

**AURORA ACADEMY CHARTER SCHOOL**

**BASIC FINANCIAL STATEMENTS**

**June 30, 2016**



**RECEIVED**

*By Justin L. Smith at 2:15 pm, Nov 21, 2016*

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## **FINANCIAL SECTION**



## JOHN CUTLER & ASSOCIATES

Board of Directors  
Aurora Academy Charter School  
Aurora, Colorado

### INDEPENDENT AUDITORS' REPORT

#### Report on the Financial Statements

We have audited the accompanying financial statements governmental activities, each major fund, and the aggregate remaining fund information of Aurora Academy Charter School (the "Academy"), a component unit of the Joint School District No. 28 of the Counties of Adams and Arapahoe, Colorado, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

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

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 evaluation 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.

#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Aurora Academy Charter School, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedule of the school's proportionate share, and schedule of the school's contributions on pages 30-32 be presented to supplement the basic financial statements. Such information, although not 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's financial statements. The individual fund financial statement listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2016 on our consideration of the Aurora Academy Charter School'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 results 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 Aurora Academy Charter School's internal control over financial reporting and compliance.

*John Cutler & Associates, LLC*

September 26, 2016

**Aurora Academy Charter School**  
**(A Component Unit of the Joint School District No. 28-J of the**  
**Counties of Adams and Arapahoe, Colorado)**  
**Management's Discussion and Analysis (Unaudited)**  
**As of and for the Year Ended June 30, 2016**

As management of Aurora Academy Charter School (the Academy), we offer readers of the Academy's basic financial statements this narrative and analysis of the financial activities of the Academy as of and for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information provided in the basic financial statements.

## **Financial Highlights**

The year ended June 30, 2016, is the sixteenth year of operations for the Academy. As of June 30, 2016, the net position was a negative \$3,539,869 due to the implementation of GASB 68 for pensions. Fund Balance increased from \$954,343 to \$1,287,200 at June 30<sup>th</sup> which is a 34.9% increase. The operations of the Academy are funded primarily by tax revenue received under the State School Finance Act (the Act). State categorical revenue (PPR) for the year was \$3,956,367.

## **Overview of Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The basic 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 Academy's finances in a manner similar to a private-sector business.

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

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

The statement of activities presents information showing how the Academy's net position has changed during the 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 the related cash flows. Thus, revenue and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year end).

### ***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.

**Aurora Academy Charter School**  
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**Management’s Discussion and Analysis (Unaudited)**  
**As of and for the Year Ended June 30, 2016**

The Academy, like other local governments, uses fund accounting 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. The Academy maintains one governmental fund, its General Fund, and one proprietary fund, the Building Fund.

The Academy adopts annual budgets for its funds. Budgetary comparisons have been provided for each governmental fund in the basic financial statements to demonstrate compliance with these budgets.

***Notes to Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes are presented on pages 9 through 28.

**Government-wide Financial Analysis**

As noted previously, net position may serve over time as a useful indicator of the Academy’s financial condition. As of June 30, 2016, the Academy’s liabilities and deferred inflows exceeded its assets and deferred outflows by \$3,539,869. \$132,000 of this total 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 Academy. The unrestricted net negative position of \$4,656,170 increased from the prior fiscal year by \$42,375 or .8%, principally because the School operated within its planned budget.

**Aurora Academy Charter School**  
**(A Component Unit of the Joint School District No. 28-J of the**  
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**Management's Discussion and Analysis (Unaudited)**  
**As of and for the Year Ended June 30, 2016**

Net position as of June 30, 2016:

	<b>2016</b>
<b>Assets</b>	
Cash and investments	\$ 1,453,826
Receivables and other current assets	21,503
Capital assets, net	5,629,033
Restricted cash and investments	672,140
Total assets	7,776,502
Deferred Outflows, Pension	880,536
<b>Liabilities</b>	
Accounts payable and interest payable	71,921
Accrued salaries and benefits	141,932
Deposits	38,960
Current portion long-term debt	235,085
Long-term debt Due in more than one year	5,081,787
Net Pension Liability	6,534,605
Total liabilities	12,104,290
Deferred Inflows, Pension	92,617
<b>Net position</b>	
Investment in Capital Assets (net)	984,301
Restricted for TABOR	132,000
Unrestricted	(4,656,170)
Total net position	\$ (3,539,869)

**Aurora Academy Charter School**  
**(A Component Unit of the Joint School District No. 28-J of the**  
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**Management's Discussion and Analysis (Unaudited)**  
**As of and for the Year Ended June 30, 2016**

Change in net position for the year ended June 30, 2016 is as follows:

	<b>2016</b>
Revenues	
Program revenues	
Charges for services	\$ 82,708
Operating grants and contributions	138,555
Capital grants and contributions	152,351
Total program revenues	373,614
General revenues	
State categorical revenue	3,956,367
Mill levy override	297,760
Earnings on investments	47,422
Other	34,684
Total general revenues	4,336,233
Total revenues	4,709,847
Expenditures/expenses	
Current	
Instruction	2,871,637
Supporting services	1,613,013
Interest on long-term debt	186,282
Total expenses	4,670,932
Increase (decrease) in net position	38,915
Net Position, beginning of year	(3,578,784)
Net Position, end of year	\$ (3,539,869)

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

The Academy has one governmental fund, the General Fund, and one proprietary fund, the Building Fund. The General Fund is considered a major fund and is used to account for the Academy's general operations. The General Fund began the year with a positive fund balance of \$954,343. As a result of the School operating within its adjusted budget and saving for the Building Fund Reserve, fund balance increased by \$332,857 to \$1,287,200 at year-end. Eighty four percent of the General Fund balance is unassigned. The Building Corporation was created in 2004 and purchased the School facility on September 17, 2004.

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The Building Fund ended the year with a net position of \$919,617, an increase of \$76,210. A substantial portion of the increase is attributed to the contributed capital or building improvements paid for by the School.

### **General Fund and Building Fund Budgetary Highlights**

The Academy budgeted General Fund expenditures of \$4,841,887 for the year ended June 30, 2016. Actual expenditures were \$4,272,231. The Building Fund had budgeted expenditures of \$685,000 with actual expenditures of \$678,567, resulting in a positive variance of \$6,433.

The School increased General Fund budgeted expenditures by \$175,000 during the year or 3.7%. The Building Fund's budgeted expenditures were increased by \$50,335 or 7.9%.

### **Capital Assets and Debt Administration**

The Academy leases its school facilities under an agreement with the Aurora Academy Building Corporation, a blended component unit of the Academy. The lease is renewable in annual installments beginning each July 1 (subject to TABOR restrictions).

The Building Corporation purchased the facility in September of 2004. Outstanding debt of the Building Corporation at June 30, 2016, was \$5,660,960 which reflects a reduction of \$227,554 from the prior year. The outstanding debt does not consider the impact of the deferred bond premium of \$344,088. The principal reduction will increase to \$235,085 in FY 17.

The asset capitalization threshold is \$5,000. During fiscal year (FY) 15-16, building improvements included fencing and sidewalks.

### **Economic Factors, Next Year's Budget, Student Counts**

The primary factor driving the budget for the Academy is student enrollment. Funded Pupil Count (FPC) has been 463, 474, 482, 497, 497.5, 507.5, 510.8 and 521.2 for FY09, FY10, FY11, FY12, FY13, FY14, FY15 and FY16 respectively. The FPC projected for the Fiscal Year 2016/2017 school year is 514. This factor was considered in preparing the Academy's budget for FY17. There are currently no plans to increase the number of classrooms or significantly change the student body (FPC) in the near future. Overall funding has improved for FY 16-17 with the PPR increasing 1.8%. Depending on the extent of capital improvements, the General Fund Balance should increase 5.6% in FY17.

### **Requests for Information**

The financial report is designed to provide a general overview of the Academy's finances for all those with an interest in the Academy. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Aurora Academy Charter School, 10251 E. 1<sup>st</sup> Avenue, Aurora, Colorado 80010

## **BASIC FINANCIAL STATEMENTS**

AURORA ACADEMY CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2016

	GOVERNMENTAL ACTIVITIES	
	2016	2015
<b>ASSETS</b>		
Cash and Investments	\$ 1,453,826	\$ 1,115,819
Restricted Investments	672,140	656,212
Accounts Receivable	16,705	26,283
Prepaid Expenses	4,798	23,755
Capital Assets, Not Depreciated	310,000	310,000
Capital Assets, Depreciated		
Net of Accumulated Depreciation	5,319,033	5,469,562
TOTAL ASSETS	7,776,502	7,601,631
 <b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Related to Pensions	880,536	383,256
 <b>LIABILITIES</b>		
Accounts Payable	3,777	32,087
Accrued Salaries and Benefits	141,932	138,713
Deposits	38,960	37,435
Accrued Interest	68,144	70,883
Noncurrent Liabilities		
Due Within One Year	235,085	227,554
Due in More Than One Year	5,081,787	5,297,209
Net Pension Liability	6,534,605	5,759,360
TOTAL LIABILITIES	12,104,290	11,563,241
 <b>DEFERRED INFLOWS OF RESOURCES</b>		
Related to Pensions	92,617	430
 <b>NET POSITION</b>		
Investment in Capital Assets	984,301	911,011
Restricted for Emergencies	132,000	124,000
Unrestricted	(4,656,170)	(4,613,795)
TOTAL NET POSITION	\$ (3,539,869)	\$ (3,578,784)

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

AURORA ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION		
		Charges for Services	Operating	Capital	Governmental Activities		
			Grants and Contributions	Grants and Contributions	2016	2015	
<b>Governmental Activities</b>							
Instruction	\$ 2,871,637	\$ -	\$ 128,062	\$ -	\$ (2,743,575)	\$ (2,628,010)	
Supporting Services	1,613,013	82,708	10,493	152,351	(1,367,461)	(1,239,098)	
Interest and Fiscal Charges	186,282	-	-	-	(186,282)	(193,440)	
Total Governmental Activities	<u>\$ 4,670,932</u>	<u>\$ 82,708</u>	<u>\$ 138,555</u>	<u>\$ 152,351</u>	<u>(4,297,318)</u>	<u>(4,060,548)</u>	
		GENERAL REVENUES					
					3,956,367	3,752,648	
					297,760	257,752	
					47,422	21,156	
					34,684	56,483	
					<u>4,336,233</u>	<u>4,088,039</u>	
					CHANGE IN NET POSITION	38,915	27,491
					NET POSITION, Beginning	<u>(3,578,784)</u>	<u>(3,606,275)</u>
					NET POSITION, Ending	<u>\$ (3,539,869)</u>	<u>\$ (3,578,784)</u>

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

AURORA ACADEMY CHARTER SCHOOL

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2016

	GENERAL FUND	
	2016	2015
<b>ASSETS</b>		
Cash and Investments	\$ 1,453,826	\$ 1,115,819
Accounts Receivable	13,245	23,004
Prepaid Expenditures	4,798	23,755
<b>TOTAL ASSETS</b>	<b>\$ 1,471,869</b>	<b>\$ 1,162,578</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 3,777	\$ 32,087
Accrued Salaries and Benefits	141,932	138,713
Deposits	38,960	37,435
<b>TOTAL LIABILITIES</b>	<b>184,669</b>	<b>208,235</b>
<b>FUND BALANCES</b>		
Nonspendable	4,798	23,755
Restricted for Building Reserve	175,000	175,000
Restricted for Emergencies	132,000	124,000
Restricted for Lease Commitment	72,105	72,105
Unassigned	903,297	559,483
<b>TOTAL FUND BALANCES</b>	<b>1,287,200</b>	<b>954,343</b>
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>		
<p>Internal Service funds are used by management to charge the lease costs to governmental funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.</p>	919,617	843,407
<p>Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This liability includes net pension liability of (\$6,534,605), deferred outflows related to pensions of \$880,536, and deferred inflows related to pensions of (\$92,617).</p>	(5,746,686)	(5,376,534)
<b>Net position of governmental activities</b>	<b>\$ (3,539,869)</b>	<b>\$ (3,578,784)</b>

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

AURORA ACADEMY CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2016

	<u>GENERAL FUND</u>	
	<u>2016</u>	<u>2015</u>
REVENUES		
Local Sources	\$ 4,390,551	\$ 4,141,449
State and Federal Sources	<u>214,537</u>	<u>145,145</u>
TOTAL REVENUES	<u>4,605,088</u>	<u>4,286,594</u>
EXPENDITURES		
Current		
Instruction	2,585,918	2,541,707
Supporting Services	<u>1,686,313</u>	<u>1,700,954</u>
TOTAL EXPENDITURES	<u>4,272,231</u>	<u>4,242,661</u>
NET CHANGE IN FUND BALANCES	332,857	43,933
FUND BALANCES, Beginning	<u>954,343</u>	<u>910,410</u>
FUND BALANCES, Ending	<u><u>\$ 1,287,200</u></u>	<u><u>\$ 954,343</u></u>

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

AURORA ACADEMY CHARTER SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2016

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

Net change in fund balances - total governmental funds	\$ 332,857
Deferred Charges related to pension are not recognized in the governmental funds. However, for the government-wide funds that amount is capitalized and amortized.	(370,152)
The Internal Service fund is used by management to charge the cost of lease payments to the governmental funds. The net revenue of the internal service fund is reported with the governmental activities.	<u>76,210</u>
Change in net position of governmental activities	<u>\$ 38,915</u>

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

AURORA ACADEMY CHARTER SCHOOL

STATEMENT OF NET POSITION  
 PROPRIETARY FUND TYPES  
 June 30, 2016

	Governmental Activities- Internal Service Fund	
	2016	2015
ASSETS		
Current Assets		
Restricted Cash and Investments	\$ 672,140	\$ 656,212
Interest Receivable	3,460	3,279
Total Current Assets	<u>675,600</u>	<u>659,491</u>
Long-term Assets		
Capital Assets, Net of Accumulated Depreciation	<u>5,629,033</u>	<u>5,779,562</u>
Total Long-term Assets	<u>5,629,033</u>	<u>5,779,562</u>
TOTAL ASSETS	<u>6,304,633</u>	<u>6,439,053</u>
LIABILITIES		
Current Liabilities		
Interest Payable	68,144	70,883
Bonds Payable - Current Portion	<u>235,085</u>	<u>227,554</u>
Total Current Liabilities	<u>303,229</u>	<u>298,437</u>
Long-Term Liabilities		
Bonds Payable	<u>5,081,787</u>	<u>5,297,209</u>
TOTAL LIABILITIES	<u>5,385,016</u>	<u>5,595,646</u>
NET POSITION		
Net Investment in Capital Assets	916,157	840,128
Unrestricted	<u>3,460</u>	<u>3,279</u>
TOTAL NET POSITION	<u>\$ 919,617</u>	<u>\$ 843,407</u>

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

AURORA ACADEMY CHARTER SCHOOL

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND TYPES  
Year Ended June 30, 2016

	Governmental Activities- Internal Service	
	2016	2015
OPERATING REVENUES		
Rent	\$ 422,464	\$ 422,714
OPERATING EXPENSES		
Purchased Services	5,794	6,267
Other	22,870	-
Depreciation	216,405	210,900
Amortization	19,662	19,662
TOTAL OPERATING EXPENSES	264,731	236,829
OPERATING INCOME	157,733	185,885
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	38,883	14,197
Interest Expense	(186,282)	(193,440)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(147,399)	(179,243)
INCOME BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	10,334	6,642
TRANSFERS AND CAPITAL CONTRIBUTIONS		
Capital Contributions	65,876	158,132
TOTAL TRANSFERS AND CAPITAL CONTRIBUTIONS	65,876	158,132
NET INCOME (LOSS)	76,210	164,774
NET POSITION, Beginning	843,407	678,633
NET POSITION, Ending	\$ 919,617	\$ 843,407

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

AURORA ACADEMY CHARTER SCHOOL

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPES  
 Year Ended June 30, 2016  
 Increase (Decrease) in Cash

	Governmental Activities- Internal Service Fund	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Rent	\$ 422,464	\$ 422,714
Cash Paid to Suppliers	(28,663)	(6,267)
Net Cash Provided by Operating Activities	393,801	416,447
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Income	38,702	14,197
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Interest Expense	(189,021)	(196,092)
Principal Payments on Loan	(227,554)	(220,263)
Net Cash Used by Financing Activities	(416,575)	(416,355)
<b>NET INCREASE (DECREASE) IN CASH</b>	15,928	14,289
CASH, Beginning	656,212	641,923
CASH, Ending	\$ 672,140	\$ 656,212
<b>RECONCILIATION OF OPERATING LOSS TO NET</b>		
<b>CASH USED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 157,733	\$ 185,885
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities		
Depreciation Expense	216,405	210,900
Amortization Expense	19,663	19,662
Total Adjustments	236,068	230,562
Net Cash Provided by Operating Activities	\$ 393,801	\$ 416,447
Non Cash Items		
Capital Assets Contributed from the General Fund	\$ 65,786	\$ -

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

AURORA ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

Aurora Academy Charter School (the “Academy”) was organized pursuant to the Colorado Charter Schools Act to form and operate a Charter School within the Aurora Public School District (the “District”) in the State of Colorado.

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

**Reporting Entity**

The financial reporting entity consists of the Academy and organizations for which the Academy is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the Academy. In addition, any legally separate organizations for which the Academy is financially accountable are considered part of the reporting entity. Financial accountability exists if the Academy appoints a voting majority of the organization’s governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the Academy.

Aurora Academy Building Corporation

The Aurora Academy Building Corporation. (“Corporation”) is considered to be financially accountable to the Academy. The purpose of the Corporation is to provide a mechanism to issue and pay debt on behalf of the Academy. The Corporation is considered to be part of the Academy for financial reporting purposes because its resources are entirely for the direct benefit of the Academy and is blended into the Academy’s financial statements as an internal service fund. Separate financial statements are not available.

The Academy is a component unit of the Aurora Public School District.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

AURORA ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

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

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

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

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

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

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

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

AURORA ACADEMY CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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

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

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

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

The Academy reports the following major governmental fund:

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

Additionally, the Academy reports the following fund types:

The *Internal Service Fund* is used to account for activity of the Building Corporation.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position and balance sheets will sometimes report a separate section for deferred outflows or resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position and fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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

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

*Investments* – Investments are recorded at fair value.

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

AURORA ACADEMY CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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

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

*Prepaid Expenses* – Payments made to vendors for services that will benefit future periods are recorded as prepaid expense. An expenditure is reported in the year in which the services are consumed.

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

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: buildings and improvements 20 - 40 years; equipment 5 years.

*Long-term Debt* – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Issuance costs are recognized in the current period. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

*Net Position* – The government-wide fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted. Net investment in capital assets is intended to reflect the portion of net position which is associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost. Restricted net position is liquid assets, which have third party limitations on their use. Unrestricted net position represents assets that do not have any third party limitations on their use.

AURORA ACADEMY CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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

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

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

- Nonspendable – This classification includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. All amounts reported as nonspendable at June 30, 2016, by the Academy are nonspendable in form as prepaid expenses.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Academy has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The Academy has classified Lease Commitments as restricted as their use is restricted per terms of operating leases.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Academy did not have any committed resources as of June 30, 2016.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

AURORA ACADEMY CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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

**Compensated Absences**

The Academy's policy allows employees to accumulate sick and vacation leave. Employees are paid \$75 a day for any unused paid time off that they have not used at the time that they leave the Academy. They also pay employees for any time off not used in excess of 80 hours as of June 30 of each year. As of June 30, 2016, this liability totaled \$11,266 which has not been recorded in the financial statements as it is not significant to the financial statement as a whole.

**Risk Management**

The Academy 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 Academy carries commercial coverage for these risks of loss. Settled claims have not exceeded insured amounts in the last three years.

**Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Academy's financial position and operations. However, comparative data has not been presented in all statements because such inclusion would make certain statements unduly complex and difficult to understand. Also, certain amounts presented in the prior year data have been reclassified to be consistent with current year's presentation.

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

**Budgets and Budgetary Accounting**

A budget is adopted for all funds on a basis consistent with generally accepted accounting principles.

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

AURORA ACADEMY CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 3: CASH AND INVESTMENTS**

Cash and Investments at June 30, 2016 consisted of the following:

Cash on Hand	\$ 500
Deposits	831,126
Investments	<u>1,294,340</u>
Total	<u>\$ 2,125,966</u>

**Deposits**

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2016, State regulatory commissioners have indicated that all financial institutions holding deposits for the Academy are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group.

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

At June 30, 2016, the Academy had deposits with financial institutions with a carrying amount of \$831,126. The bank balances with the financial institutions were \$879,107. Of these balances \$742,181 were covered by federal depository insurance and \$136,926 were covered by collateral held by authorized escrow agents in the financial institution’s name (PDPA).

**Investments**

Interest Rate Risk

The Academy has adopted a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Academy follows State Statute. The board or the finance committee of the Building Corporation must approve all investments that mature in greater than five years.

AURORA ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

Credit Risk

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

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

It is the Academy's policy to follow Colorado State statutes guidelines for managing credit risk or interest rate risk.

The Academy had invested \$240,017 in the Colorado Government Liquid Asset Trust (COLOTRUST) and \$450,930 in the Colorado Surplus Asset Fund Trust (CSAFE), investment vehicles established for local government entities in Colorado to pool surplus funds and are registered with the State Securities Commissioner. They operate similarly to a money market fund and each share is equal in value to \$1.00. Investments consist of U.S. Treasury and U.S. Agency securities and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities. Colotrust and CSAFE are rated AAAM by Standard and Poor's.

The Academy has invested \$603,393 in government and agency bonds and money markets. These investments have maturity dates ranging from May 2021 to June 2027 and carry interest rates ranging from 2.59% to 3.25% and are rated AA+ by Standard and Poor's.

Fair Value

The Academy 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 observable inputs.

AURORA ACADEMY CHARTER SCHOOL  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2016

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

Fair Value (Continued)

Government Agency Bonds – The fair value of the Government Agency Bonds is determined by quoted prices in active markets and is classified as Level 1.

COLOTRUST – The School holds a position in an external investment pool that is not a 2a7-like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool’s share price multiplied by the number of shares held. The government-investor does not “look through” the pool to report a pro rata share of the pool’s investments, receivables, and payables. Therefore, this investment is categorized as Level 2.

Restricted Cash and Investments

Cash and investments in the amount of \$672,140 are restricted in the Building Corporation for debt service requirements.

**NOTE 4: CAPITAL ASSETS**

Capital Assets activity for the year ended June 30, 2016 is summarized below.

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
<b>Governmental Activities</b>				
Capital assets, Not Depreciated				
Land	\$ 310,000	-	-	\$ 310,000
Capital Assets, Being Depreciated				
Buildings	6,544,243	-	-	6,544,243
Leasehold Improvements	717,163	38,426	-	755,589
Machinery and Equipment	395,614	27,450	-	423,064
Total Capital Assets, Being Depreciated	<u>7,657,020</u>	<u>65,876</u>	<u>-</u>	<u>7,722,896</u>

AURORA ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
Accumulated Depreciation				
Buildings	1,730,436	109,524	-	1,839,960
Leasehold Improvements	287,989	56,417	-	344,406
Machinery and Equipment	169,033	50,464	-	219,497
Total Accumulated Depreciation	2,187,458	216,405	-	2,403,863
Total Capital Assets, Being Depreciated, Net	5,469,562	(150,529)	-	5,319,033
Net Capital Assets	<b>\$ 5,779,562</b>	<b>\$ (150,529)</b>	<b>\$ -</b>	<b>\$ 5,629,033</b>

Depreciation expense is charged to the supporting services program of the Academy.

**NOTE 5: ACCRUED SALARIES AND BENEFITS**

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve-month period from August to July, but are earned during the school year of nine months. The salaries and benefits earned, but unpaid, as of June 30, 2016, were \$141,932 in the General Fund.

**NOTE 6: LONG-TERM DEBT**

Following is a summary of the Academy's long-term debt transactions for the year ended June 30, 2016:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due In</u> <u>One Year</u>
2013 Refunding Bonds	\$ 5,888,514	\$ -	\$ 227,554	\$ 5,660,960	\$ 235,085
Deferred Premium	(363,751)	-	(19,663)	(344,088)	-
<b>Total</b>	<b>\$ 5,524,763</b>	<b>\$ -</b>	<b>\$ 207,891</b>	<b>\$ 5,316,872</b>	<b>\$ 235,085</b>

AURORA ACADEMY CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 6: LONG-TERM DEBT** (Continued)

**2013 Refunding Bonds**

In June 2013, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$6,246,000 Charter School Refunding Bonds. Proceeds of the bonds were used by the Corporation to advance refund the 2004 bonds. The Academy is obligated under a lease agreement to make monthly lease payments to the Corporation for the use of educational facilities. The Corporation is required to make equal loan payments to the Trustee, for payment of the bonds. The bonds accrue in the amount of 3.21% per annum. Interest payments are due semi-annually on February 15 and August 15. Principal payments are due annually on February 15, through 2034.

The advance refunding was done in order to reduce the Academy’s debt payments. The refunding decreased the Academy’s total debt service payments by approximately \$1.6 million. The transaction resulted in an economic gain (difference between the present value of the debt service on the old and new bonds) of \$737,476. Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 235,085	\$ 181,716	\$ 416,801
2018	242,867	174,170	417,037
2019	250,907	166,374	417,281
2020	259,212	158,320	417,532
2021	267,791	150,000	417,791
2022 – 2026	1,477,931	615,222	2,093,153
2027 – 2031	1,739,266	361,784	2,101,050
2032 – 2034	<u>1,187,901</u>	<u>77,092</u>	<u>1,264,993</u>
Total	<u>\$ 5,660,960</u>	<u>\$ 1,884,678</u>	<u>\$ 7,545,638</u>

**NOTE 7: DEFINED BENEFIT PENSION PLAN**

*Pensions.* The School participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees’ Retirement Association of Colorado (“PERA”). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SCHDTF have been determined using the economic resources measurement focus and 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.

AURORA ACADEMY CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN**(Continued)

**General Information about the Pension Plan**

*Plan description.* Eligible employees of the School are provided with pensions through the School Division Trust Fund (SCHDTF)—a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the Colorado Revised Statutes (C.R.S.), administrative rules set forth at 8 C.C.R. 1502-1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

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

The lifetime retirement benefit for all eligible retiring employees under the PERA Benefit Structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

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

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned.

If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

AURORA ACADEMY CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN**(Continued)

**General Information about the Pension Plan** (Continued)

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 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the SCHDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled. 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 SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary.

AURORA ACADEMY CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN** (Continued)

**General Information about the Pension Plan** (Continued)

The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2015	For the Year Ended December 31, 2016
Employer Contribution Rate <sup>1</sup>	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) <sup>1</sup>	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF <sup>1</sup>	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	4.20%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	4.00%	4.50%
Total Employer Contribution Rate to the SCHDTF <sup>1</sup>	17.33%	18.13%

<sup>1</sup>Rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF School were \$351,355 for the year ended June 30, 2016.

At June 30, 2016 the Academy reported a liability of \$6,534,605 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The Academy's proportion of the net pension liability was based on the Academy's contributions to the SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2015, the Academy's proportion was 0.04273%, which was an increase of 0.00023% from its proportion measured as of December 31, 2014.

AURORA ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN** (Continued)

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

For the year ended June 30, 2016 the Academy recognized pension expense of \$721,507. At June 30, 2016, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 86,290	\$ 272
Changes in assumptions or other inputs	N/A	\$92,345
Net difference between projected and actual earnings on pension plan investments	\$ 555,625	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$ 55,381	N/A
Contributions subsequent to the measurement date	\$ 183,240	N/A
Total	\$ 880,536	\$ 92,617

\$183,240 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30, 2016</b>	
2017	\$ 172,579
2018	\$ 166,876
2019	\$ 151,286
2020	\$ 113,938

AURORA ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN**(Continued)

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

*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%
Real wage growth	1.10%
Wage inflation	3.90%
Salary increases, including wage inflation	3.90%-10.10%
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50%
Future post-retirement benefit increases: PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00%
PERA Benefit Structure hired after 12/31/06 (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 1 year, and Females set back 2 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.

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

The following programming changes were made:

- Valuation of the full survivor benefit without any reduction for possible remarriage.
- Reflection of the employer match on separation benefits for all eligible years.
- Reflection of one year of service eligibility for survivor annuity benefit.
- Refinement of the 18-month annual increase timing.
- Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.

AURORA ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN** (Continued)

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

The following methodology changes were made:

- Recognition of merit salary increases in the first projection year.
- Elimination of the assumption that 35% of future disabled members elect to receive a refund.
- Removal of the negative value adjustment for liabilities associated with refunds of future terminating members.
- Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

The SCHDTF'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 November 15, 2013 adoption of the long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>10 Year Expected Geometric Real Rate of Return</b>
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%.

AURORA ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN** (Continued)

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

*Discount rate.* The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.90%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted).

AURORA ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN** (Continued)

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

When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan’s fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.

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

Based on the above actuarial cost method and assumptions, the SCHDTF’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%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-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	\$ 8,470,758	\$6,534,605	\$ 4,924,087

*Pension plan fiduciary net position.* Detailed information about the SCHDTF’s fiduciary net position is available in PERA’s comprehensive annual financial report which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

AURORA ACADEMY CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 7: DEFINED BENEFIT PENSION PLAN** (Continued)

**Other Post-Employment Benefits**

Health Care Trust Fund

*Plan Description* – The School contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at [www.copera.org/investments/pera-financial-reports](http://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 HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2016, 2015 and 2014, the Academy's employer contribution to the HCTF was \$19,105, \$20,222, and \$17,669 respectively, equal to their required contribution for each year.

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgments**

The Academy participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Academy may be required to reimburse the grantor government. As of June 30, 2016, significant amounts of grant expenditures have not been audited, but the Academy believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Academy.

AURORA ACADEMY CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 8:**     **COMMITMENTS AND CONTINGENCIES** (Continued)

**Tabor Amendment**

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The Academy believes it has complied with the Amendment.

As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2016, the reserve of \$132,000 was recorded as a reservation of fund balance in the General Fund.

**NOTE 9:**     **DEFICIT NET POSITION**

The Net Position of the government type activities is in a deficit position of \$3,539,869 due to the Academy including the Net Pension Liability per GASB No. 68.

**REQUIRED SUPPLEMENTARY INFORMATION**

AURORA ACADEMY CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2016

	2016			VARIANCE	2015 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
<b>REVENUES</b>					
Local Sources					
Per Pupil Revenue	\$ 4,099,797	\$ 4,099,797	\$ 3,956,367	\$ (143,430)	\$ 3,752,648
Mill Levy Override	258,000	258,000	297,760	39,760	257,752
Tuition and Fees	50,750	50,750	82,708	31,958	53,765
Grants and Donations	15,340	15,340	10,493	(4,847)	13,842
Interest	7,500	7,500	8,539	1,039	6,959
Other	10,500	10,500	34,684	24,184	56,483
State and Federal Sources					
State and Federal Grants	225,000	225,000	214,537	(10,463)	145,145
<b>TOTAL REVENUES</b>	<b>4,666,887</b>	<b>4,666,887</b>	<b>4,605,088</b>	<b>(61,799)</b>	<b>4,286,594</b>
<b>EXPENDITURES</b>					
General Government					
Current					
Salaries	1,938,116	1,938,116	1,887,844	50,272	1,910,636
Employee Benefits	645,343	645,343	614,116	31,227	602,015
Purchased Services	873,498	873,497	1,247,021	(373,524)	1,170,919
Supplies and Materials	206,865	206,865	337,508	(130,643)	322,063
Property	734,362	734,362	171,043	563,319	224,157
Other	268,703	443,704	14,699	429,005	12,871
<b>TOTAL EXPENDITURES</b>	<b>4,666,887</b>	<b>4,841,887</b>	<b>4,272,231</b>	<b>569,656</b>	<b>4,242,661</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>-</b>	<b>(175,000)</b>	<b>332,857</b>	<b>507,857</b>	<b>43,933</b>
FUND BALANCE, Beginning	1,096,021	1,205,364	954,343	(251,021)	910,410
FUND BALANCE, Ending	\$ 1,096,021	\$ 1,030,364	\$ 1,287,200	\$ 256,836	\$ 954,343

See the accompanying independent auditors' report.

AURORA ACADEMY CHARTER SCHOOL

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE  
SCHOOL DISTRICT TRUST FUND

Years Ended June 30,

	<u>2013</u>	<u>2014</u>	<u>2015</u>
School's proportionate share of the Net Pension Liability	0.042%	0.042%	0.043%
School's proportionate share of the Net Pension Liability	\$ 5,349,153	\$ 5,759,360	\$ 6,534,605
School's covered-employee payroll	\$ 1,732,228	\$ 1,982,536	\$ 1,873,024
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	308.8%	290.5%	348.9%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%

Note: Information above is presented as of the measurement date.

See the accompanying independent auditors' report.

AURORA ACADEMY CHARTER SCHOOL  
 SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS  
 SCHOOL DISTRICT TRUST FUND

Years Ended June 30,

	2014	2015	2016
Statutorily required contributions	\$ 295,035	\$ 355,851	\$ 351,355
Contributions in relation to the Statutorily required contributions	295,035	355,851	351,355
Contribution deficiency (excess)	\$ -	\$ -	\$ -
School's covered-employee payroll	\$ 1,732,228	\$ 1,982,536	\$ 1,873,024
Contributions as a percentage of covered-employee payroll	17.03%	17.95%	18.76%

See the accompanying independent auditors' report.

**INDIVIDUAL FUND FINANCIAL STATEMENTS**

AURORA ACADEMY CHARTER SCHOOL

BUDGETARY COMPARISON STATEMENT  
 BUILDING CORPORATION  
 Year Ended June 30, 2016

	2016			VARIANCE	2015 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
<b>REVENUES</b>					
Local Sources					
Interest Income	\$ 22,640	\$ 22,640	\$ 38,883	\$ 16,243	\$ 14,197
Rent	423,464	423,464	422,464	(1,000)	422,714
Contributions			65,876	65,876	158,132
<b>TOTAL REVENUES</b>	<u>446,104</u>	<u>446,104</u>	<u>527,223</u>	<u>81,119</u>	<u>595,043</u>
<b>EXPENDITURES</b>					
Purchased Services	-	7,000	5,794	1,206	6,267
Other	7,209	25,000	22,870	2,130	-
Depreciation	211,101	220,000	216,405	3,595	210,900
Amortization	-	20,000	19,662	338	19,662
Debt Service					
Principal	220,263	230,000	227,554	2,446	220,263
Interest	196,092	183,000	186,282	(3,282)	193,440
<b>TOTAL EXPENDITURES</b>	<u>634,665</u>	<u>685,000</u>	<u>678,567</u>	<u>6,433</u>	<u>650,532</u>
<b>CHANGE IN FUND BALANCES</b> (Budget Basis)	<u>\$ (188,561)</u>	<u>\$ (238,896)</u>	(151,344)	<u>\$ 87,552</u>	(55,489)
Adjustments to Reconcile Budget Basis to GAAP Basis					
Principal Payments			227,554		220,263
<b>CHANGE IN FUND BALANCE (GAAP Basis)</b>			76,210		164,774
FUND BALANCE, Beginning			843,407		678,633
FUND BALANCE, Ending			<u>\$ 919,617</u>		<u>\$ 843,407</u>

See the accompanying independent auditors' report.

## **COMPLIANCE**



**JOHN CUTLER  
& ASSOCIATES**

To the Board of Directors  
Aurora Academy  
Aurora, Colorado

**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***

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, each major fund and the aggregate remaining fund information of Aurora Academy Charter School as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Aurora Academy's basic financial statements, and have issued our report thereon dated September 26, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Aurora Academy'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 the Aurora Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Aurora Academy'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 Aurora Academy Charter School'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 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

*John Cutler & Associates, LLC*

September 26, 2016