

**ACADEMY CHARTER SCHOOL**  
**BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**



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*By Justin L. Smith at 1:22 pm, Nov 04, 2016*

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## JOHN CUTLER & ASSOCIATES

Board of Directors  
Academy Charter School  
Castle Rock, Colorado

### INDEPENDENT AUDITORS' REPORT

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Academy Charter School (the "School"), a component unit of Douglas County School District RE-1, Colorado, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

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

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

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of 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 and required supplemental information on pages 31 - 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*John Luttrell & Associates, LLC*

October 17, 2016

## **Academy Charter School Management's Discussion and Analysis**

As management of Academy Charter School (ACS or the School), we offer readers of Academy Charter School's financial statements our narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016.

### **Financial Highlights**

The year ended June 30, 2016 is the twenty-second year of operations for ACS. As of June 30, 2016, net position increased by \$490,778 to \$(4,072,699). This negative balance is the result of the implementation of regulations under the Governmental Accounting Standards Board Statement (GASB) Number 68. Further information about GASB 68 is provided in Note 8 of the financial statements.

The operations of the School are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue. Such revenue for the year was \$4,451,053. At the close of the fiscal year, Academy Charter School's governmental funds reported a combined ending fund balance of \$3,011,253, an increase of \$456,245 from prior year. This increase is the result of an increase in student count and closely monitoring spending throughout the year.

### **Overview of Financial Statements**

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

#### ***Government-Wide Financial Statements***

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

The statement of net position presents information on all of the School's assets, liabilities, and deferred inflows and outflows, 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 School is improving or deteriorating.

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

The government-wide statement of activities distinguishes functions/programs of the school supported primarily by Per Pupil Revenue or other revenues passed through from the authorizer (Douglas County School District). The governmental activities of the School include 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 School, like other governmental units or schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

The school adopts annually appropriated budgets for any governmental funds. A budgetary comparison schedule for each governmental fund has been provided herein.

**Proprietary Funds.** The School also maintains a proprietary fund to record the activity of Castle Rock Lifelong Learning Center (CRLLC). CRLLC was formed solely to issue and pay debt on behalf of the School.

### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 9-30.

## **Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of Academy Charter School, liabilities exceeded assets resulting in a net position of \$(4,072,699) in FY 2015-2016. Again, this is directly related to the new pension liability reporting requirement under GASB 68. Of the School's total net position, \$156,000 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 the school's general operating expenses.

**Academy Charter School's Net Position  
Governmental Activities**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>ASSETS</b>		
Cash and Investments	\$ 3,356,666	\$ 2,652,801
Restricted Cash and Investments	533,014	801,590
Accounts Receivable	751	191,230
Prepaid Expenses	-	27,317
Capital Assets, Not Depreciated	1,386,531	1,354,756
Capital Assets, Net of Accum Depreciation	4,845,132	5,023,385
<b>Total Assets</b>	<b>10,122,094</b>	<b>10,051,079</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Loss on Debt Refunding, Net of Accum Amortization	504,324	529,540
Related to Pensions	870,194	845,336
<b>Total Deferred Outflows of Resources</b>	<b>1,374,518</b>	<b>1,374,876</b>
<b>LIABILITIES</b>		
Accounts Payable	41,390	16,769
Accrued Salaries & Benefits	274,783	268,390
Unearned Revenues	-	300
Noncurrent Liabilities		
Due in One Year	115,000	180,000
Due in More than One Year	6,607,567	6,608,793
Net Pension Liability	6,367,656	8,914,681
<b>Total Liabilities</b>	<b>13,406,396</b>	<b>15,988,933</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Related to Pensions	2,162,915	499
<b>NET POSITION</b>		
Investment in Capital Assets	42,110	390,938
Restricted for Emergencies	156,000	151,000
Unrestricted	(4,270,809)	(5,105,415)
<b>Total Net Position</b>	<b>\$ (4,072,699)</b>	<b>\$ (4,563,477)</b>

The largest portion of the School's assets is in capital assets, at 62% of total assets in 2016.

**Academy Charter School's Change in Net Position  
Governmental Activities**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Program Revenue:		
Charges for Services	\$ 296,769	\$ 288,654
Operating Grants and Contributions	90,429	81,186
Capital Grants and Contributions	163,909	106,333
Total Program Revenue	551,107	476,173
General Revenue:		
Per Pupil Revenue	4,451,053	4,230,402
Mill Levy Revenue	348,435	349,212
Investment Earnings	7,040	8,206
Other	9,773	61,527
Total General Revenue	4,816,301	4,649,347
<b>Total Revenue</b>	5,367,408	5,125,520
Expenses:		
Current:		
Instruction	3,013,332	3,036,732
Supporting Services	1,368,900	1,473,577
Interest and Fiscal Charges	494,398	323,653
Total Expenses	4,876,630	4,833,962
<b>Increase/(Decrease) in Net Position</b>	490,778	291,558
<b>Net Position, Beginning</b>	(4,563,477)	(4,855,035)
<b>Net Position, Ending</b>	\$ (4,072,699)	\$ (4,563,477)

The largest portion of the School's revenues came from per pupil revenue – 83%, respectively in 2016.

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

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

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

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$3,011,253, an increase of \$456,245 from prior year.

### **General Fund Budgetary Highlights**

The School approves a final general fund budget in May based on enrollment projections for the school year. In October, after enrollment stabilizes, adjustments are made to the budget. At year-end, the school had some variances between its final budgeted and actual activities. Overall, the school recognized \$109,695 more revenue than expected and spent \$(117,308) less than planned, when compared to the final budget. One budget amendment was made during FY 2015-2016.

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

The School has invested in capital assets in the form of the school's building, land improvements, and equipment. Depreciation expenses for capital assets are booked under the Supporting expenses of the School's operations. See Note 4 for more information.

The School has long-term debt in the form of refunding revenue bonds. During fiscal year 2015-2016, proceeds from 2016 bonds were used to advance refund 2006 revenue bonds, originally issued to advance refund 2000 bonds. The School is required to make equal lease payments to CRLLC for the use of the building. CRLLC is required to make equal lease payments to the Trustee for payment of the bonds. See Note 6 for more information.

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

The primary factor driving the budget for Academy Charter School is student enrollment. Enrollment for the 2015-2016 school year was 634.10 funded students. This information was analyzed as part of the 2016-2017 budget which is projecting a 638.00 funded student count.

### **Requests for Information**

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

Academy Charter School  
1551 Prairie Hawk Drive  
Castle Rock, CO 80109

## **BASIC FINANCIAL STATEMENTS**

ACADEMY CHARTER SCHOOL

STATEMENT OF NET POSITION

June 30, 2016

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and Investments	\$ 3,356,666	\$ 2,652,801
Restricted Cash and Investments	533,014	801,590
Accounts Receivable	751	191,230
Prepaid Expenses	-	27,317
Capital Assets, Not Being Depreciated	1,386,531	1,354,756
Capital Assets, Depreciated, Net of Accumulated Depreciation	<u>4,845,132</u>	<u>5,023,385</u>
<b>TOTAL ASSETS</b>	<u>10,122,094</u>	<u>10,051,079</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Loss on Debt Refunding, Net of Accumulated Amortization	504,324	529,540
Related to Pensions	<u>870,194</u>	<u>845,336</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,374,518</u>	<u>1,374,876</u>
<b>LIABILITIES</b>		
Accounts Payable	41,390	16,769
Accrued Salaries and Benefits	274,783	268,390
Unearned Revenue	-	300
Noncurrent Liabilities		
Due Within One Year	115,000	180,000
Due in More Than One Year	6,607,567	6,608,793
Pension Liability	<u>6,367,656</u>	<u>8,914,681</u>
<b>TOTAL LIABILITIES</b>	<u>13,406,396</u>	<u>15,988,933</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Related to Pensions	<u>2,162,915</u>	<u>499</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	42,110	390,938
Restricted for Emergencies	156,000	151,000
Unrestricted	<u>(4,270,809)</u>	<u>(5,105,415)</u>
<b>TOTAL NET POSITION</b>	<u>\$ (4,072,699)</u>	<u>\$ (4,563,477)</u>

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

ACADEMY CHARTER SCHOOL

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			Net Expense (Revenue) and Changes in Net Position Governmental Activities	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2016	2015
<b>PRIMARY GOVERNMENT</b>						
Governmental Activities						
Instruction	\$ 3,013,332	\$ 272,675	\$ 2,774	\$ -	\$ (2,737,883)	\$ (2,793,860)
Supporting Services	1,368,900	24,094	87,655	163,909	(1,093,242)	(1,240,276)
Interest and Fiscal Charges	494,398	-	-	-	(494,398)	(323,653)
Total Governmental Activities	<u>\$ 4,876,630</u>	<u>\$ 296,769</u>	<u>\$ 90,429</u>	<u>\$ 163,909</u>	<u>(4,325,523)</u>	<u>(4,357,789)</u>
GENERAL REVENUES						
Per Pupil Revenue					4,451,053	4,230,402
Mill Levy Override					348,435	349,212
Investment Earnings					7,040	8,206
Other					9,773	61,527
TOTAL GENERAL REVENUES					<u>4,816,301</u>	<u>4,649,347</u>
CHANGE IN NET POSITION					490,778	291,558
NET POSITION, Beginning,					<u>(4,563,477)</u>	<u>(4,855,035)</u>
NET POSITION, Ending					<u>\$ (4,072,699)</u>	<u>\$ (4,563,477)</u>

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

ACADEMY CHARTER SCHOOL

BALANCE SHEET  
ALL GOVERNMENTAL FUNDS  
June 30, 2016

	<u>GENERAL FUND</u>	
	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and Investments	\$ 3,326,675	\$ 2,621,920
Accounts Receivable	751	191,230
Prepaid Expenses	-	27,317
	<u>-</u>	<u>27,317</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,327,426</u>	<u>\$ 2,840,467</u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 41,390	\$ 16,769
Accrued Salaries and Benefits	274,783	268,390
Unearned Revenue	-	300
	<u>-</u>	<u>300</u>
<b>TOTAL LIABILITIES</b>	<u>316,173</u>	<u>285,459</u>
<b>FUND BALANCES</b>		
Nonspendable for Prepaid Expenses	-	27,317
Restricted for Emergencies	156,000	151,000
Unassigned	2,855,253	2,376,691
	<u>2,855,253</u>	<u>2,376,691</u>
<b>TOTAL FUND BALANCES</b>	3,011,253	2,555,008
<b>TOTAL LIABILITIES AND FUND BALANCES</b>		
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	237,382	184,705
Long-term liabilities and related assets related to pensions are not due and payable in the current period and therefore, are not reported in the funds. This liability includes includes net pension liability (\$6,367,656), deferred outflows related to pensions \$870,194, and deferred inflows related to pensions (\$2,162,915).	(7,660,377)	(8,069,844)
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 position.	<u>339,043</u>	<u>766,654</u>
Net position of governmental activities	<u>\$ (4,072,699)</u>	<u>\$ (4,563,477)</u>

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

ACADEMY CHARTER SCHOOL

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

	GENERAL FUND	
	2016	2015
REVENUES		
Local Sources	\$ 5,200,459	\$ 5,012,667
State and Federal Sources	166,683	112,513
TOTAL REVENUES	<u>5,367,142</u>	<u>5,125,180</u>
EXPENDITURES		
Instruction	3,335,400	3,048,781
Supporting Services	1,782,725	1,881,739
TOTAL EXPENDITURES	<u>5,118,125</u>	<u>4,930,520</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>249,017</u>	<u>194,660</u>
OTHER FINANCING SOURCES (USES)		
Transfers In	<u>207,228</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	456,245	194,660
FUND BALANCES, Beginning	2,555,008	2,233,049
Prior Period Adjustment	<u>-</u>	<u>127,299</u>
FUND BALANCES, Ending	<u>\$ 3,011,253</u>	<u>\$ 2,555,008</u>

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

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	\$ 456,245
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlay \$72,146 exceeded depreciation (\$19,469) for the year.	52,677
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.	(427,611)
Deferred Charges related to pensions are not recognized in the governmental funds. However, in the government-wide statements these amounts are capitalized and amortized.	<u>409,467</u>
Change in net position of governmental activities	<u><u>\$ 490,778</u></u>

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

ACADEMY CHARTER SCHOOL

STATEMENT OF NET POSITION  
 PROPRIETARY FUND TYPE  
 June 30, 2016

	GOVERNMENTAL ACTIVITIES	
	Internal Service Fund	
	2016	2015
ASSETS		
Current Assets		
Cash and Investments	\$ 29,991	\$ 30,881
Restricted Cash and Investments	533,014	801,590
Total Current Assets	563,005	832,471
Long-term Assets		
Capital Assets, Net of Accumulated Depreciation	5,994,281	6,193,436
Total Long-term Assets	5,994,281	6,193,436
DEFERRED OUTFLOW OF RESOURCES		
Loss on Debt Refunding, Net of Accumulated Amortization	504,324	529,540
TOTAL ASSETS	7,061,610	7,555,447
LIABILITIES		
Current Liabilities		
Bonds Payable - Current Portion	115,000	180,000
Total Current Liabilities	115,000	180,000
Long-Term Liabilities		
Bonds Payable	6,607,567	6,608,793
TOTAL LIABILITIES	6,722,567	6,788,793
NET POSITION		
Net Investment in Capital Assets	(195,272)	206,233
Unrestricted	534,315	560,421
TOTAL NET POSITION	\$ 339,043	\$ 766,654

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

ACADEMY CHARTER SCHOOL

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

	GOVERNMENTAL ACTIVITIES	
	Internal Service Fund	
	2016	2015
OPERATING REVENUES		
Rent	\$ 525,387	\$ 498,805
Investment Income	142	40
Other	124	300
	<u>525,653</u>	<u>499,145</u>
OPERATING EXPENSES		
Purchased Services	1,060	4,137
Depreciation	199,155	199,155
Amortization	51,423	26,464
	<u>251,638</u>	<u>229,756</u>
OPERATING INCOME	<u>274,015</u>	<u>269,389</u>
NON-OPERATING EXPENSES		
Interest Expense	(321,400)	(323,653)
Bond Issue Costs	(172,998)	-
	<u>(494,398)</u>	<u>(323,653)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(220,383)</u>	<u>(54,264)</u>
Transfer Out	<u>(207,228)</u>	<u>-</u>
NET INCOME (LOSS)	(427,611)	(54,264)
NET POSITION, Beginning	<u>766,654</u>	<u>820,918</u>
NET POSITION, Ending	<u>\$ 339,043</u>	<u>\$ 766,654</u>

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

ACADEMY CHARTER SCHOOL

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

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>Internal Service Fund</u>	
	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Rental Operations and Other	\$ 525,511	\$ 499,105
Cash Paid to Suppliers	(1,060)	(4,137)
Investment Income	142	40
Net Cash Provided (Used) by Operating Activities	<u>524,593</u>	<u>495,008</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Interest Expense	(321,400)	(323,653)
Bond Issuance Costs	(172,998)	-
Proceeds from Issuance of Bonds	6,722,567	-
Payments to Escrow Agent	(6,635,000)	-
Principal Payments on Bond	(180,000)	(170,000)
Net Cash Used by Capital Financing Activities	<u>(586,831)</u>	<u>(493,653)</u>
<b>CASH FLOWS FROM NON CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Transfer	(207,228)	-
Net Cash Used by Non Capital Financing Activities	<u>(207,228)</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(269,466)	1,355
CASH, Beginning	<u>832,471</u>	<u>831,116</u>
CASH, Ending	<u>\$ 563,005</u>	<u>\$ 832,471</u>
<b>RECONCILIATION OF OPERATING INCOME TO</b>		
<b>NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 274,015	\$ 269,389
Adjustments to Reconcile Operating Income		
to Net Cash Used by Operating Activities		
Depreciation Expense	199,155	199,155
Amortization Expense	51,423	26,464
Total Adjustments	<u>250,578</u>	<u>225,619</u>
Net Cash (Used) by Operating Activities	<u>\$ 524,593</u>	<u>\$ 495,008</u>

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

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

Academy Charter School (the “School”) was formed in 1993 pursuant to the Colorado Charter Schools Act to form and operate a charter school. The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental units. Following is a summary of the more significant policies.

**Reporting Entity**

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

Based upon the application of these criteria, the following organization is included in the School’s reporting entity.

Castle Rock Lifelong Learning Center (CRLLC)

The purpose of the CRLLC is to provide a mechanism to issue and pay debt on behalf of the School. The CRLLC is considered to be part of the School’s for financial reporting purposes because its resources are entirely for the direct benefit of the School and is blended into the School’s financial statements as an internal service fund. As part of its ongoing responsibilities, the CRLLC provides the School with monthly financial statements. Separate financial statements are not available.

The School is a component unit of the Douglas County School District RE-1, Douglas County, Colorado.

**Government-Wide and Fund Financial Statements**

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

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 School.

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 School's policy to use restricted resources first and the unrestricted resources as they are needed.

The School reports the following major governmental funds:

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

Additionally, the School reports the following fund types:

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

**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.

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**

*Investments* – Investments are recorded at fair value.

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

*Prepaid Expenses* – Certain payments to vendors reflect costs applicable to future years and are reported as prepaid expenses.

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

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 improvement 10 - 45 years, land improvements 15 – 20 years, vehicles and equipment 10 years.

*Unearned Revenue*– Unearned revenues include grants and donations received before the eligibility requirements by the grantor have been met.

*Long Term Obligations* - In the government-wide financial statements, and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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 debt service expenditures.

*Compensated Absences* – Employees of the School are allowed to earn paid time off (PTO). However, employees are not paid for the accrued compensated absences upon termination of employment. Therefore, no liability has been reported in the financial statements.

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)

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

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

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

- Nonspendable – This classification includes amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The School does not report any balances as nonspendable as of June 30, 2016.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.

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)

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 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 School would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned fund balances.

**Risk Management**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries commercial insurance for these risks of loss. Settled claims have not exceeded any coverages in the last three years.

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

**Budgets and Budgetary Accounting**

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

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

**NOTE 3: CASH AND INVESTMENTS**

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

Deposits	\$ 3,279,378
Investments	<u>610,302</u>
Total	<u>\$ 3,889,680</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 School are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held.

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

**Deposits (Continued)**

The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The School has no policy regarding custodial credit risk for deposits.

At June 30, 2016, the School had deposits with financial institutions with a carrying amount of \$3,279,378. The bank balances with the financial institutions were \$3,284,944. Of these balances \$250,000 were covered by federal depository insurance and \$3,034,944 were covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

**Investments**

Interest Rate Risk

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

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which includes:

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

The above investments are authorized for all funds and fund types used by Colorado municipalities.

At June 30, 2016, The School invested \$533,014 in the Federated Treasury Obligation Fund. The Fund invests exclusively in US Treasury Obligations and repurchase agreements that are fully collateralized by US Treasury Obligations. The Fund is rated AAAM by Standard and Poor's.

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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

**Investments** (Continued)

The School had invested \$77,288 in the Colorado Local Government Liquid Asset Trust (COLOTRUST), which has a credit rating of AAAM by Standard and Poor's. COLOTRUST is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates 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.

Restricted Cash

Cash in the amount of \$533,014 is restricted for debt service in the Internal Service Fund.

**NOTE 4 CAPITAL ASSETS**

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

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2016</u>
<b>Governmental Activities</b>				
Capital Assets, Not Depreciated				
Land	\$ 1,354,756	\$ -	\$ -	\$ 1,354,756
Construction in progress	-	31,775	-	31,775
Total Capital Assets, Not Depreciated	<u>1,354,756</u>	<u>31,775</u>	-	<u>1,386,531</u>
Capital Assets, Depreciated				
Buildings and Improvements	6,165,477	40,371	-	6,205,848
Land Improvements	1,120,976	-	-	1,120,976
Equipment	<u>123,459</u>	-	-	<u>123,459</u>
Total Capital Assets, Depreciated	<u>7,409,912</u>	<u>40,371</u>	-	<u>7,450,283</u>

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2016</u>
Accumulated Depreciation				
Buildings and Improvements	1,905,839	147,604	-	2,053,443
Land Improvements	363,332	67,509	-	430,841
Equipment	<u>117,356</u>	<u>3,511</u>	-	<u>120,867</u>
Total Accumulated Depreciation	<u>2,386,527</u>	<u>218,624</u>	-	<u>2,605,151</u>
Net Capital Assets, Depreciated	<u>5,023,385</u>	<u>(178,253)</u>	-	<u>4,845,132</u>
Net Capital Assets	<u>\$ 6,378,141</u>	<u>\$ (146,478)</u>	<u>\$ -</u>	<u>\$ 6,231,663</u>

Depreciation has been charged to the Supporting Services program of the School.

**NOTE 5:**     **ACCRUED SALARIES AND BENEFITS**

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during a school year of nine months. The salaries and benefits earned, but unpaid, as of June 30, 2016, were \$274,783 in the General Fund.

**NOTE 6:**     **LONG-TERM DEBT**

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

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2016</u>	Due In <u>One Year</u>
2006 Bonds Payable	\$ 6,815,000	\$ -	\$ 6,815,000	\$ -	\$ -
2016 Bonds Payable	-	6,210,000	-	6,210,000	115,000
2016 Bond Premium	-	512,567	-	512,567	-
Discount	<u>(26,207)</u>	<u>-</u>	<u>(26,207)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 6,788,793</u>	<u>\$ 6,722,567</u>	<u>\$ 6,788,793</u>	<u>\$ 6,722,567</u>	<u>\$ 115,000</u>

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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

**2006 Bonds Payable**

In September 2006, the Colorado Educational and Facilities Authority (CECFA) issued \$7,790,000 Charter School Revenue Refunding Bonds, Series 2006A and \$85,000 Taxable Charter School Revenue Refunding Bonds, Series 2016B. Proceeds from the bonds were used to refund the CECFA's outstanding Series 2006 Bonds. The School is required to make lease payments to the CRLLC for the use of the building. The CRLLC is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at a rate ranging from 4% to 5.625% per year. Interest payments are due semi-annually on June 15 and December 15 and principal payments were due annually on December 15 through 2036. The bonds were fully refunded in May of 2016 using the proceeds from the 2016 Refunding Revenue Bonds.

**2016 Bonds Payable**

In May 2016, the Colorado Educational and Facilities Authority (CECFA) issued \$6,125,000 Charter School Revenue Refunding Bonds, Series 2016A and \$195,000 Taxable Charter School Revenue Refunding Bonds, Series 2016B. Proceeds from the bonds were used to advance refund the CECFA's outstanding Series 2006 Bonds. The School is required to make lease payments to the CRLLC for the use of the building. The CRLLC is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at a rate ranging from 1.75% to 5.0% per year. Interest payments are due semi-annually on June 15 and December 15 and principal payments were due annually on December 15 through 2036.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 115,000	\$ 253,725	\$ 368,725
2018	205,000	234,775	439,775
2019	215,000	228,475	443,475
2020	220,000	220,850	440,850
2021	230,000	211,850	441,850
2022-2026	1,275,000	912,750	2,187,750
2027-2031	1,570,000	615,300	2,185,300
2032-2036	1,950,000	235,850	2,185,850
2037	<u>430,000</u>	<u>6,987</u>	<u>436,987</u>
Total	<u>\$ 6,210,000</u>	<u>\$ 2,920,562</u>	<u>\$ 9,130,562</u>

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

**Advance Refunding**

On May 20, 2016, the School issued \$6,210,000 of Charter School Refunding Revenue Bonds Series 2016A and Federally Taxable Series 2016B, with an average interest rate of 3.86%. The bonds consist of serial bonds bearing various fixed rates ranging from 3.0% to 5.0% with annual maturities from December 2016 through December 2036. The net proceeds of \$6,771,232 (after issuance costs of \$172,998, plus premium of \$512,567) were used to advance refund the Series 2006 Bonds with a total principal amount of \$6,815,000 and an average interest rate of 4.71%.

The net proceeds were used to purchase U.S. government securities. Those securities were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from the School's liabilities. The advance refunding was done in order to reduce debt payments in the short-term.

The transaction resulted in an economic gain (difference between the present value of the debt service on the old and the new bonds) of approximately \$890,000.

**Defeased Bonds**

Defeased bonds in the amount of \$6,635,000 were outstanding as of June 30, 2016.

**NOTE 7: INTERFUND TRANSFERS**

During the year ended June 30, 2016, the Internal Service Fund transferred \$207,228 to the General Fund. The amount represents the reserve funds from the 2006 bonds which were refunded by the bond trustee with the issuance of the 2016 bonds.

**NOTE 8: DEFINED BENEFIT PENSION PLAN**

**Summary of Significant Accounting Policies**

*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.

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8: DEFINED BENEFIT PENSION PLAN**(Continued)

**Summary of Significant Accounting Policies** (Continued)

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**General Information about the Pension Plan**

*Plan description.* Eligible employees of the School are provided with pensions through the 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.

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8:**     **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.

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 8: 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 School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF School were \$479,927 for the year ended June 30, 2016.

At June 30, 2016 the School reported a liability of \$6,367,656 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 School's proportion of the net pension liability was based on the School'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 School's proportion was 0.04163%, which was a decrease of 0.02414% from its proportion measured as of December 31, 2014.

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8: 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, 2015 the School recognized pension expense of \$70,460. At June 30, 2016, the School 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	\$ 84,086	\$ 265
Changes of assumptions or other inputs	N/A	N/A
Net difference between projected and actual earnings on pension plan investments	\$ 541,429	N/A
Changes in assumptions and other inputs	N/A	\$ 89,986
Changes in proportion and differences between contributions recognized and proportionate share of contributions	N/A	\$ 2,072,664
Contributions subsequent to the measurement date	\$ 244,679	N/A
TOTAL	\$870,194	\$2,162,915

\$244,679 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,</b>	
2017	\$(607,622)
2018	\$(607,574)
2019	\$(433,232)
2020	\$ 111,028

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 8: 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, 2014 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.

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8: 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%.

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8: 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.

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 8: DEFINED BENEFIT PENSION PLAN**(Continued)

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

- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan’s fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan’s fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
  
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above 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 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (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	\$8,254,343	\$6,367,656	\$4,798,284

*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).

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 8: 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 and 2015 the School's contributions to the HCTF were \$26,091 and \$28,147, respectively, equal to their required contribution for each year.

**NOTE 9: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgments**

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

ACADEMY CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

**NOTE 9:**     **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 School believes it has complied with the Amendment. As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2016, the reserve of \$156,000 was recorded as a reservation of fund balance in the General Fund.

**NOTE 10:**     **DEFICIT NET POSITION**

The net position of the governmental activities is in a deficit position of \$4,072,699 due to the School including its Net Pension Liability per the requirements of GASB Statement No. 68.

**REQUIRED SUPPLEMENTARY INFORMATION**

ACADEMY CHARTER SCHOOL

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)	2015 ACTUAL
<b>REVENUES</b>					
Local Sources					
Per Pupil Operating Revenue	\$ 4,200,051	\$ 4,422,350	\$ 4,451,053	\$ 28,703	\$ 4,230,402
Mill Levy Override	358,915	358,466	348,435	(10,031)	349,212
Tuition and Fees	83,325	163,081	169,951	6,870	100,420
Charges for Services	18,180	25,200	24,094	(1,106)	51,962
Pupil Activities	40,400	87,500	102,724	15,224	136,272
Gifts and Contributions	-	25,000	87,655	62,655	75,006
Earnings on Investments	8,080	8,100	6,898	(1,202)	8,166
Other Revenue	-	-	9,649	9,649	61,227
State and Federal Sources					
Grants and Donations	60,600	167,750	166,683	(1,067)	112,513
<b>TOTAL REVENUES</b>	<b>4,769,551</b>	<b>5,257,447</b>	<b>5,367,142</b>	<b>109,695</b>	<b>5,125,180</b>
<b>EXPENDITURES</b>					
Current					
Salaries	2,520,326	2,824,106	2,795,172	28,934	2,775,072
Employee Benefits	732,108	826,595	824,712	1,883	720,093
Purchased Services	724,834	1,048,332	1,053,779	(5,447)	990,534
Supplies and Materials	474,528	310,100	215,739	94,361	229,031
Property	285,224	147,300	187,186	(39,886)	201,121
Other	-	79,000	41,537	37,463	14,669
<b>TOTAL EXPENDITURES</b>	<b>4,737,020</b>	<b>5,235,433</b>	<b>5,118,125</b>	<b>117,308</b>	<b>4,930,520</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>32,531</b>	<b>22,014</b>	<b>249,017</b>	<b>227,003</b>	<b>194,660</b>
<b>OTHER FINANCING SOURCES</b>					
Transfers In	-	-	207,228	207,228	-
<b>NET CHANGE IN FUND BALANCES</b>	<b>32,531</b>	<b>22,014</b>	<b>456,245</b>	<b>434,231</b>	<b>194,660</b>
FUND BALANCE, Beginning	3,714,484	3,714,484	2,555,008	(1,159,476)	2,233,049
Prior Period Adjustment	-	-	-	-	127,299
<b>FUND BALANCE, Ending</b>	<b>\$ 3,747,015</b>	<b>\$ 3,736,498</b>	<b>\$ 3,011,253</b>	<b>\$ (725,245)</b>	<b>\$ 2,555,008</b>

See the accompanying independent auditors' report.

ACADEMY CHARTER SCHOOL

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

Years Ended December 31,

	<u>2013</u>	<u>2014</u>	<u>2015</u>
School's proportionate share of the Net Pension Liability	0.0650%	0.0660%	0.0416%
School's proportionate share of the Net Pension Liability	\$ 8,314,028	\$ 8,914,681	\$ 6,367,656
School's covered-employee payroll	\$ 2,627,720	\$ 2,715,488	\$ 1,653,518
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	316.4%	328.3%	385.1%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%

See the accompanying independent auditors' report.

ACADEMY CHARTER SCHOOL  
SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS  
SCHOOL DIVISION TRUST FUND

Years Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Statutorily required contributions	\$ 449,553	\$ 493,350	\$ 479,927
Contributions in relation to the Statutorily required contributions	<u>449,553</u>	<u>493,350</u>	<u>479,927</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,645,098	\$ 2,759,465	\$ 2,557,961
Contributions as a percentage of covered-employee payroll	17.00%	17.88%	18.76%

See the accompanying independent auditors' report.