools	<u>15,777,648</u>
Total liabilities	<u>26,333,715</u>

NET POSITION

Restricted for performance-based teacher compensation	<u>18,678,906</u>
Total net position	<u>\$ 18,678,906</u>

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

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
FUNCTIONS/PROGRAMS	Expenses			
Governmental activities				
Instructional	\$ 43,420,663	\$ -	\$ -	\$ (43,420,663)
Support services	1,261,547	-	-	(1,261,547)
Total governmental activities	\$ 44,682,210	\$ -	\$ -	(44,682,210)
General revenues:				
Property taxes				32,181,503
Net investment earnings				(462,866)
Total				31,718,637
Change in net position				
Net position - Beginning of year				31,642,479
Net position - End of year				\$ 18,678,906

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

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2016**

ASSETS

Investments	\$ 43,849,477
Property taxes receivable	1,163,143
Interest receivable	1

TOTAL ASSETS	\$ 45,012,621
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LIABILITIES

Accounts payable	\$ 3,672,240
Salaries and benefits payable	6,883,827
Due to Denver Public Schools	15,777,648
Total current liabilities	26,333,715

DEFERRED INFLOWS OF RESOURCES

Unavailable revenue	333,575
Total deferred inflows of resources	333,575

FUND BALANCE

Restricted for:	
Performance-based teacher compensation	18,345,331
Total fund balance	18,345,331

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 45,012,621
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Amounts reported for governmental activities in the statement of net position are different because:

Fund balance	\$ 18,345,331
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Property taxes receivable are not available to pay for current period expenditures and therefore are deferred in the governmental fund financial statements	333,575
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Net position of governmental activities	\$ 18,678,906
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The accompanying notes are an integral part of the financial statements.

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
Year ended June 30, 2016**

REVENUE

Property taxes	\$ 32,138,047
Investment losses	<u>(462,866)</u>
Total revenue	<u>31,675,181</u>

EXPENDITURES

Salaries and benefits (instruction)	43,420,663
Other expenses (general administration)	<u>1,261,547</u>
Total operating expenses	<u>44,682,210</u>

EXCESS OF REVENUES OVER (UNDER) EXPENDITURES (13,007,029)

FUND BALANCE - BEGINNING OF YEAR 31,352,360

FUND BALANCE - END OF YEAR \$ 18,345,331

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

Net change in fund balance \$ (13,007,029)

Some property taxes will not be collected for several months after the Trust's fiscal year ends, and are not considered available revenues and are deferred in the governmental fund financial statements 43,456

Governmental activities change in net position \$ (12,963,573)

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

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 1 – NATURE OF THE ORGANIZATION

Denver Public Schools Professional Compensation System for Teachers, also referred to as "ProComp" (the Trust) is a groundbreaking compensation system that links teacher pay to the instructional mission of School District No. 1 in the City and County of Denver and State of Colorado (Denver Public Schools). Designed in a partnership between the Denver Classroom Teachers Association (DCTA) and the Denver Public Schools, the Trust has received national attention because it rewards teachers for their professional accomplishments while linking pay to student achievement.

The Trust is governed by a Board of Trustees, composed of three representatives of the DCTA, three representatives of Denver Public Schools, and two representatives of the community appointed by the agreement of the other six trustees. The Trust is a blended component unit of Denver Public Schools.

ProComp promotes improved student achievement by:

- Rewarding teachers with bonuses and salary increases for improved student performance
- Encouraging talented teachers to work in schools and assignments with the greatest needs

ProComp helps attract and retain top quality teachers by:

- Allowing teachers to have more direct control of their career with options that reward them for increased knowledge and skills
- Offering salary incentives for satisfactory professional evaluations

Denver Public School's voters went to the polls on November 1, 2005, to approve the \$25 million mill levy to pay for the new ProComp system. Denver Public Schools established the Trust to administer the ProComp dollars. The ProComp mill levy dollars are to be used to pay for the difference between the amount of compensation paid to Denver Public Schools general operating-fund-paid DCTA members who are paid pursuant to the ProComp Agreement and what they would have been paid pursuant to the Master Agreement. In addition, the ProComp mill levy dollars are to be used for reasonable and necessary expenses of administering the Trust such as legal and other professional fees, Trustee expenses, the rental or leasing of equipment and supplies as needed by the Trust. The Trust is responsible for receiving, managing and distributing funds raised by the ProComp mill levy. One of the most important functions of the Trust is to ensure that ProComp is financially stable over time. The Trust also is responsible for monitoring how the District spends the monies derived from the Trust and ensuring that they are spent only for ProComp related expenses and spent in a manner consistent with the ProComp Agreement. A full description of the responsibilities and requirements of the Trust can be found in the Teacher Compensation Trust Agreement that was ratified by the Denver Public Schools Board of Education and the DCTA Executive Board. The Trust Agreement was approved by the Denver Public Schools Board of Education on November 17, 2005.

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The Trust has followed the guidelines of the GASB and has determined that no entities should be included in its basic financial statements as component units. Therefore, the reporting entity consists of the Trust's financial statements only. The Trust is included as a special revenue fund of Denver Public Schools.

Basis of Presentation

The basic financial statements of the Trust have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

For financial statement reporting purposes, the Trust is considered a special-purpose government engaged in a single governmental program.

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 Trust. There is no inter-fund activity to be removed from these statements, as there is only the general fund, a governmental-fund type.

The statement of net position reports all financial and capital resources of the Trust with the difference between the assets, liabilities, and deferred outflows and inflows of resources of the Trust being reported as net position.

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. There are no program revenues; however, there are property tax revenues and investment earnings that are reported 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.

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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Trust considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property tax revenues 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.

The Trust reports the following governmental fund:

General Fund - The General Fund is the operating fund of the Trust. It is used to account for all financial resources and expenditures of the Trust.

Assets, Liabilities, Deferred Inflow of Resources, and Fund Equity

Investments - The Trust accounts for its investments at fair value.

Receivables - The Trust uses the allowance method to record uncollectible accounts. The allowance is based on past experience and on specific analysis of the collectability of individual accounts receivable.

Accrued Salaries Earned But Unpaid - The accrual of salaries earned but unpaid represents the liability to teachers who earn their ProComp mill levy share of salaries over the ten-month school year but are paid over a twelve-month period from September 1 to August 31.

Deferred Inflow of Resources - Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an endorsable legal claim as of June 30, 2016, but which have not met the revenue recognition criteria, have been recorded as a deferred inflow of resources. In governmental fund financial statements, receivables that will not be collected within the available period have been reported as a deferred inflow of resources.

Fund Balance - Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the Trust is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Fund balance can be classified into the following categories: nonspendable, restricted, committed, assigned or unassigned.

Restricted fund balance includes amounts where constraints have been placed on the use of resources by either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. The fund balance for the governmental fund is restricted for performance-based teacher compensation in compliance with the Trust Agreement and the voter-approved mill levy.

Risk Management

The Trust is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions. The Trust is covered through its own fiduciary insurance policy and the Denver Public School's risk management programs and liability insurance policies.

Subsequent Events

The Trust has performed an evaluation of subsequent events through November 4, 2016, which is the date the financial statements were available to be issued, and has considered any relevant matters in the preparation of the financial statements and footnotes.

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

In February each year, a recommendation of all assumptions regarding expenditures is presented to the Transition Team, which consists of 12 members appointed by Denver Public Schools and DCTA, for review and approval at the March meeting. The expenditure assumptions approved by the Transition Team and a recommendation of model assumptions regarding revenue are then presented to the Trust's Board of Directors for approval. The ProComp Agreement specifies the limited circumstances in which the Trust's Board of Directors may deny approval of the Transition Team's expenditure proposal. After the Trust's Board of Directors approves the revenue and expenditure budget, it is then presented to Denver Public Schools.

Denver Public Schools adopts an annual budget for the Trust, following these procedures:

- No later than June 1, the Denver Public Schools Superintendent presents to the Board of Education of Denver Public Schools a proposed operating budget for the fiscal year commencing the following July 1.
- A public hearing is conducted to obtain taxpayer comments.
- A balanced budget and appropriation resolution must be adopted by June 30.
- Monies cannot be expended in excess of the amount appropriated unless an amended or supplemental budget is approved by resolution.
- The Board of Education or management of Denver Public Schools can modify the budget by line item within the total fund appropriation.
- The budget for the Trust's fund is adopted on a basis consistent with GAAP.

Colorado Budget Law requires that all funds have legally adopted budgets and appropriations. The total expenditures for each fund may not exceed the amount appropriated. Appropriations for a fund may be increased if unanticipated revenues offset them. Where applicable, the Board of Trustees includes available fund balance in the amount appropriated in the annual Appropriations Resolution. The Board of Trustees approved the use of fund balance as the Trust's expenditures were expected to exceed its budgeted revenue.

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 4 – INVESTMENTS

Investment Authority

In February 2006, the Trust's Board of Directors approved the investment of the Trust's funds in either of two local government investment pools, which is permissible under Colorado Revised Statutes (CRS) for school districts. Effective August 9, 2006, HB 1287 was signed at which time the Trust was exempted from the investment restrictions placed on local governments. As a result, in August 2007, after conducting an asset liability study, the Trust's Board of Directors adopted an Investment Policy Statement, amended July 8, 2015, which authorizes the following:

- Domestic Equity Managers
 - Capitalization: Large Cap, Mid Cap, Small Cap
 - Style: Growth, Value, or Blended styles
- International Equity Managers
 - Capitalization: Large Cap, Mid Cap, or Small Cap
 - Market Development: Developed or Emerging
 - Style: Growth, Value, or Blended styles
- Fixed Income Managers
 - Issuer (Government, Agency, Corporate, or Blended)
 - Portfolio Duration (Long-Term, Intermediate, or Short-Term)
 - Domestic and/or International
 - Investment Grades (Portfolio to have an average rating of A or better)
- Real Estate Investment Managers
- Cash and Equivalents Funds
 - Money Funds
- Alternative investments including hedging strategies.
 - Hedge Funds
 - Absolute Return Hedge
 - Long/Short Hedge

On May 26, 2016, the Trust Board voted to suspend the investment policy and use a Tier I investment policy utilizing ColoTrust for all investments.

Cash Deposits

The Trust does not have any cash deposits.

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 4 – INVESTMENTS (CONTINUED)

Investments

The following table lists distribution of the Trust’s investments by maturity, which displays sensitivity of the fair values of the Trust’s investments to market rate fluctuations:

Type of Security	Fair Value	12 Months or Less
External Investment Pool	\$ 43,820,202	\$ 43,820,202
Hedge Funds - Partnership/Joint Venture	20,652	20,652
Money Market - Mutual Funds	8,623	8,623
	<u>\$ 43,849,477</u>	<u>\$ 43,849,477</u>

Custodial Credit Risk - The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Trust will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment in debt securities will not fulfill its obligation. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The debt securities of the Trust are held in open-end mutual funds, none of which are rated.

The Trust invests in the Colorado Local Government Liquid Asset Trust (COLOTRUST), which is an investment vehicle established by State statute for local government entities to pool surplus assets. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust is similar to a money market fund, with each share valued at \$1.00. COLOTRUST is rated AAAM by Standard & Poor’s.

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Trust does not have a policy on interest rate risk.

Foreign Currency Rate Risk - Foreign currency rate risk is the risk that changes in monetary exchange rates will adversely affect the fair value of an investment or a deposit in terms of U.S. dollars. The Trust does not have a policy on foreign currency rate risk. The Trust’s international stock investments are in the form of international mutual funds and therefore the amount by currency denomination cannot be determined. The hedge equity investments are limited partnerships with minimal foreign investments.

For the year ended June 30, 2016, the Trust adopted the provisions of GASB Statement No. 72, Fair Value Measurement and Application, which is effective for financial statements periods beginning after June 15, 2015. GASB Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques.

**DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 4 – INVESTMENTS (CONTINUED)

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

The Trust has the following recurring fair value measurements as of June 30, 2016:

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level:				
Hedge Funds-Partnership/Joint Venture	\$ 20,652	\$ -	\$ -	\$ 20,652
Total investments by fair value level	20,652	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,652</u>
External investment pool (measured at net asset value)	43,820,202			
Money market funds (measured at net asset value)	8,623			
Total investments	<u>\$ 43,849,477</u>			

NOTE 5 – RELATED PARTY

Effective February 2, 2006, the Trust entered into an Operational and Administrative Services Agreement with Denver Public Schools. Under this agreement, Denver Public Schools will provide necessary and qualified staffing to perform operational and administrative services. In addition, Denver Public Schools will develop and maintain a fiscal model for staff and consulting time for Trust services under the agreement. The Trust will reimburse Denver Public Schools for Trust expenses paid by Denver Public Schools. In July 2016, the Trust approved a request to pay Denver Public Schools for expenses incurred on behalf of the Trust and accrued \$1,060,525 as a payable to Denver Public Schools as of June 30, 2016. As of June 30, 2016, the Trust had accrued total payables to Denver Public Schools of \$3,672,240 for administrative expenses and \$15,777,648 for return of property tax overpayment.

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

DENVER PUBLIC SCHOOLS
PROFESSIONAL COMPENSATION SYSTEM FOR TEACHERS TRUST
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND
Year Ended June 30, 2016

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
REVENUE				
Property taxes	\$ 31,412,623	\$ 31,443,211	\$ 32,138,047	\$ 694,836
Net investment earnings	1,709,438	893,542	(462,866)	(1,356,408)
Total revenue	<u>33,122,061</u>	<u>32,336,753</u>	<u>31,675,181</u>	<u>(661,572)</u>
EXPENDITURES				
Instruction	38,821,832	43,204,230	43,420,663	(216,433)
Supporting services				
General administration	1,815,555	1,441,924	1,261,547	180,377
Assigned Reserves	<u>-</u>	<u>1,500,000</u>	<u>-</u>	<u>1,500,000</u>
Total expenditures	<u>40,637,387</u>	<u>46,146,154</u>	<u>44,682,210</u>	<u>1,463,944</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(7,515,326)	(13,809,401)	(13,007,029)	802,372
FUND BALANCE - BEGINNING OF YEAR	<u>34,096,905</u>	<u>31,352,360</u>	<u>31,352,360</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 26,581,579</u>	<u>\$ 17,542,959</u>	<u>\$ 18,345,331</u>	<u>\$ 802,372</u>



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Denver Public Schools Professional Compensation System for Teachers Trust
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 Denver Public Schools Professional Compensation System for Teachers Trust, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Denver Public Schools Professional Compensation System for Teachers Trust's basic financial statements, and have issued our report thereon dated November 4, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Denver Public Schools Professional Compensation System for Teachers Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Denver Public Schools Professional Compensation System for Teachers Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of Denver Public Schools Professional Compensation System for Teachers Trust'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 entity'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 or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Denver Public Schools Professional Compensation System for Teachers Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

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 result 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Greenwood Village, Colorado
November 4, 2016