

LEGACY ACADEMY

FINANCIAL STATEMENTS

June 30, 2016



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Board of Directors
Legacy Academy
Elizabeth, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Legacy Academy, component unit of Elizabeth School District C-1, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Legacy Academy, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 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, the business-type activities, and each major fund of the Legacy Academy as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters (Required Supplementary Information)

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and the required supplementary information listed in the table of contents 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 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.

Ernst & Young LLP

November 11, 2016

LEGACY ACADEMY
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Introduction

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

Financial Highlights

Fiscal year ended June 30, 2016 is the second year reporting net pension liability and deferred inflows and outflows following Governmental Accounting Standards Board Statement (GASB) No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. As such, the School included the Net Pension Liability in the amount of \$5,041,583 for FY 2016 and \$4,584,706 for FY 2015 as a noncurrent liability on the Statement of Net Position. For FY 2016 and FY 2015, the liabilities and deferred inflows of resources of the School exceeded its assets and deferred outflows by \$4,169,049 and \$3,955,938 (net position), respectively.

The general fund (governmental fund) ending fund balance increased from \$370,306 to \$477,691. This increase was largely caused by an increase in per pupil and capital construction revenue. These funds will provide a reserve to draw upon during future years.

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 the 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 and liabilities, and deferred inflows and outflows, with the difference reported as net position.

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 revenues and earned but unpaid salaries and benefits).

LEGACY ACADEMY
Management's Discussion and Analysis
For the Year Ended June 30, 2016

The government-wide statement of activities distinguishes functions/programs of the School supported primarily by per pupil revenue (PPR) or property taxes passed through Elizabeth School District C-1 (the "District"). The governmental activities of the School include instruction and supporting services expenses.

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School can be divided into two categories: governmental funds or proprietary funds.

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 balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The School maintains one governmental fund, the general fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the general fund because it is considered to be a major fund.

The School adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with the budget.

Proprietary Fund. The Elbert County Charter School Building Authority is considered a component unit of the charter school has one fund, an enterprise fund and is presented with a statement of net position, revenues, expenses and changes in net position, and cash flows.

LEGACY ACADEMY
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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 9-21.

Government-wide Financial Analysis

The School's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$4,169,049 at the close of the most recent fiscal year. The negative balance is due primarily to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$5,041,583 representing the School's proportionate share of the PERA's net pension liability.

School's Net Position

Governmental and Business-Type Activities

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Cash and Investments	\$ 667,035	\$ 531,070
Restricted Cash and Investments	678,513	805,639
Accounts Receivable & Prepaid Expenses	29,426	32,406
Capital Assets	4,655,444	4,790,969
Total Assets	<u>6,030,418</u>	<u>6,160,084</u>
Deferred Outflows of Resources		
Pensions, Net of Accumulated Amortization	648,744	245,976
Loss on Debt Refunding, Net	148,650	-
Total Deferred Outflow of Resources	<u>797,394</u>	<u>245,976</u>
Current Liabilities	232,056	322,526
Long-Term Liabilities	5,547,073	5,422,931
Net Pension Liability	5,041,583	4,584,706
Total Liabilities	<u>10,820,712</u>	<u>10,330,163</u>
Deferred Inflows of Resources		
Pensions, net of Accumulated Amortization	<u>176,149</u>	<u>31,835</u>
Net position		
Net Investment in Capital Assets	(630,906)	(466,402)
Restricted for Debt Service	540,223	551,279
Restricted for Repairs and Replacement	125,004	125,004
Restricted for Emergencies	93,000	85,000
Unrestricted	(4,296,370)	(4,250,819)
Total Net Position	<u><u>\$(4,169,049)</u></u>	<u><u>\$(3,955,938)</u></u>

LEGACY ACADEMY
Management's Discussion and Analysis
For the Year Ended June 30, 2016

A portion of the School's Governmental and Business-Type assets (22.3%) is in cash and investments and (77.2%) are net capital assets. The majority of the remaining assets represents accounts receivable and prepaid expenses. As outlined in Note 7 to the financial statements the School participates in a Defined Benefit Pension Plan and has recorded a Net Pension Liability as of June 30, 2016 of \$5,041,583. This and the operating loss in the enterprise fund resulted in a negative government-wide Net Position of \$4,169,049.

School's Change in Net Position
For the Years Ended June 30, 2016 and June 30, 2015
Governmental and Business-Type Activities

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Program Revenue:		
Operating Grants and Contributions	\$ 96,824	\$ 91,030
Charges for Services	120,436	119,050
Capital Grants and Contributions	27,075	-
Total Program Revenues	<u>244,335</u>	<u>210,080</u>
General Revenue:		
Per Pupil Revenue	2,754,584	2,579,826
Capital Construction	98,873	63,315
Grants and Contributions Not Restricted	30,787	40,091
Investment Earnings	21,755	21,604
Other	13,675	35,518
Total General Revenues	<u>2,919,674</u>	<u>2,740,354</u>
 Total Revenues	 <u>3,164,009</u>	 <u>2,950,434</u>
Expenses:		
Current:		
Instruction	1,725,831	1,780,291
Supporting Services	971,796	891,760
Building Corporation	679,493	535,312
Total Expenses	<u>3,377,120</u>	<u>3,207,363</u>
 (Decrease) / Increase in Net Position	 (213,111)	 (256,929)
Beginning Net Position, June 30	<u>(3,955,938)</u>	<u>(3,699,009)</u>
Ending Net Position, June 30	<u><u>\$(4,169,409)</u></u>	<u><u>\$(3,955,938)</u></u>

LEGACY ACADEMY
Management's Discussion and Analysis
For the Year Ended June 30, 2016

The largest portion of the School's revenues come from per pupil funding – 87.1% in FY 2016 and 87.4% in FY 2015. In FY 2016 and FY 2015, 12.9% and 12.6%, respectively, of revenues came from program and other revenues. The School's revenue increased by \$213,575 and expenses increased by \$169,757 in FY 2016.

Financial Analysis of the School's Funds

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

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

The general fund reported a positive change in fund balance of \$107,385. Contributing factors to this were an increase in the PPR and capital construction funding. Overall revenue increased in FY 2016 by \$213,571 and expenditures decreased by \$13,110. As of the end of the current fiscal year, the School's general fund reported an ending fund balance of \$477,691.

Proprietary Fund. Elbert County Charter School Building Corporation's net position decreased \$180,749 to a negative balance of \$52,689. The decrease is largely attributed to expensing \$265,326 of debt issuance costs related to the refunding of the 2004 bonds and issuance of new note. We anticipate the deficit will decrease as the debt is repaid in future years.

General Fund Budgetary Highlights

The School approves a budget in June based on enrollment projections for the following school year. In October after enrollment stabilizes, adjustments are made to the budget. The School approved a revised budget during the year to true up the beginning fund balance and adjust to the actual student count. The original General Fund Budget was \$3,422,523 and it was adjusted to \$3,501,872. Total expenditures were less than budgeted expenditures by \$445,248.

Capital Asset and Debt Administration

Capital assets. Including the building of the School and other general fund assets, net capital assets were \$4,655,444. Depreciation expense of \$153,380 was reported for the building and other Governmental Activities capital assets.

LEGACY ACADEMY
Management’s Discussion and Analysis
For the Year Ended June 30, 2016

Long-term leases. In June 2016, the Building Corporation issued a revenue refunding note in the amount of \$5,435,000. Proceeds were used to refund the bonds issued in 2004. The Building Corporation realized a significant savings on the future principal and interest payments due under the new note. The monthly principal and interest savings are reflected in the amount the School pays to the Building Corporation under the terms of its lease.

The School participates in a long-term lease agreement with the Elbert County Charter School Building Corporation. Monthly principal and interest payments are due under the lease agreement, with interest accruing at rate of 4%. The lease ends in June 2026. Annual debt service ranges from \$407,102 to \$411,934 with a balloon payment of \$3,082,229 due on June 1, 2026. Monthly payments started July 1, 2016.

In April 2015, the School entered into a lease agreement with Apple, Inc., to purchase 440 iPads. Annual payments of \$58,694 are due under the lease agreement beginning in July 2015. The outstanding balance of the lease is \$112,073 at June 30, 2016. No assets were capitalized under the lease agreement.

Economic Factors and Next Year’s Budget

The FY 2016/2017 budget projects the School will have an increase of approximately \$25,021 to the general fund ending fund balance. Beginning with the FY 2014-2015 year, the School added a one-day a week Home School program.

The School has room to grow and plans for additional growth in the future. Below are the historical enrollment numbers:

Fiscal Year	Enrollment	Home School
2008 / 2009	369	-
2009 / 2010	287	-
2010 / 2011	302	-
2011 / 2012	418	-
2012 / 2013	427	-
2013 / 2014	382	-
2014 / 2015	343	62
2015 / 2016	359	77

The funded pupil count projected for the 2016-17 school year is expected to be 445; 366 in the School and 79 in the Home School program. Home School participants are funded as a .5 FTE. The enrollment factors were considered in preparing the Academy’s budget for fiscal year 2016-17. The economic outlook for FY 2017 remains stable with the increase of \$83.18 per funded FTE or 1.2% in PPR funding. The Capital Construction funding per pupil allocation will increase slightly for FY 2017 to \$258 per funded FTE compared to \$255 per funded FTE in FY 2016.

LEGACY ACADEMY
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Requests for Information

This financial report is designed to provide a general overview of the 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 Legacy Academy, Kendra Padgett, CFO, 1975 Legacy Circle, Elizabeth, Colorado.

BASIC FINANCIAL STATEMENTS

LEGACY ACADEMY

STATEMENT OF NET POSITION

June 30, 2016

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
ASSETS			
Cash and Investments	\$ 667,035	\$ -	\$ 667,035
Restricted Cash and Investments	-	678,513	678,513
Accounts Receivable	2,386	-	2,386
Prepaid Expenses	27,040	-	27,040
Capital Assets, Not Being Depreciated	-	347,000	347,000
Capital Assets, Net of Accumulated Depreciation	<u>87,010</u>	<u>4,221,434</u>	<u>4,308,444</u>
TOTAL ASSETS	<u>783,471</u>	<u>5,246,947</u>	<u>6,030,418</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pensions, Net of Accumulated Amortization	648,744	-	648,744
Loss on Debt Refunding, Net of Accumulated Amortization	<u>-</u>	<u>148,650</u>	<u>148,650</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>648,744</u>	<u>148,650</u>	<u>797,394</u>
LIABILITIES			
Accounts Payable	69,525	-	69,525
Accrued Salaries and Benefits	116,534	-	116,534
Unearned Revenues	32,711	-	32,711
Accrued Interest Payable	-	13,286	13,286
Noncurrent Liabilities			
Due Within One Year	55,169	198,139	253,308
Due in More Than One Year	56,904	5,236,861	5,293,765
Net Pension Liability	<u>5,041,583</u>	<u>-</u>	<u>5,041,583</u>
TOTAL LIABILITIES	<u>5,372,426</u>	<u>5,448,286</u>	<u>10,820,712</u>
DEFERRED INFLOWS OF RESOURCES			
Pensions, Net of Accumulated Amortization	<u>176,149</u>	<u>-</u>	<u>176,149</u>
NET POSITION			
Net Investment in Capital Assets	87,010	(717,916)	(630,906)
Restricted for Debt Service	-	540,223	540,223
Restricted for Repairs and Replacement	-	125,004	125,004
Restricted for Emergencies	93,000	-	93,000
Unrestricted	<u>(4,296,370)</u>	<u>-</u>	<u>(4,296,370)</u>
TOTAL NET POSITION	<u>\$ (4,116,360)</u>	<u>\$ (52,689)</u>	<u>\$ (4,169,049)</u>

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

LEGACY ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	\$ 1,725,831	\$ 91,585	\$ 96,824	\$ -
Supporting Services	966,589	28,851	-	27,075
Interest on Long-Term Debt	5,207	-	-	-
Total Governmental Activities	<u>2,697,627</u>	<u>120,436</u>	<u>96,824</u>	<u>27,075</u>
Business-Type Activities				
Building Corporation	679,493	-	-	-
Total Business-Type Activities	<u>679,493</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 3,377,120</u>	<u>\$ 120,436</u>	<u>\$ 96,824</u>	<u>\$ 27,075</u>

GENERAL REVENUES

Per Pupil Revenue

Capital Construction

Grants and Contributions not Restricted to Specific Programs

Investment Income

Miscellaneous

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION, Beginning

NET POSITION, Ending

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

NET (EXPENSES) REVENUES AND
CHANGE IN NET POSITION

GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
\$ (1,537,422)	\$ -	\$ (1,537,422)
(910,663)	-	(910,663)
<u>(5,207)</u>	<u>-</u>	<u>(5,207)</u>
<u>(2,453,292)</u>	<u>-</u>	<u>(2,453,292)</u>
<u>-</u>	<u>(679,493)</u>	<u>(679,493)</u>
<u>-</u>	<u>(679,493)</u>	<u>(679,493)</u>
<u>(2,453,292)</u>	<u>(679,493)</u>	<u>(3,132,785)</u>
2,754,584	-	2,754,584
98,873	-	98,873
30,787	-	30,787
753	21,002	21,755
13,675	-	13,675
<u>(477,742)</u>	<u>477,742</u>	<u>-</u>
<u>2,420,930</u>	<u>498,744</u>	<u>2,919,674</u>
(32,362)	(180,749)	(213,111)
<u>(4,083,998)</u>	<u>128,060</u>	<u>(3,955,938)</u>
<u><u>\$ (4,116,360)</u></u>	<u><u>\$ (52,689)</u></u>	<u><u>\$ (4,169,049)</u></u>

LEGACY ACADEMY

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2016

	<u>GENERAL</u>
ASSETS	
Cash and Investments	\$ 667,035
Accounts Receivable	2,386
Prepaid Expenditures	<u>27,040</u>
TOTAL ASSETS	\$ <u>696,461</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 69,525
Accrued Salaries and Benefits	116,534
Unearned Revenues	<u>32,711</u>
TOTAL LIABILITIES	<u>218,770</u>
FUND BALANCE	
Nonspendable Prepaid Expenditures	27,040
Restricted for Emergencies	93,000
Unrestricted	<u>357,651</u>
TOTAL FUND BALANCE	<u>477,691</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>696,461</u>

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Total Fund Balance of the Governmental Fund	\$ 477,691
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	87,010
Long-term liabilities and related items, including capital leases (\$112,073), net pension liability (\$5,041,583), pension-related deferred outflows of resources \$648,744, and pension-related deferred inflows of resources (\$176,149), are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(4,681,061)</u>
Total Net Position of Governmental Activities	\$ <u>(4,116,360)</u>

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

LEGACY ACADEMY

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

	<u>GENERAL</u>
REVENUES	
Local Sources	\$ 2,947,310
State Sources	156,293
Federal Sources	<u>39,404</u>
TOTAL REVENUES	<u>3,143,007</u>
EXPENDITURES	
Current	
Instruction	1,584,951
Supporting Services	1,412,979
Debt Service	
Principal	53,487
Interest and Fiscal Charges	<u>5,207</u>
TOTAL EXPENDITURES	<u>3,056,624</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	86,383
OTHER FINANCING SOURCES	
Transfers In	<u>21,002</u>
NET CHANGE IN FUND BALANCE	107,385
FUND BALANCE, Beginning	<u>370,306</u>
FUND BALANCE, Ending	<u>\$ 477,691</u>

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

LEGACY ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
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 Balance of the Governmental Fund	\$	107,385
Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are capitalized in the statement of net position and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlay \$17,855 exceeded depreciation expense (\$12,666) in the current year.		5,189
Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position and does not affect the statement of activities.		53,487
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in net pension liability (\$456,877), pension-related deferred outflows of resources \$402,768, and pension-related deferred inflows of resources (\$144,314) in the current year.		<u>(198,423)</u>
Change in Net Position of Governmental Activities	\$	<u><u>(32,362)</u></u>

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

LEGACY ACADEMY

STATEMENT OF NET POSITION
PROPRIETARY FUND

June 30, 2016

	<u>BUILDING CORPORATION</u>
ASSETS	
CURRENT ASSETS	
Restricted Cash and Equivalents	\$ 174,388
Restricted Investments	<u>504,125</u>
TOTAL CURRENT ASSETS	<u>678,513</u>
NONCURRENT ASSETS	
Capital Assets, Not Being Depreciated	347,000
Capital Assets, Net of Accumulated Depreciation	<u>4,221,434</u>
TOTAL NONCURRENT ASSETS	<u>4,568,434</u>
TOTAL ASSETS	<u>5,246,947</u>
DEFERRED OUTFLOWS OF RESOURCES	
Loss on Debt Refunding, Net of Accumulated Amortization	<u>148,650</u>
LIABILITIES	
CURRENT LIABILITIES	
Accrued Interest Payable	13,286
Loan Payable, Current Portion	<u>198,139</u>
TOTAL CURRENT LIABILITIES	211,425
NONCURRENT LIABILITIES	
Loan Payable	<u>5,236,861</u>
TOTAL LIABILITIES	<u>5,448,286</u>
NET POSITION	
Net Investment in Capital Assets	(717,916)
Restricted for Debt Service	540,223
Restricted for Repairs and Replacement	<u>125,004</u>
TOTAL NET POSITION	<u>\$ (52,689)</u>

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

LEGACY ACADEMY

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

	<u>BUILDING CORPORATION</u>
OPERATING REVENUES	
Lease Revenue	\$ <u>498,744</u>
OPERATING EXPENSES	
Depreciation	140,714
Debt Service	
Interest	<u>273,453</u>
TOTAL OPERATING EXPENSES	<u>414,167</u>
NET OPERATING INCOME	<u>84,577</u>
NONOPERATING REVENUES (EXPENSES)	
Investment Income	21,002
Debt Issuance Costs	<u>(265,326)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(244,324)</u>
NET INCOME (LOSS) BEFORE TRANSFERS	(159,747)
Transfers Out	<u>(21,002)</u>
CHANGE IN NET POSITION	(180,749)
NET POSITION, Beginning	<u>128,060</u>
NET POSITION, Ending	\$ <u><u>(52,689)</u></u>

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

LEGACY ACADEMY

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Increase (Decrease) in Cash and Cash Equivalents
Year Ended June 30, 2016

	<u>BUILDING CORPORATION</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Lease Payments Received	\$ 498,744
Loan Principal Paid	(110,000)
Loan Interest Paid	<u>(388,069)</u>
Net Cash Provided by Operating Activities	<u>675</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Debt Proceeds	5,435,000
Payments to Trustee	(5,297,475)
Debt Issuance Costs Paid	<u>(265,326)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(127,801)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income Received	21,002
Excess Earnings Paid to the School	<u>(21,002)</u>
Net Cash Provided (Used) by Investing Activities	<u>-</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(127,126)
CASH AND CASH EQUIVALENTS, Beginning	<u>301,514</u>
CASH AND CASH EQUIVALENTS, Ending	<u>\$ 174,388</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net Operating Income	\$ 84,577
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	140,714
Amortization of Loan Discount	1,454
Changes in Assets and Liabilities	
Accrued Interest Payable	(116,070)
Loan Payable	<u>(110,000)</u>
Net Cash Provided by Operating Activities	<u>\$ 675</u>

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

LEGACY ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Legacy Academy (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Elizabeth School District C-1 (the “District”).

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

Reporting Entity

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

The School includes the Elbert County Charter School Building Corporation (the “Building Corporation”) within its reporting entity. The Building Corporation was organized exclusively for the purpose of holding title to real and/or personal property for, and to make same available for use by, the School and to otherwise provide facilities, equipment and other physical plant and related support to the School. The Building Corporation is blended into the School’s financial statements as an enterprise fund, and does not issue separate financial statements.

The School is a component unit of the District. The School’s charter is authorized by the District and the majority of the School’s funding is provided by the 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 activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted revenues not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for the governmental and proprietary funds. Major individual funds are reported as separate columns in the fund financial statements.

LEGACY ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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* as are the proprietary fund financial statements. 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 year or soon enough thereafter to pay liabilities of the current year. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current year. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The School reports the following major funds:

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

Building Corporation - This fund is used to account for the financial activities of the Building Corporation, which are primarily related to capital assets and the related debt service.

Assets, Liabilities and Fund Balance/Net Position

Cash and Investments - Cash equivalents include investments with original maturities of three months or less. The Building Corporation's investment in a money market fund is reported at the net asset value per share, which is measured using amortized costs.

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

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

LEGACY ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Buildings	40 years
Equipment	5 - 15 years

Interest incurred during construction is included in the capitalized value of capital assets in the enterprise fund.

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 approximately nine to ten months. The salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

Unearned Revenues - Unearned revenues represent resources received by the School before it has a legal claim to them, including tuition and fees.

Compensated Absences - The School's policy allows employees to use eight to ten days of personal leave during each school year. Employees are compensated for any unused leave prior to the end of the fiscal year at the employee's hourly rate. Therefore, no liability for compensated absences is reported in the financial statements.

Long-Term Debt - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Premiums, discounts, and accounting losses resulting from debt refundings are deferred and amortized over the life of the debt using the straight-line method. In the fund financial statements, governmental funds recognize the face amount of debt issued 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 debt proceeds, are reported as current expenses or expenditures.

LEGACY ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Pensions - The School participates in the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). The 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 and deductions from the SDTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the SDTF. 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.

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

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

Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School carries commercial insurance for these risks of loss.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Accountability

At June 30, 2016, the Building Corporation had a negative net position of \$52,689. Management expects this negative balance to be eliminated as the Building Corporation's debt is paid.

NOTE 3: CASH AND INVESTMENTS

A summary of cash and investments at June 30, 2016, follows:

Petty Cash	\$ 500
Deposits	666,535
Investments	<u>678,513</u>
Total	<u>\$ 1,345,548</u>

LEGACY ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 3: CASH AND INVESTMENTS (Continued)

Cash and investments are reported in the financial statements as follows:

Cash and Investments	\$ 667,035
Restricted Cash and Investments	<u>678,513</u>
Total	<u>\$ 1,345,548</u>

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2016, the School had bank deposits of \$417,300 collateralized with securities held by the financial institution's agent but not in the School's name.

Investments

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity, and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk. The Building Corporation is not subject to State statutes.

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

At June 30, 2016, the Building Corporation had the following investments:

Investment	Maturity	Fair Value
Uninvested Cash	NA	\$ 49,384
Money Market Fund	NA	125,004
Guaranteed Investment Contract (GIC)	3/1/35	<u>504,125</u>
Total		<u>\$ 678,513</u>

LEGACY ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

Interest Rate Risk - State statutes generally limit the maturity of investment securities to five years from the date of purchase, unless the governing board authorizes the investment for a period in excess of five years.

Credit Risk - State statutes limit certain investments to those with specified ratings from nationally recognized statistical rating organizations, depending on the type of investment. At June 30, 2016, the Building Corporation's investment in the Federated Treasury Obligations money market fund was rated AAAM by Standard & Poor's.

At June 30, 2016, the issuer of the Building Corporation's GIC, Natixis Funding Corp., had a long-term rating of A from both Standard & Poor's and Fitch Ratings.

Concentration of Credit Risk - State statutes do not limit the amount the School may invest in one issuer, except for corporate securities. At June 30, 2016, the Building Corporation's investment in the GIC represented 80% of total investments.

Restricted Cash and Investments

Cash and investments of \$678,513 have been restricted by the Building Corporation for debt service and building repairs and replacement.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, is summarized below:

	<u>Balances</u> 6/30/15	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> 6/30/16
Governmental Activities				
Capital Assets, Being Depreciated				
Equipment	\$ 121,871	\$ 17,855	\$ -	\$ 139,726
Less Accumulated Depreciation	<u>(40,050)</u>	<u>(12,666)</u>	<u>-</u>	<u>(52,716)</u>
Governmental Activities Capital Assets, Net	<u>\$ 81,821</u>	<u>\$ 5,189</u>	<u>\$ -</u>	<u>\$ 87,010</u>

Depreciation expense of the governmental activities was charged to the supporting services program.

LEGACY ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 4: CAPITAL ASSETS (Continued)

	<u>Balances</u> <u>6/30/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>6/30/16</u>
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 347,000	\$ -	\$ -	\$ 347,000
Capital Assets, Being Depreciated				
Buildings	5,628,576	-	-	5,628,576
Less Accumulated Depreciation	<u>(1,266,428)</u>	<u>(140,714)</u>	<u>-</u>	<u>(1,407,142)</u>
Capital Assets, Being Depreciated, Net	<u>4,362,148</u>	<u>(140,714)</u>	<u>-</u>	<u>4,221,434</u>
Business-Type Activities Capital Assets, Net	<u>\$ 4,709,148</u>	<u>\$ (140,714)</u>	<u>\$ -</u>	<u>\$ 4,568,434</u>

NOTE 5: LONG-TERM DEBT

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

	<u>Balances</u> <u>6/30/15</u>	<u>Additions</u>	<u>Payments</u>	<u>Balances</u> <u>6/30/16</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities					
Capital Lease	<u>\$ 165,560</u>	<u>\$ -</u>	<u>\$ 53,487</u>	<u>\$ 112,073</u>	<u>\$ 55,169</u>
Business-Type Activities					
2016 Building Loan	\$ -	\$ 5,435,000	\$ -	\$ 5,435,000	\$ 198,139
2004 Building Loan	5,285,000	-	5,285,000	-	-
Discount	<u>(27,629)</u>	<u>-</u>	<u>(27,629)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,257,371</u>	<u>\$ 5,435,000</u>	<u>\$ 5,257,371</u>	<u>\$ 5,435,000</u>	<u>\$ 198,139</u>

Capital Lease

In April, 2015, the School entered into a lease agreement with Apple, Inc., in the principal amount of \$165,560, to purchase 440 iPads. Annual payments of \$58,694 are due under the agreement in three installments, beginning in July, 2015 through July, 2017, including interest accruing at 3.15% per annum. No assets were capitalized under the lease agreement.

Minimum lease payments, to maturity, are as follows:

Year Ended June 30,

2017	\$ 58,694
2018	<u>58,694</u>
Total Minimum Lease Payments	117,388
Less: Interest	<u>(5,315)</u>
Present Value of Future Minimum Lease Payments	<u>\$ 112,073</u>

LEGACY ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE 5: LONG-TERM DEBT (Continued)

Building Loans

In June, 2016, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$5,435,000 Charter School Revenue Refunding Note, Series 2016. Proceeds were used to refund the outstanding Charter School Revenue Refunding and Improvement Bonds, Series 2004, originally loaned to the Building Corporation to finance the acquisition and construction of the School's educational facilities.

Debt proceeds in the amount of \$5,297,475 were deposited with a trustee to currently refund the Series 2004 Bonds on June 27, 2016. As a result, the refunded debt liability has been removed from the financial statements. Although the refunding resulted in the recognition of an accounting loss of \$148,650, the aggregate debt service payments were reduced by approximately \$2,871,750, with an economic gain (difference between the present values of the old and new debt service payments) of \$1,320,428.

The School is obligated under a lease agreement to make monthly payments to the Building Corporation for using the facilities. The Building Corporation is required to make equal loan payments to the trustee, for payment of the note. Interest accrues on the note at 4% per annum. Beginning on July 1, 2016, monthly principal and interest payments are required by the agreements, with a balloon payment of \$3,082,229 due on June 1, 2026.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 198,139	\$ 208,963	\$ 407,102
2018	206,214	205,721	411,935
2019	214,615	197,321	411,936
2020	223,357	188,575	411,932
2021	232,458	179,476	411,934
2022 - 2026	<u>4,360,217</u>	<u>747,363</u>	<u>5,107,580</u>
Total	<u>\$ 5,435,000</u>	<u>\$ 1,727,419</u>	<u>\$ 7,162,419</u>

NOTE 6: INTERFUND TRANSACTIONS

During the year ended June 30, 2016, the Building Corporation distributed \$21,002 in excess investment earnings to the General Fund.

LEGACY ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN

General Information

Plan Description - The School contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). All employees of the School participate in the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the SDTF. That report may be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided - The SDTF provides retirement, disability, and survivor benefits to plan participants or their beneficiaries. Retirement benefits are determined by the amount of service credit earned or purchased, highest average salary, the benefit structure in place, the benefit option selected at retirement, and age at retirement. The retirement benefit is the greater of the a) highest average salary multiplied by 2.5% and then multiplied by years of service credit, or b) the value of the participant's contribution account plus an equal match on the retirement date, annualized into a monthly amount based on life expectancy and other actuarial factors. In no case can the benefit amount exceed the highest average salary or the amount allowed by applicable federal regulations.

Retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State statutes. Retirees who began employment before January 1, 2007, receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year. Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

Disability benefits are available for plan participants once they reach five years of earned service credit and meet the definition of a disability. The disability benefit amount is based on the retirement benefit formula described previously, considering a minimum of twenty years of service credit.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure in place, and the qualified survivor receiving the benefits.

Contributions - The School and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The School's contribution rate for calendar years 2015 and 2016 was 18.35% and 19.15% of covered salaries, respectively. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 8). The School's contributions to the SDTF for the year ended June 30, 2016, were \$274,284, equal to the required contributions.

LEGACY ACADEMY
NOTES TO 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

At June 30, 2016, the School reported a net pension liability of \$5,041,583, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at 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. Changes in assumptions and other inputs since the prior measurement date did not significantly affect the total pension liability. 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 SDTF for the calendar year ended December 31, 2015, relative to the contributions of all participating employers. At December 31, 2015, the School's proportion was 0.0329638138%, which was a decrease of 0.0008632684% from its proportion measured at December 31, 2014.

For the year ended June 30, 2016, the School recognized pension expense of \$458,309. 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>
Differences between expected and actual experience	\$ 66,575	\$ 215
Changes of assumptions and other inputs	-	71,246
Net difference between projected and actual earnings on plan investments	430,695	-
Changes in proportion	-	104,688
Contributions subsequent to the measurement date	<u>151,474</u>	<u>-</u>
Total	<u>\$ 648,744</u>	<u>\$ 176,149</u>

School contributions subsequent to the measurement date of \$151,474 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

2017	\$ 68,560
2018	72,098
2019	92,557
2020	<u>87,906</u>
Total	<u>\$ 321,121</u>

LEGACY ACADEMY
NOTES TO 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 actuarial valuation as of December 31, 2014, determined the total pension liability using the following actuarial assumptions and other inputs, applied to all periods included in the measurement:

Price inflation	2.8%
Real wage growth	1.1%
Wage inflation	3.9%
Salary increases, including wage inflation	3.9% - 10.1%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.5%
Future post-retirement benefit increases:	
Hired prior to 1/1/07	2%
Hired after 12/31/06	ad hoc

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with males set back one year, and females set back two years.

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

The long-term expected rate of return on 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.

The most recent analysis of the long-term expected rate of return was presented to the PERA governing board on November 15, 2013, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as follows:

LEGACY ACADEMY
NOTES TO 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)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Geometric Real Rate of Return</u>
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 Government/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	<u><u>100.00%</u></u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the employer contributions will be made at the rates specified in State statutes, which currently require annual increases, to a total of 20.15% of covered salaries for the year ended December 31, 2018. When the actuarially determined funding ratio reaches 103%, the employer contribution rate will decrease .5% each year, to a minimum of 10.15%. Based on those assumptions, the SDTF's fiduciary net position was projected to be available to make all projected future benefit payments to current participants. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability. In addition, the discount rate did not change from the prior measurement date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as the School's proportionate share of the net pension liability if it were calculated using a discount that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate, as follows:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Proportionate share of the net pension liability	<u>\$ 6,535,365</u>	<u>\$ 5,041,583</u>	<u>\$ 3,799,035</u>

Pension Plan Fiduciary Net Position - Detailed information about the SDTF's fiduciary net position is available in PERA's separately issued financial report, which may be obtained at www.copera.org/investments/pera-financial-reports.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE 8: POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description - The School contributes to the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer postemployment healthcare plan administered by the PERA. The HCTF provides a health care premium subsidy to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the CRS, as amended, assigns the authority to establish the HCTF benefit provisions to the State Legislature. PERA issues a publicly available annual financial report that includes financial statements and required supplementary information for the HCTF. That report may be obtained by contacting PERA as described above.

Funding Policy - The School is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208, CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2016, 2015 and 2014 was \$14,917, \$14,572 and \$14,403, respectively, equal to the required amounts for each year.

NOTE 9: COMMITMENTS AND CONTINGENCIES**Tabor Amendment**

In November 1992, Colorado voters approved the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to many interpretations, but the School believes it is in substantial compliance with the Amendment. As required by the Amendment, the School has established a reserve for emergencies representing 3% of qualifying expenditures. At June 30, 2016, the School's reserve was reported as restricted fund balance in the General Fund, in the amount \$93,000.

Claims and Judgments

The School participates in a number of federal, state and local programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the other government. At June 30, 2016, significant amounts of related 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.

REQUIRED SUPPLEMENTARY INFORMATION

LEGACY ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND CONTRIBUTIONS

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO SCHOOL DIVISION TRUST FUND

June 30, 2016

	<u>12/31/15</u>	<u>12/31/14</u>	<u>12/31/13</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY			
School's Proportion of the Net Pension Liability	0.0329638138%	0.0338270822%	0.0341654382%
School's Proportionate Share of the Net Pension Liability	\$ 5,041,583	\$ 4,584,706	\$ 4,357,792
School's Covered-Employee Payroll	\$ 1,436,555	\$ 1,417,110	\$ 1,377,313
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	351%	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59%	63%	64%
	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
SCHOOL CONTRIBUTIONS			
Statutorily Required Contribution	\$ 259,367	\$ 241,141	\$ 225,620
Contributions in Relation to the Statutorily Required Contribution	<u>(259,367)</u>	<u>(241,141)</u>	<u>(225,620)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
School's Covered-Employee Payroll	\$ 1,462,512	\$ 1,428,635	\$ 1,412,121
Contributions as a Percentage of Covered-Employee Payroll	17.73%	16.88%	15.98%

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

See the accompanying Independent Auditors' Report.

LEGACY ACADEMY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2016

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 2,836,549	\$ 2,752,110	\$ 2,754,584	\$ 2,474
Tuition	35,186	30,000	31,507	1,507
Student Fees and Activities	50,000	50,000	60,078	10,078
Transportation Fees	31,625	31,625	28,851	(2,774)
Contributions and Donations	25,000	30,500	57,862	27,362
Investment Income	500	600	753	153
Miscellaneous	4,000	13,500	13,675	175
State Sources				
Capital Construction	89,883	97,583	98,873	1,290
Special Education Grants	59,000	59,000	34,774	(24,226)
READ Act Grant	7,500	22,646	22,646	-
Federal Sources				
Special Education Grants	44,000	44,000	39,404	(4,596)
TOTAL REVENUES	<u>3,183,243</u>	<u>3,131,564</u>	<u>3,143,007</u>	<u>11,443</u>
EXPENDITURES				
Current				
Salaries	1,593,378	1,580,861	1,528,277	52,584
Employee Benefits	378,594	371,862	343,715	28,147
Purchased Services	845,448	837,715	839,010	(1,295)
Supplies and Materials	166,196	154,316	197,698	(43,382)
Property	145,000	112,500	78,948	33,552
Miscellaneous	11,000	12,000	10,282	1,718
Debt Service				
Principal	-	-	53,487	(53,487)
Interest and Fiscal Charges	-	-	5,207	(5,207)
Reserves	282,907	432,618	-	432,618
TOTAL EXPENDITURES	<u>3,422,523</u>	<u>3,501,872</u>	<u>3,056,624</u>	<u>445,248</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(239,280)	(370,308)	86,383	456,691
OTHER FINANCING SOURCES				
Transfers In	-	-	21,002	21,002
NET CHANGE IN FUND BALANCE	(239,280)	(370,308)	107,385	477,693
FUND BALANCE, Beginning	<u>239,280</u>	<u>370,308</u>	<u>370,306</u>	<u>(2)</u>
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 477,691</u>	<u>\$ 477,691</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

NOTE 1: SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND CONTRIBUTIONS

The Public Employees' Retirement Association of Colorado School Division Trust Fund's net pension liability and associated amounts are measured annually at December 31, based on an actuarial valuation as of the previous December 31. The School's contributions and related ratios represent cash contributions and any related accruals that coincide with the School's fiscal year ending on June 30.

Changes in Assumptions and Other Inputs

For the year ended June 30, 2016, the total pension liability was determined by an actuarial valuation as of December 31, 2014. The following programming and methodology changes were made since the prior actuarial valuation as of December 31, 2013.

- 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.
- 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.

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

Budgets are required by State statutes for all funds and are adopted on a basis consistent with generally accepted accounting principles.

The School adheres to the following procedures in establishing the budgetary information reflected in the financial statements.

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