

INDEPENDENCE ACADEMY

FINANCIAL STATEMENTS

June 30, 2016



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FINANCIAL SECTION



JOHN CUTLER & ASSOCIATES

Board of Directors
Independence Academy
Grand Junction, 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 Independence Academy (the "Academy"), component unit of Mesa County Valley School District 51, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 expression an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluation the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information the schedule of the Academy's proportionate share, and the schedule of the Academy's contributions on pages 27-29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

John Cutler & Associates, LLC

November 16, 2016

Management's Discussion and Analysis

Independence Academy Charter School

June 30, 2016

As management of Independence Academy Charter School (IACS or Academy), we offer readers of Independence Academy Charter School's financial statements, this narrative overview and analysis of the financial activities of IACS for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the School's financial statements, which follow this narrative.

Financial Highlights

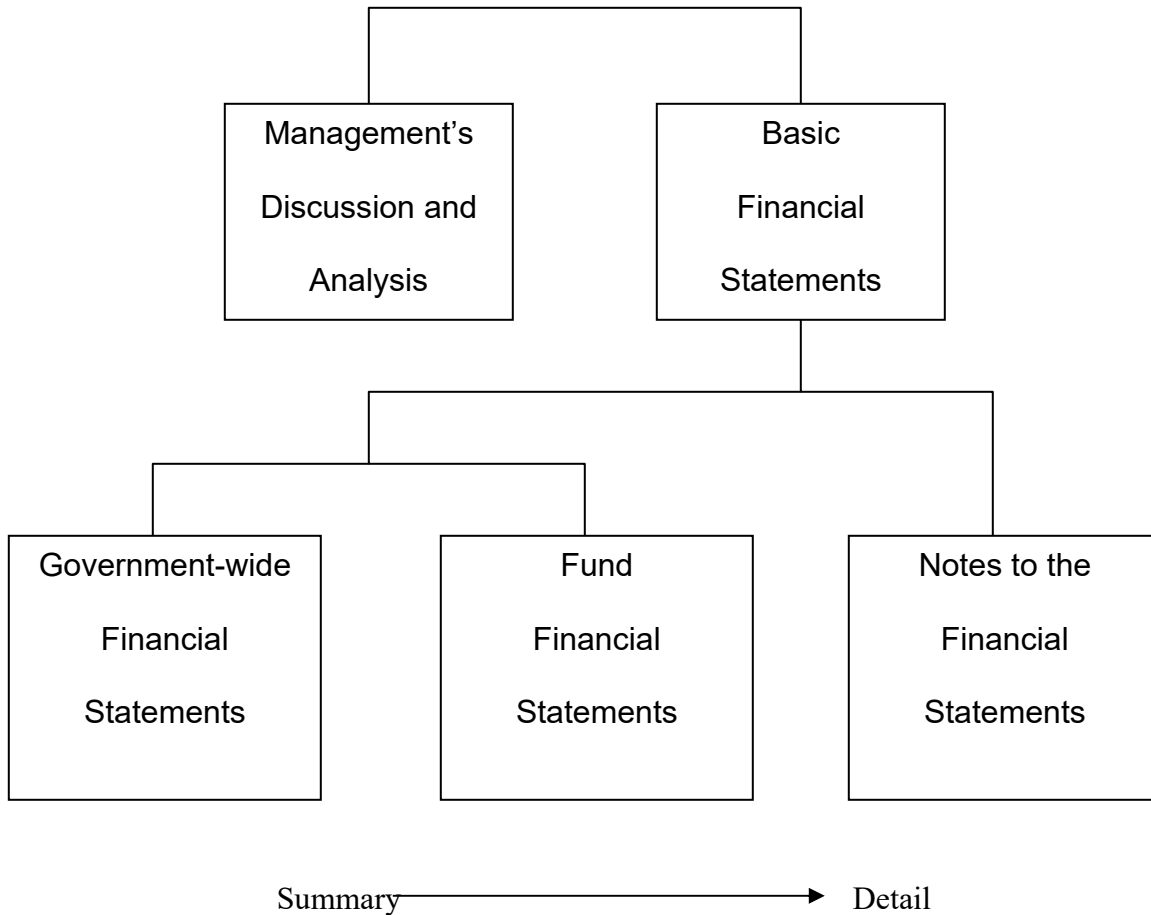
- Total assets of IACS at the close of the fiscal year was \$8,913,889 (*total assets 2016*).
- The IACS total net position for June, 2016 was \$512,184, an increase of \$163,848 over June 2015 amount of \$348,336.
- IACS has over 12 months of operating reserves (net position) based on current budget and expenditures projected for 2015-2016.
- As of the close of the current fiscal year IACS' governmental funds reported combined ending fund balances of \$2,574,206, an increase of \$138,960.
- For the 8th consecutive year, IACS has exceeded its enrollment goals.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to IACS's basic financial statements. The Academy's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the Academy through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of IACS.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Pages 1 and 2) in the basic financial statements are the Government-wide Financial Statements. They provide both short and long-term information about the Academy's financial status.

The next statements (Pages 3 and 4) are Fund Financial Statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the budgetary information for the school.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Academy's finances, similar in format to a financial statement of a private sector business. The government-wide statements provide short and long-term information about the Academy's financial status as a whole.

The two government-wide statements report the School's net position and how they have changed. Net Position is the difference between the Academy's total assets and total liabilities. Measuring net position is one way to gauge the Academy's financial condition.

The government-wide financial statements are on pages 1 and 2 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Academy's most significant activities on a fund accounting basis. 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. IACS uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. The Academy's basic services are accounted for in a governmental fund. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Academy's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Academy reports two major governmental funds, the general fund and the building corporation.

IACS adopts an annual budget on a fund basis. The budgetary comparison statements are not included in the basic financial statements, but are part of the supplemental statements and schedules that follow the notes. The budget is a legally adopted document that incorporates input from the faculty, management, and the Board of Directors of the Academy in determining what activities will be pursued and what services will be provided by the School during the year. It also authorizes the Academy to obtain funds from identified sources to finance these current period activities. The budgetary statement provided demonstrates how well the Academy has complied with the budget ordinance and whether or not the Academy has succeeded in providing the services as planned when the budget was adopted.

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. The notes to the financial statements begin on page 7 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as one useful indicator of the Academy’s financial condition. The assets of IACS exceeded liabilities by \$512,184 (net position). The Academy’s increase in net position for fiscal year ended June 30, 2016 is \$163,848.

Statement of Net Position
Governmental Activities

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Assets		
Cash and Investments	\$2,101,581	\$1,780,681
Restricted Cash and Investments	580,881	1,410,236
Accounts Receivable	80,203	21,790
Due to Agency Fund	-	1,410
Capital Assets, Not Depreciated	650,620	5,214,038
Capital Assets, Net of Accum. Depreciation	<u>5,500,604</u>	<u>702,357</u>
Total Assets	<u>8,913,889</u>	<u>9,130,512</u>
Deferred Outflows of Resources		
Related to Pensions	615,771	260,088
Liabilities-		
Accounts Payable and Other Current	47,589	706,849
Due to Agency Fund	17,456	-
Accrued Salaries and Benefits	89,287	72,022
Accrued Interest Payable	76,392	76,392
Noncurrent Liability-Due in One Year	110,000	-
Noncurrent Liability –More than One Year	5,586,241	5,694,678
Noncurrent Liability – Net Pension Liability	<u>3,013,670</u>	<u>2,492,184</u>
Total Liabilities	<u>8,974,762</u>	<u>9,042,125</u>
Deferred Inflows of Resources		
Related to Pensions	42,714	139
Net Position		
Net Investment in Capital Assets	1,035,864	1,631,953
Restricted for Emergencies/Debt Service	666,881	852,471
Unrestricted	<u>(1,190,561)</u>	<u>(2,136,088)</u>
Total Net Position	<u>\$ 512,184</u>	<u>\$ 348,336</u>

Statement of Activities
 For the Years Ended June 30, 2016 and June 30, 2015
 Governmental Activities

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Revenues		
Program Revenues		
Grants and Contributions	\$ 195,159	\$ 125,200
General Revenues		
Per Pupil Revenue	2,406,625	2,181,858
Other Local Revenue	213,978	59,503
	<u>2,815,762</u>	<u>2,366,561</u>
Total revenues		
Expenditures/expenses		
Current		
Instruction	1,537,026	1,013,908
Support Services	885,713	1,162,620
Interest and Other Fiscal Charges	229,175	168,988
	<u>2,651,914</u>	<u>2,345,516</u>
Total Expenses		
Increase (Decrease) in Net Position	163,848	21,045
Net Position, Beginning	<u>348,336</u>	<u>327,291</u>
Net Position, End of Year	<u>512,184</u>	<u>348,336</u>

Financial Analysis of the School's Funds

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

Governmental Funds. The focus of the IACS's general fund is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing IACS's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2016 fiscal year, unassigned fund balance of the General Fund was \$1,907,325 while total fund balance for all governmental funds reached \$2,574,206. The Academy is required by statute to keep an emergency reserve, which was \$86,000 as of June 30, 2016.

General Fund Budgetary Highlights

IACS budgeted for General Fund expenditures of \$2,752,062 for the year ended June 30, 2016. Actual expenditures were \$2,530,365, showing \$221,697 below budgeted expenditures.

Capital Asset and Debt Administration

Capital assets. IACS has invested in capital assets—specifically, total capital assets net of accumulated depreciation was \$5,916,395 in 2015, and \$6,151,224 in 2016. The school added paving of roads and parking lots in 2016. More details can be found in note 4 of the footnotes to the financial statements.

Long-term Debt. In August 2014, the Colorado Educational and Facilities Authority (CECFA) issued \$5,740,000 Charter School Revenue Bonds, Series 2014. Proceeds from the bonds were used to construct the Academy’s educational facility. The Academy entered into a lease agreement with the Building Corporation and is required to make lease payments to the Building Corporation for the use of the building. Monthly lease payments that are due to the Building Corporation range from \$28,265 to \$28,641 through September 2044. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds.

Economic Factors

The following key economic indicators were considered in the Academy’s budget:

- Continued uncertainty in the economy and State Budget process
- The issues related to projected enrollment and classroom space available
- A conservative projection of enrollment for 2015-16

Requests for Information

This report is designed to provide an overview of the School’s finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Executive Director, Independence Academy, 675 29 Road, Grand Junction, CO 81504, ph. 970-254-6850.

BASIC FINANCIAL STATEMENTS

INDEPENDENCE ACADEMY

STATEMENT OF NET POSITION

As of June 30, 2016

	GOVERNMENTAL ACTIVITIES	
	2016	2015
ASSETS		
Cash and Investments	\$ 2,101,581	\$ 1,780,681
Restricted Cash and Investments	580,881	1,410,236
Due from Agency Fund	-	1,410
Accounts Receivable	80,203	21,790
Capital Assets, Not Depreciated	650,620	5,214,038
Capital Assets, Depreciated, Net of Accumulated Depreciation	5,500,604	702,357
TOTAL ASSETS	8,913,889	9,130,512
DEFERRED OUTFLOW OF RESOURCES		
Related to Pensions	615,771	260,088
LIABILITIES		
Accounts Payable	47,589	450,633
Retainage Payable	-	222,754
Due to Agency Fund	17,456	-
Accrued Expenses	34,127	33,462
Accrued Salaries and Benefits	89,287	72,022
Accrued Interest Payable	76,392	76,392
Noncurrent Liabilities		
Due in One Year	110,000	-
Due in More Than One Year	5,586,241	5,694,678
Pension Liability	3,013,670	2,492,184
TOTAL LIABILITIES	8,974,762	9,042,125
DEFERRED INFLOW OF RESOURCES		
Related to Pensions	42,714	139
NET POSITION		
Net Investment in Capital Assets	1,035,864	1,631,953
Restricted for Emergencies	86,000	70,000
Restricted for Debt Service	580,881	782,471
Unrestricted, Unreserved	(1,190,561)	(2,136,088)
TOTAL NET POSITION	\$ 512,184	\$ 348,336

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

INDEPENDENCE ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			Net (Expense) Revenue and Change in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2016	2015
PRIMARY GOVERNMENT						
Governmental Activities						
Instructional	\$ 1,537,026	\$ 58,683	\$ 46,832	\$ -	\$ (1,431,511)	\$ (920,496)
Supporting Services	885,713	-	-	89,644	(796,069)	(1,130,832)
Interest and Other Fiscal Charges	229,175	-	-	-	(229,175)	(168,988)
Total Governmental Activities	<u>\$ 2,651,914</u>	<u>\$ 58,683</u>	<u>\$ 46,832</u>	<u>\$ 89,644</u>	<u>(2,456,755)</u>	<u>(2,220,316)</u>
GENERAL REVENUES						
					2,406,625	2,181,858
					1,030	12,661
					212,948	46,842
					<u>2,620,603</u>	<u>2,241,361</u>
TOTAL GENERAL REVENUES						
CHANGE IN NET POSITION					163,848	21,045
NET POSITION, Beginning					<u>348,336</u>	<u>327,291</u>
NET POSITION, Ending					<u>\$ 512,184</u>	<u>\$ 348,336</u>

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

INDEPENDENCE ACADEMY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	GENERAL FUND	BUILDING CORPORATION	TOTALS	
			2016	2015
ASSETS				
Cash and Investments	\$ 2,101,581	\$ -	\$ 2,101,581	\$ 1,780,681
Restricted Cash and Investments	-	580,881	580,881	1,410,236
Due From Agency Fund	-	-	-	1,410
Accounts Receivable	80,203	-	80,203	21,790
TOTAL ASSETS	\$ 2,181,784	\$ 580,881	\$ 2,762,665	\$ 3,214,117
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 47,589	\$ -	\$ 47,589	\$ 450,633
Retainage Payable	-	-	-	222,754
Due to Agency Fund	17,456	-	17,456	-
Accrued Expenses	34,127	-	34,127	33,462
Accrued Salaries and Benefits	89,287	-	89,287	72,022
TOTAL LIABILITIES	188,459	-	188,459	778,871
FUND BALANCES				
Restricted for Emergencies	86,000	-	86,000	70,000
Restricted for Debt Service	-	580,881	580,881	782,471
Unassigned	1,907,325	-	1,907,325	1,582,775
TOTAL FUND BALANCES	1,993,325	580,881	2,574,206	2,435,246
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,181,784	\$ 580,881		

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.		6,151,224	5,916,395
Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include bonds payable (\$5,740,000), bond discount \$43,759, and accrued interest payable (\$76,392)		(5,772,633)	(5,771,070)
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 net pension liability (\$3,013,670) deferred outflows related to pensions \$615,771 and deferred inflows related to pensions (\$42,714).		(2,440,613)	(2,232,235)
Net position of governmental activities		\$ 512,184	\$ 348,336

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

INDEPENDENCE ACADEMY

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

	<u>GENERAL</u> <u>FUND</u>	<u>BUILDING</u> <u>CORPORATION</u>	<u>TOTALS</u>	
			2016	2015
REVENUES				
Local Sources	\$ 2,544,028	\$ 311,413	\$ 2,855,441	\$ 2,313,169
State Sources	136,476	-	136,476	53,392
	<u>2,680,504</u>	<u>311,413</u>	<u>2,991,917</u>	<u>2,366,561</u>
EXPENDITURES				
Current				
Instruction	1,350,523	-	1,350,523	1,013,908
Supporting Services	839,068	-	839,068	1,234,701
Debt Service				
Principal	-	-	-	-
Interest	-	229,175	229,175	91,033
Capital Outlay	320,774	113,417	434,191	4,496,484
	<u>2,510,365</u>	<u>342,592</u>	<u>2,852,957</u>	<u>6,836,126</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>170,139</u>	<u>(31,179)</u>	<u>138,960</u>	<u>(4,469,565)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Issuance of Debt	-	-	-	5,740,000
Bond Discount	-	-	-	(46,885)
Transfer In	190,411	20,000	210,411	-
Transfer Out	(20,000)	(190,411)	(210,411)	-
	<u>170,411</u>	<u>(170,411)</u>	<u>-</u>	<u>5,693,115</u>
NET CHANGE IN FUND BALANCES	<u>340,550</u>	<u>(201,590)</u>	<u>138,960</u>	<u>1,223,550</u>
FUND BALANCES, Beginning	<u>1,652,775</u>	<u>782,471</u>	<u>2,435,246</u>	<u>1,211,696</u>
FUND BALANCES, Ending	<u>\$ 1,993,325</u>	<u>\$ 580,881</u>	<u>\$ 2,574,206</u>	<u>\$ 2,435,246</u>

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

INDEPENDENCE ACADEMY

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	\$ 138,960
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 \$465,572 exceeded depreciation expense (\$230,743) in the current period.	234,829
Repayment of long-term is an expenditure in the governmental funds, but repayment of principal reduces long-term liabilities in the statement of net position. This is the amortization of the bond discount for the year.	(1,563)
Deferred Charges related to pensions are not recognized in the governmental funds. However, for the government-wide funds that amounts are capitalized and amortized.	<u>(208,378)</u>
Change in net position of governmental activities	<u><u>\$ 163,848</u></u>

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

INDEPENDENCE ACADEMY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2016

	<u>Agency Fund</u>
ASSETS	
Cash and Investments	\$ 192,036
Due from General Fund	<u>17,456</u>
TOTAL LIABILITIES	<u>\$ 209,492</u>
LIABILITIES	
Due to Student Groups	\$ 209,492
Due to General Fund	<u>-</u>
TOTAL LIABILITIES	<u>\$ 209,492</u>

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

INDEPENDENCE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

The Independence Academy (the “Academy”) was formed in 2002 under the Charter Schools Act. The Academy is governed by a five member Board of Directors. The accounting policies of Independence Academy conform to generally accepted accounting principles as applicable to governmental units. Following is a summary of the more significant policies:

Reporting Entity

The financial reporting entity consists of the Academy and organizations for which the Academy is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the Academy. In addition, any legally separate organizations for which the Academy is financially accountable are considered part of the reporting entity. Financial accountability exists if the 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 provided benefits to, or imposes financial burdens on the Academy.

Based upon the application of these criteria, the following organizations is included within the Academy’s reporting entity.

Independence Academy Building Corporation

The Independence Academy Building Corporation (the “Building Corporation”) is considered to be financially accountable to the Academy. The Building Corporation was formed to support and assist the Academy to perform its function and to carry out its purpose, specifically to assist in the financing and construction of the Academy’s facilities. The Building Corporation is blended into the Academy’s financial statements as a Debt Service Fund. Separate financial statements are not available for the Building Corporation.

The Academy is a component unit of the Mesa County Valley School District 51.

Government-Wide and Fund Financial Statements

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

INDEPENDENCE ACADEMY

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

The statement of activities demonstrates the degree to which the direct expenses of the given function or segments 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.

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

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

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

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

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

INDEPENDENCE ACADEMY

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)

The Academy reports the following major governmental fund:

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

Debt Service Fund - This fund is used to account for all financial activity of the School's Building Corporation.

Additionally, the Academy reports the following fund type:

The *Agency Fund* is used to account for resources used to support the school's student and fundraising activities. The Academy holds all resources in a purely custodial capacity.

Deferred Outflows/Inflows of Resources

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

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

Assets, Liabilities and Fund Balance/Net Position

Investments – Investments are reported at fair value.

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

INDEPENDENCE ACADEMY

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property and equipment of the Academy is depreciated using the straight line method over the following estimated useful lives.

Buildings	20- 30 years
Equipment	5 - 15 years
Leasehold Improvements	10 years

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

INDEPENDENCE ACADEMY

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 financial statements, utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

- *Net Investment in Capital Assets* includes the Academy's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted Net Position* includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The Academy typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.
- *Unrestricted Net Position* typically includes unrestricted liquid assets. The Board has the authority to revisit or alter this designation.

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

- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Academy has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The Academy has also classified the fund balance of the Debt Service Fund as restricted for debt service payments.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Academy did not have any committed resources as of June 30, 2016.

INDEPENDENCE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Academy would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned fund balance.

Risk Management

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

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Academy's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read.

Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

INDEPENDENCE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 3: CASH AND INVESTMENTS

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

Governmental Activities- Unrestricted	\$ 2,101,581
Governmental Activities- Restricted	580,881
Fiduciary Funds	<u>192,036</u>
Total	<u>\$ 2,874,498</u>

Deposits

Custodial Credit Risk – Deposits

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

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

At June 30, 2016, the Academy had deposits with financial institutions with a carrying amount of \$2,874,498. The bank balances with the financial institutions were \$2,956,228. Of these balances, \$750,000 was covered by federal depository insurance and \$2,206,228 was covered by collateral held by the authorized agents in the financial institutions name (PDPA).

INDEPENDENCE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 3: *CASH AND INVESTMENTS* (Continued)

Investments

Interest Rate Risk

The Academy 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
- Commercial paper
- 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 governments.

At June 30, 2016, the Academy does not hold any investments.

Restricted Cash

Cash in the amount of \$580,881 is restricted for debt service in the Debt Service Fund.

INDEPENDENCE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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>
Governmental Activities				
Capital Assets, Not Depreciated				
Land	\$ 650,620	\$ -	-	\$ 650,620
Construction in Progress	<u>4,563,418</u>	<u>-</u>	<u>4,563,418</u>	<u>-</u>
Total Capital Assets, Not Depreciated	<u>5,214,038</u>	<u>-</u>	<u>4,563,418</u>	<u>650,620</u>
Capital Assets, depreciated				
Building	679,810	4,958,898	-	5,638,708
Equipment	<u>105,817</u>	<u>70,092</u>	<u>14,380</u>	<u>161,529</u>
Total Capital Assets, depreciated	<u>785,627</u>	<u>5,028,990</u>	<u>14,380</u>	<u>5,800,237</u>
Accumulated Depreciation				
Buildings	28,569	208,648	-	237,217
Equipment	<u>54,701</u>	<u>22,095</u>	<u>14,380</u>	<u>62,416</u>
Total Accumulated Depreciation	<u>83,270</u>	<u>230,743</u>	<u>14,380</u>	<u>299,633</u>
Total Capital Assets, Depreciated, Net	\$ <u>702,357</u>	\$ <u>4,798,247</u>	\$ <u>-</u>	\$ <u>5,500,604</u>
Net Capital Assets	<u>\$ 5,916,395</u>	<u>\$ 4,798,247</u>	<u>\$ 4,563,418</u>	<u>\$ 6,151,224</u>

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

INDEPENDENCE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 5: LONG-TERM DEBT

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2016.

	Balance <u>6/30/15</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>6/30/16</u>	Due In <u>One Year</u>
2014 Bonds	\$ 5,740,000	\$ -	\$ -	\$ 5,740,000	\$ 110,000
Bond Discount	<u>(45,322)</u>	<u>-</u>	<u>(1,563)</u>	<u>(43,759)</u>	<u>-</u>
Total	<u>\$ 5,694,678</u>	<u>\$ -</u>	<u>\$ (1,563)</u>	<u>\$ 5,696,241</u>	<u>\$ 110,000</u>

2014 Bonds Payable

In August 2014, the Colorado Educational and Facilities Authority (CECFA) issued \$5,740,000 Charter School Revenue Bonds, Series 2014. Proceeds from the bonds were used to construct the Academy's educational facility. The Academy is required to make lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at a rate ranging from 2% to 4.15% per year. Interest payments are due semi-annually on March 1 and September 1 and principal payments are due annually on September 1 starting in 2016.

Bonds maturing on September 1, 2034 and thereafter are subject to mandatory sinking fund redemption beginning September 1, 2024. The bonds matures in September, 2044.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 110,000	\$ 228,076	\$ 338,076
2018	115,000	225,251	340,251
2019	120,000	221,726	341,726
2020	120,000	217,525	337,525
2021	125,000	212,624	337,624
2022-2026	710,000	982,224	1,692,224
2027-2031	865,000	824,723	1,689,723
2032-2036	1,055,000	633,551	1,688,551
2037-2041	1,285,000	394,354	1,679,354
2042-2045	<u>1,235,000</u>	<u>105,308</u>	<u>1,340,308</u>
Total	<u>\$ 5,740,000</u>	<u>\$ 4,045,362</u>	<u>\$ 9,785,362</u>

INDEPENDENCE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 6: ACCRUED SALARIES AND BENEFITS

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from September to August, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, as of June 30, 2016, were \$89,287. Accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of the General Fund.

NOTE 7: INTERFUND BALANCES AND TRANSFERS

During the year ended June 30, 2016 the General Fund transferred \$20,000 to the Debt Service Fund to fund the repair and replacement reserve required by bond covenants. The Debt Service Fund transferred the remaining capital project funds in the amount of \$190,411 to the General Fund.

At June 30, 2016, the amount of \$17,456 is due to the Activity Fund from the General Fund for revenues collected by the General Fund that had not been transferred to the Activity Fund by year end.

NOTE 8: DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Policies

Pensions. The Academy participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SCHDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description. Eligible employees of the Academy 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.

INDEPENDENCE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

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.

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.

INDEPENDENCE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 8: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

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. 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 ¹	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) ¹	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF ¹	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	4.20%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	4.00%	4.50%
Total Employer Contribution Rate to the SCHDTF ¹	17.33%	18.13%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF School were \$178,981 for the year ended June 30, 2016.

INDEPENDENCE ACADEMY

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

At June 30, 2016 the Academy reported a liability of \$3,013,670 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 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 Academy's proportion was 0.01970%, which was an increase of 0.00132% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016 the Academy recognized pension expense of \$387,358. At June 30, 2016, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	256,246	\$126
Net difference between projected and actual earnings on pension plan investments	\$39,796	N/A
Changes in assumptions and other inputs	N/A	\$42,588
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$225,823	N/A
Contributions subsequent to the measurement date	\$93,906	N/A
Total	\$615,771	\$42,714

INDEPENDENCE ACADEMY

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)

\$93,906 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:

Year ended June 30,	
2017	\$163,993
2018	\$164,014
2019	\$ 98,597
2020	\$ 52,547

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 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.10 percent
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50 percent
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
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.

INDEPENDENCE ACADEMY

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 actuarial assumptions used in the December 31, 2014 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.

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.

INDEPENDENCE ACADEMY

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)

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:

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

* In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.50%.

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.

INDEPENDENCE ACADEMY

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)

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

INDEPENDENCE ACADEMY

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)

Sensitivity of the Academy'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	\$3,906,596	\$3,013,670	\$2,270,921

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.

Other Post-Employment Benefits

Health Care Trust Fund

Plan Description – The Academy 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.

Funding Policy – The Academy 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 Academy 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, 2014, 2015 and 2016, the Academy's employer contributions to the HCTF were \$7,635, \$8,069, and \$9,731 respectively, equal to their required contributions for each year.

INDEPENDENCE ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 9: **SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

Claims and Judgments

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

Tabor Amendment

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. The Academy believes it is in compliance with the requirements of the Amendment.

The Amendment requires state and local governments to establish an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2016, the Academy reserved \$86,000 to meet this requirement.

NOTE 10: **RELATED PARTIES**

The School engaged TNT Construction for various landscaping and parking lot projects on the School's property. The company is owned by one of the School's board members. For the year ended June 30, 2016, the School paid \$42,967 to TNT Construction for services provided.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENCE ACADEMY

GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 Year Ended June 30, 2016

	2016			VARIANCE Positive (Negative)	2015 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
REVENUES					
Local Sources					
Per Pupil Revenue	\$ 2,263,450	\$ 2,397,203	\$ 2,406,625	\$ 9,422	\$ 2,181,858
Tuition and Fees	62,000	63,000	58,683	(4,317)	67,708
Interest	100	-	527	527	526
Other	21,000	33,000	78,193	45,193	42,835
State Sources					
Grants and Donations	52,500	55,000	136,476	81,476	53,392
TOTAL REVENUES	2,399,050	2,548,203	2,680,504	132,301	2,346,319
EXPENDITURES					
Salaries	1,090,950	1,125,000	1,088,388	36,612	868,893
Employee Benefits	287,565	310,000	261,751	48,249	222,861
Purchased Services	613,024	680,562	696,453	(15,891)	535,681
Supplies and Materials	115,000	85,000	142,772	(57,772)	45,997
Property	50,000	149,000	320,774	(171,774)	231,808
Other	186,968	402,500	227	402,273	-
TOTAL EXPENDITURES	2,343,507	2,752,062	2,510,365	241,697	1,905,240
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	55,543	(203,859)	170,139	373,998	441,079
OTHER FINANCING SOURCES (USES)					
Transfers In	-	190,411	190,411	-	-
Transfers Out	-	-	(20,000)	(20,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	190,411	170,411	(20,000)	-
NET CHANGE IN FUND BALANCE	55,543	(13,448)	340,550	353,998	441,079
FUND BALANCE, Beginning	1,194,765	1,645,066	1,652,775	7,709	1,211,696
FUND BALANCE, Ending	<u>\$ 1,250,308</u>	<u>\$ 1,631,618</u>	<u>\$ 1,993,325</u>	<u>\$ 361,707</u>	<u>\$ 1,652,775</u>

See the accompanying independent auditors' report.

INDEPENDENCE ACADEMY

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	0.0180%	0.0184%	0.0197%
School's proportionate share of the Net Pension Liability	\$ 2,299,377	\$ 2,492,184	\$ 3,013,670
School's covered-employee payroll	\$ 726,737	\$ 770,322	\$ 858,719
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	316.4%	323.5%	350.9%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%

See the accompanying independent auditors' report.

INDEPENDENCE ACADEMY

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	\$ 127,245	\$ 141,592	\$ 179,981
Contributions in relation to the Statutorily required contributions	<u>127,245</u>	<u>141,592</u>	<u>179,981</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 748,498	\$ 791,031	\$ 953,990
Contributions as a percentage of covered-employee payroll	17.00%	17.90%	18.87%

See the accompanying independent auditors' report.

INDIVIDUAL FUND FINANCIAL SCHEDULES

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INDEPENDENCE ACADEMY
BUILDING CORPORATION
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2016

	2016			VARIANCE Positive (Negative)	2015 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
REVENUES					
Local Sources					
Investment Income	\$ -	\$ -	\$ 503	\$ 503	\$ 12,135
Rent Revenue	-	355,000	310,910	(44,090)	8,107
TOTAL REVENUES	-	355,000	311,413	(43,587)	20,242
EXPENDITURES					
Current					
Bond Issuance Costs	-	-	-	-	343,369
Debt Service					
Principal	-	-	-	-	-
Interest	-	355,000	229,175	125,825	91,033
Capital Outlay	300,000	300,000	113,417	186,583	4,496,484
TOTAL EXPENDITURES	300,000	655,000	342,592	312,408	4,930,886
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(300,000)	(300,000)	(31,179)	268,821	(4,910,644)
OTHER FINANCING SOURCES (USES)					
Proceeds from Issuance of Debt	-	-	-	-	5,740,000
Bond Discount	-	-	-	-	(46,885)
Transfer In	-	-	20,000	20,000	-
Transfer Out	-	-	(190,411)	(190,411)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	(170,411)	(170,411)	5,693,115
NET CHANGE IN FUND BALANCE	(300,000)	(300,000)	(201,590)	98,410	782,471
FUND BALANCE, Beginning	644,125	782,471	782,471	-	-
FUND BALANCE, Ending	\$ 344,125	\$ 482,471	\$ 580,881	\$ 98,410	\$ 782,471

See the accompanying independent auditors' report.

INDEPENDENCE ACADEMY

AGENCY FUND - PUPIL ACTIVITY FUND
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 Year Ended June 30, 2016

	BALANCE JULY 1, 2015	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2016
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash	\$ 280,636	\$ 151,579	\$ 240,179	\$ 192,036
Due from General Fund	-	17,456	-	17,456
Due from Others	23,793	-	23,793	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 304,429</u>	<u>\$ 169,035</u>	<u>\$ 263,972</u>	<u>\$ 209,492</u>
LIABILITIES				
Accounts Payable -				
Due to Student Groups	\$ 303,019	\$ 169,035	\$ 262,562	\$ 209,492
Due to General Fund	1,410	-	1,410	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>\$ 304,429</u>	<u>\$ 169,035</u>	<u>\$ 263,972</u>	<u>\$ 209,492</u>

See the accompanying independent auditors' report.