

FLAGSTAFF ACADEMY
BASIC FINANCIAL STATEMENTS
June 30, 2016



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By Justin L. Smith at 9:40 am, Nov 15, 2016

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	
Management's Discussion and Analysis	i -vii
Basic Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Balance Sheet – Governmental Funds	3
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	4
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	5
Statement of Net Position - Proprietary Fund Type	6
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund Type	7
Statement of Cash Flows - Proprietary Fund Type	8
Notes to the Financial Statements	9 - 29
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	30
Schedule of the School's Proportionate Share	31
Schedule of the School's Contributions	32



JOHN CUTLER & ASSOCIATES

Board of Directors
Flagstaff Academy
Longmont, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Flagstaff Academy, component unit of the St. Vrain Valley School District, 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 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.

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedule of the school's proportionate share, and schedule of the school's contributions on pages 30-32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

John Luttrell & Associates, LLC

October 20, 2016

Flagstaff Academy Management's Discussion and Analysis

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

Financial Highlights

The year ended June 30, 2016 is the eleventh year of operations for FSA. As of June 30, 2016, net position decreased by \$(707,391) to \$(9,238,973). This negative balance is the result of the implementation of regulations under the Governmental Accounting Standards Board Statement (GASB) Number 68. Further information about GASB 68 is provided in Note 7 of the financial statements.

The operations of the School are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue. Such revenue for the year was \$5,806,050. At the close of the fiscal year, Flagstaff Academy's governmental funds reported a combined ending fund balance of \$3,471,881, an increase of \$286,890 from prior year. This increase is the result of an increase in Capital Construction and 2012 Mill Levy funds, with higher PTO donations, and closely monitoring spending throughout the year.

Overview of Financial Statements

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

Government-Wide Financial Statements

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

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

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

The government-wide statement of activities distinguishes functions/programs of the school supported primarily by Per Pupil Revenue or other revenues passed through from the authorizer (St. Vrain Valley School District). The governmental activities of the School include instruction and supporting services.

Fund Financial Statements

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

Governmental Funds.

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

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

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

Proprietary Funds.

The school has one proprietary fund to record the activity of the Flagstaff Building Corporation (Building Corporation). The Building Corporation was formed solely to assist in the financing and construction of the School's facility.

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 9-29.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of Flagstaff Academy, liabilities exceeded assets resulting in a net position of \$(9,238,973) in FY 2015-2016. Again, this is directly related to the new pension liability reporting requirement under GASB 68. Of the School's total net position, \$235,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. Accordingly, these funds are not available to satisfy the school's general operating expenses.

**Flagstaff Academy's Net Position
Governmental Activities**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
ASSETS		
Cash and Investments	\$ 3,774,009	\$ 3,682,465
Restricted Cash and Investments	929,480	1,904,290
Accounts Receivable	1,394	7,920
Prepaid Expenses	69,408	56,086
Capital Assets, Not Depreciated	-	27,938
Capital Assets, Net of Accum Depreciation	9,642,662	9,690,527
Total Assets	14,416,953	15,369,226
DEFERRED OUTFLOWS OF RESOURCES		
Cost of Refunding	1,496,289	-
Related to Pensions	1,689,240	526,716
Total Deferred Outflows of Resources	3,185,529	526,716
LIABILITIES		
Accounts Payable	65,238	80,715
Due to the District	9,943	90,320
Interest Payable	-	387,765
Accrued Salaries & Benefits	315,987	342,142
Unearned Revenues	35,068	48,303
Noncurrent Liabilities		
Net Pension Liability	12,108,223	10,572,687
Due in One Year	35,000	230,000
Due in More than One Year	14,100,382	12,675,000
Total Liabilities	26,669,841	24,426,932
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	171,614	592
NET POSITION		
Investment in Capital Assets	(3,563,240)	(1,310,183)
Restricted for Emergencies	235,000	226,000
Unrestricted	(5,910,733)	(7,447,399)
Total Net Position	\$ (9,238,973)	\$ (8,531,582)

The largest portion of the School's assets is in capital assets, at 67% of total assets in 2016.

**Flagstaff Academy's Change in Net Position
Governmental Activities**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Program Revenue:		
Charges for Services	\$ 844,713	\$ 903,540
Operating Grants and Contributions	159,322	125,725
Capital Grants and Contributions	210,102	141,292
Total Program Revenue	1,214,137	1,170,557
General Revenue:		
Per Pupil Revenue	5,806,050	5,726,550
Mill Levy Revenue	940,906	772,877
Interest	24,197	13,436
Other	79,779	32,186
Total General Revenue	6,850,932	6,545,049
Total Revenue	8,065,069	7,715,606
Expenses:		
Current:		
Instruction	4,772,871	4,279,650
Supporting Services	2,796,347	2,125,901
Interest on Long-Term Debt	1,203,242	897,994
Total Expenses	8,772,460	7,303,545
Increase/(Decrease) in Net Position	(707,391)	412,061
Net Position, Beginning	(8,531,582)	(8,943,643)
Net Position, Ending	\$ (9,238,973)	\$ (8,531,582)

The largest portion of the School's revenues came from per pupil revenue – 72%, respectively in 2016.

Financial Analysis of the Government's Funds.

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

Governmental Funds.

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

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$3,471,881, an increase of \$286,890 from prior year.

General Fund Budgetary Highlights

The School approves a final general fund budget in May based on enrollment projections for the school year. In October, after enrollment stabilizes, adjustments are made to the budget. At year-end, the school had some variances between its final budgeted and actual activities. Overall, the school recognized \$106,039 more revenue than expected and spent \$(268,656) less than planned, when compared to the final budget. One budget amendment was made during FY 2015-2016.

Capital Assets & Long-Term Debt

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

The School has long-term debt in the form of refunding revenue bonds. During fiscal year 2015-2016, proceeds from 2016 bonds were used to advance refund 2008 revenue bonds, originally issued to construct the school's facility. The School is required to make equal 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. See Note 6 for more information.

Economic Factors and Next Year's Budget

The primary factor driving the budget for Flagstaff Academy is student enrollment. Enrollment for the 2015-2016 school year was 813.18 funded students. This information was analyzed as part of the 2016-2017 budget which is projecting an 860 funded student count. In addition, the refinance of the bonds at the end of the fiscal year is estimated to give approximately a 20% savings with the annual bond payment on the facility.

Requests for Information

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

Flagstaff Academy
2040 Miller Drive
Longmont, CO 80501

BASIC FINANCIAL STATEMENTS

FLAGSTAFF ACADEMY

STATEMENT OF NET POSITION

As of June 30, 2016

	Governmental Activities	
	2016	2015
ASSETS		
Cash and Investments	\$ 3,774,009	\$ 3,682,465
Restricted Cash and Investments	929,480	1,904,290
Accounts Receivable	1,394	7,920
Prepaid Expenses	69,408	56,086
Capital Assets, Not Depreciated	-	27,938
Capital Assets, Depreciated, Net of Accumulated Depreciation	9,642,662	9,690,527
TOTAL ASSETS	14,416,953	15,369,226
DEFERRED OUTFLOWS OF RESOURCES		
Cost of Refunding	1,496,289	-
Related to Pensions	1,689,240	526,716
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,185,529	526,716
LIABILITIES		
Accounts Payable	65,238	80,715
Due to the District	9,943	90,320
Interest Payable	-	387,765
Accrued Salaries and Benefits	315,987	342,142
Unearned Revenues	35,068	48,303
Noncurrent Liabilities		
Net Pension Liability	12,108,223	10,572,687
Due in One Year	35,000	230,000
Due in More than One Year	14,100,382	12,675,000
TOTAL LIABILITIES	26,669,841	24,426,932
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	171,614	592
NET POSITION		
Net Investment in Capital Assets	(3,563,240)	(1,310,183)
Restricted for Emergencies	235,000	226,000
Unrestricted	(5,910,733)	(7,447,399)
TOTAL NET POSITION	\$ (9,238,973)	\$ (8,531,582)

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

FLAGSTAFF ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2016	2015
PRIMARY GOVERNMENT						
Governmental Activities						
Instructional	\$ 4,772,871	\$ 844,713	\$ 27,541	\$ -	\$ (3,900,617)	\$ (3,344,246)
Supporting Services	2,796,347	-	131,781	210,102	(2,454,464)	(1,890,748)
Interest on Long-Term Debt	1,203,242	-	-	-	(1,203,242)	(897,994)
Total Governmental Activities	<u>\$ 8,772,460</u>	<u>\$ 844,713</u>	<u>\$ 159,322</u>	<u>\$ 210,102</u>	<u>(7,558,323)</u>	<u>(6,132,988)</u>
GENERAL REVENUES						
					5,806,050	5,726,550
Per Pupil Revenue					940,906	772,877
Mill Levy Override					24,197	13,436
Interest					79,779	32,186
Other						
TOTAL GENERAL REVENUES					<u>6,850,932</u>	<u>6,545,049</u>
CHANGE IN NET POSITION					(707,391)	412,061
NET POSITION, Beginning					<u>(8,531,582)</u>	<u>(8,943,643)</u>
NET POSITION, Ending					<u>\$ (9,238,973)</u>	<u>\$ (8,531,582)</u>

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

FLAGSTAFF ACADEMY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	TOTAL GOVERNMENTAL FUNDS	
	2016	2015
ASSETS		
Cash and Investments	\$ 3,774,009	\$ 3,682,465
Accounts Receivable	1,394	7,920
Prepays	69,408	56,086
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 3,844,811</u>	<u>\$ 3,746,471</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 11,932	\$ 80,715
Due to the District	9,943	90,320
Accrued Salaries	315,987	342,142
Unearned Revenues	35,068	48,303
	<hr/>	<hr/>
TOTAL LIABILITIES	<u>372,930</u>	<u>561,480</u>
FUND BALANCES		
Nonspendable	69,408	56,086
Restricted for Emergencies	235,000	226,000
Unassigned	3,167,473	2,902,905
	<hr/>	<hr/>
TOTAL FUND BALANCES	<u>3,471,881</u>	<u>3,184,991</u>
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.	760,318	566,960
Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This liability includes net pension liability of (\$12,108,223), deferred outflows related to pensions of \$1,689,240, and deferred inflows related to pensions of (\$171,614).	(10,590,597)	(10,046,563)
Internal Service funds are used by management to charge the lease costs to governmental funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.	<u>(2,880,575)</u>	<u>(2,236,970)</u>
Net position of governmental activities	<u>\$ (9,238,973)</u>	<u>\$ (8,531,582)</u>

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

FLAGSTAFF ACADEMY

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

	TOTAL GOVERNMENTAL FUNDS	
	2016	2015
REVENUES		
Local Sources	\$ 7,821,840	\$ 7,539,136
State Sources	237,643	173,156
TOTAL REVENUES	<u>8,059,483</u>	<u>7,712,292</u>
EXPENDITURES		
Current		
Instruction	4,583,722	4,279,650
Supporting Services	3,484,569	3,484,569
TOTAL EXPENDITURES	<u>8,068,291</u>	<u>7,764,219</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(8,808)</u>	<u>(51,927)</u>
OTHER FINANCING SOURCES		
Transfers In	295,698	-
TOTAL OTHER FINANCING SOURCES	<u>295,698</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	286,890	(51,927)
FUND BALANCES, Beginning	<u>3,184,991</u>	<u>3,236,918</u>
FUND BALANCES, Ending	<u>\$ 3,471,881</u>	<u>\$ 3,184,991</u>

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

FLAGSTAFF 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	\$ 286,890
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 capital outlay \$247,992 exceeded depreciation expense (\$54,634), in the current year.	193,358
Deferred Charges related to pensions are not recognized in the governmental funds. However, for the government-wide funds those amounts are capitalized and amortized.	(544,034)
The Internal Service fund is used by management to charge the cost of lease payments to the governmental funds. The net revenue of the internal service fund is reported with the governmental activities.	<u>(643,605)</u>
Change in net position of governmental activities	<u>\$ (707,391)</u>

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

FLAGSTAFF ACADEMY

STATEMENT OF NET POSITION
 PROPRIETARY FUND TYPE
 June 30, 2016

	Governmental Activities - Internal Service Fund	
	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Restricted Cash and Investments	<u>\$ 929,480</u>	<u>\$ 1,904,290</u>
Total Current Assets	<u>929,480</u>	<u>1,904,290</u>
Long-term Assets		
Capital Assets, Net of Accumulated Depreciation	<u>8,882,344</u>	<u>9,151,505</u>
Total Long-term Assets	<u>8,882,344</u>	<u>9,151,505</u>
TOTAL ASSETS	<u>9,811,824</u>	<u>11,055,795</u>
DEFERRED OUTFLOW OF RESOURCES		
Cost of Refunding	<u>1,496,289</u>	<u>-</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	53,306	-
Interest Payable	-	387,765
Bonds Payable - Current	<u>35,000</u>	<u>230,000</u>
Total Current Liabilities	<u>88,306</u>	<u>617,765</u>
Long-Term Liabilities		
Bonds Payable	<u>14,100,382</u>	<u>12,675,000</u>
TOTAL LIABILITIES	<u>14,188,688</u>	<u>13,292,765</u>
NET POSITION		
Net Investment in Capital Assets	(4,323,558)	(1,849,205)
Unrestricted	<u>1,442,983</u>	<u>(387,765)</u>
TOTAL NET POSITION	<u>\$ (2,880,575)</u>	<u>\$ (2,236,970)</u>

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

FLAGSTAFF ACADEMY

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

	Governmental Activities - Internal Service Fund	
	2016	2015
OPERATING REVENUES		
Charges for Services	\$ 1,120,256	\$ 1,170,458
TOTAL OPERATING REVENUES	1,120,256	1,170,458
OPERATING EXPENSES		
Purchased Services	1,346	2,747
Depreciation	269,161	269,161
TOTAL OPERATING EXPENSES	270,507	271,908
OPERATING INCOME	849,749	898,550
NON-OPERATING EXPENSES		
Investment Income	5,586	3,314
Bond Issue Costs	(320,267)	-
Interest Expense	(882,975)	(897,994)
TOTAL NON-OPERATING EXPENSES	(1,197,656)	(894,680)
INCOME (LOSS) BEFORE TRANSFERS	(347,907)	3,870
Transfers Out	(295,698)	-
NET INCOME (LOSS)	(643,605)	3,870
NET POSITION, Beginning	(2,236,970)	(2,240,840)
NET POSITION, Ending	\$ (2,880,575)	\$ (2,236,970)

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

FLAGSTAFF ACADEMY

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

	Governmental Activities - Internal Service Fund	
	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Rental Operations	\$ 1,120,256	\$ 1,170,458
Cash Paid to Suppliers	<u>(1,346)</u>	<u>(2,747)</u>
Net Cash Provided by Operating Activities	<u>1,118,910</u>	<u>1,167,711</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	<u>5,586</u>	<u>3,314</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Debt Issuance	14,135,382	-
Principal Payments on Bonds	(14,401,289)	(215,000)
Bond Issue Costs	(266,961)	-
Interest Expense	(1,270,740)	(897,994)
Payments to Other Funds	<u>(295,698)</u>	<u>-</u>
Net Cash Used by Capital and Related Financing Activities	<u>(2,099,306)</u>	<u>(1,112,994)</u>
NET INCREASE (DECREASE) IN CASH	(974,810)	58,031
CASH, Beginning	<u>1,904,290</u>	<u>1,846,259</u>
CASH, Ending	<u>\$ 929,480</u>	<u>\$ 1,904,290</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	<u>\$ 849,749</u>	<u>\$ 898,550</u>
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation Expense	<u>269,161</u>	<u>269,161</u>
Total Adjustments	<u>269,161</u>	<u>269,161</u>
Net Cash Provided by Operating Activities	<u>\$ 1,118,910</u>	<u>\$ 1,167,711</u>

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

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Flagstaff Academy (the “Academy”) was formed in November of 2004, pursuant to the Colorado Charter Schools Act to form and operate a charter school. The focus of which will be to provide a science-focused, liberal arts curriculum that promotes excellence, teamwork, respect and a lifelong love of learning.

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

Reporting Entity

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

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

Flagstaff Building Corporation

The Flagstaff 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 an internal service fund. Separate financial statements are not available for the Building Corporation.

The Academy is a component unit of the St. Vrain Valley School District (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 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.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

FLAGSTAFF 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)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal 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 non-operating revenues and expenses.

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

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

The Academy reports the following major funds:

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

Additionally, the Academy reports the following fund types:

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

Assets, Liabilities and Fund Balance/Net Position

Investments – Investments are recorded at fair value.

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the 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.

FLAGSTAFF 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)

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net assets in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: buildings, 40 years, leasehold improvements, 7 years; equipment, 3-7 years.

Deferred Outflows – In addition to assets, the statement of financial position and balance sheets will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows 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.

Long-term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. 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.

Unearned Revenues – Unearned revenues include tuition revenues that have been collected but the corresponding expenditure that have not been incurred.

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

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

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:

FLAGSTAFF 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)

- Nonspendable – This classification includes amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. The Academy considers Prepaid Expenses as nonspendable.
- 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.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Academy did not have any committed resources as of June 30, 2016.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

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.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

A budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles. Academy management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July 1. The budget is adopted by the Board of Directors prior to June 30. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year end.

NOTE 3: CASH AND INVESTMENTS

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

Deposits	\$ 2,372,734
Investments	<u>2,330,755</u>
Total	<u>\$ 4,703,489</u>

The above amounts are classified in the statement of net assets as follows:

Cash and Investments	\$ 3,774,009
Restricted Cash and Investments	<u>929,480</u>
Total	<u>\$ 4,709,489</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.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 3: CASH AND INVESTMENTS (Continued)

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 \$2,372,734. The bank balances with the financial institutions were \$2,575,056. Of this amount, \$250,000 was covered federal depository insurance and \$2,325,056 was covered by collateral held by authorized escrow agents in the financial institutions name (PDDPA).

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 units of local government may invest, which include:

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

As of June 30, 2016, the School has the following investments:

	<u>Fair Value</u>	<u>Investment Maturity (Years)</u>	
		<u>Less than One Year</u>	<u>One to Five Years</u>
Money Market Mutual Funds - CSIP	\$ 401,275	\$ 401,275	\$ -
Certificates of Deposit	1,000,000	250,000	750,000
CSAFE	<u>929,480</u>	<u>929,480</u>	<u>-</u>
Total	<u>\$ 2,330,755</u>	<u>\$ 1,580,755</u>	<u>\$ 750,000</u>

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 3: CASH AND INVESTMENTS (Continued)

Fair Value

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

The Academy had invested \$929,480 in the Colorado Surplus Asset Fund Trust (CSAFE). CSAFE is considered to be a 2a7 like investments and is valued using the NAV per share (or its equivalent) of the investments. The 2a-7 like investments do not have any unfunded commitments, redemption restrictions or redemption notice periods. The 2a-7 like investments conform to Colorado Statutes CRS 24-75-601 et. seq. and therefore invests primarily in securities of the United States Treasury, United States Agencies, Primary Dealer Repurchase Agreements, highly rated commercial paper, highly rated corporate bonds, Colorado depositories collateralized at 102% of market value according to the guidelines of the Public Deposit Protection Act. The investments will conform to its Permitted Investments and will meet Standard & Poor's investment guidelines to achieve a AAAM rating, the highest attainable rating for a Local Government Investment Pool.

The Academy invested \$401,275 in a Money Market Mutual Fund. Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The fair value of investments in money market funds is based on the published net asset values per share of those funds. Money market securities are valued using amortized cost, in accordance with Rule 2a-7 under the 1940 Act. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by Prime Series and Government Series are categorized as Level 2.

Restricted Cash and Investments

Investments totaling \$929,480 are restricted in the Internal Service Fund for the construction the Academy's building and payment of the Academy's debt.

FLAGSTAFF 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				
Construction in Progress	\$ 27,938	\$ -	\$ 27,938	\$ -
Capital Assets, Depreciated				
Buildings	10,766,471	-	-	10,766,471
Leasehold Improvements	602,311	35,581	-	637,892
Equipment	<u>52,723</u>	<u>240,349</u>	-	<u>293,072</u>
Total Capital Assets, Depreciated	<u>11,421,505</u>	<u>275,930</u>	-	<u>11,697,435</u>
Accumulated Depreciation				
Buildings	1,614,966	269,161	-	1,884,127
Leasehold Improvements	77,872	42,108	-	119,980
Equipment	<u>38,140</u>	<u>12,526</u>	-	<u>50,666</u>
Total Accumulated Depreciation	<u>1,730,978</u>	<u>323,795</u>	-	<u>2,054,773</u>
Total Capital Assets, Being Depreciated, Net	<u>9,690,527</u>	<u>(47,865)</u>	-	<u>9,642,662</u>
Net Capital Assets	<u>\$ 9,718,465</u>	<u>\$ (47,865)</u>	<u>\$ 27,938</u>	<u>\$ 9,642,662</u>

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

NOTE 5: ACCRUED SALARIES AND BENEFITS

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve-month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, as of June 30, 2016, were \$315,987. Accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of the General Fund.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 6: LONG-TERM DEBT

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

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2016</u>	Due In <u>One Year</u>
2008 Revenue Bonds	\$12,905,000	\$ -	\$12,905,000	\$ -	\$ -
2016 Refunding Revenue Bonds	-	13,335,000	-	13,335,000	35,000
2016 Premium	-	<u>800,382</u>	-	<u>800,382</u>	-
	<u>\$12,905,000</u>	<u>\$14,135,382</u>	<u>\$12,905,000</u>	<u>\$14,135,382</u>	<u>\$ 35,000</u>

2016 Refunding Revenue Bonds

In June 2016, the Colorado Educational and Facilities Authority (CECFA) issued \$13,335,000 in Charter School Refunding Revenue Bonds, Series 2016. Proceeds from the bonds were loaned to the Academy under a lease agreement to advance refund the 2008 Revenue Bonds. The Academy is required to make equal 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 rates ranging from 3.00% to 5.00% per year. The bonds mature in August, 2046.

Defeased Bonds

A portion of the net proceeds of the 2016 bonds were deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refundable bonds are considered to be defeased, and the related liability for the bonds has been removed from the Academy's liabilities. At June 30, 2016, the outstanding defeased bonds were \$12,675,000.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 6: LONG-TERM DEBT (Continued)

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 35,000	\$ 349,884	\$ 384,884
2018	230,000	539,237	769,237
2019	240,000	532,188	772,188
2020	250,000	524,837	774,837
2021	255,000	515,988	770,988
2022-2026	1,430,000	2,415,837	3,845,837
2027-2031	1,755,000	2,071,463	3,826,463
2032-2036	2,235,000	1,577,062	3,812,062
2037-2041	2,800,000	1,009,297	3,809,297
2042-2046	3,360,000	448,050	3,808,050
2047	<u>745,000</u>	<u>13,503</u>	<u>758,503</u>
Total	<u>\$ 13,335,000</u>	<u>\$ 9,997,346</u>	<u>\$ 23,332,346</u>

NOTE 7: DEFINED BENEFIT PENSION PLAN

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

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

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: 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.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: 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 School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF School were \$700,310 for the year ended June 30, 2016.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN(Continued)

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

At June 30, 2016 the School reported a liability of \$12,108,223 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The School's proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2015, the School's proportion was 0.07917%, which was an increase of 0.00116% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016 the School recognized pension expense of \$1,244,345. At June 30, 2016, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 159,891	\$ 504
Net difference between projected and actual earnings on pension plan investments	\$ 1,029,539	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$ 141,720	N/A
Changes in assumptions and other inputs	N/A	\$ 171,110
Contributions subsequent to the measurement date	\$ 358,090	N/A
Total	\$ 1,689,240	\$ 171,614

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

\$358,090 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, 2016	
2017	\$325,294
2018	\$325,384
2019	\$297,738
2020	\$211,120

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Price inflation	2.80%
Real wage growth	1.10%
Wage inflation	3.90%
Salary increases, including wage inflation	3.90%-10.10%
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50%
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00%
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

The actuarial assumptions used in the December 31, 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.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN(Continued)

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

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.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

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.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN(Continued)

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

- 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.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$15,695,795	\$12,108,223	\$9,124,031

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

Plan Description – The School contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and sets forth a framework that grants authority to the PERA Board to contract, self-insure and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

Funding Policy – The School is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2016, 2015, and 2014, the Academy's employer contributions to the HCTF were \$37,054, \$33,742 and \$33,579 respectively, equal to their required contributions for each year.

FLAGSTAFF ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 8: 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 participates in the Colorado School District Self Insurance Pool. The Pool insures property and liability exposures through contributions made by member districts. The Academy does not maintain an equity interest in the self insurance pool. The Academy funds its pool contributions, outside insurance purchases, deductibles, and uninsured losses through the General Fund. The Academy is fully self insured for unemployment compensation and has a \$1,000 deductible for property insurance.

The Academy continues to carry commercial insurance for all other risks of loss, including boiler and machinery coverage. Settled claims resulting from these risks have not exceeded commercial or Academy coverage's in any of the past three years.

NOTE 9: 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

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The Academy believes it has complied with the Amendment. As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2016, the reserve of \$235,000 was recorded as a restriction of fund balance in the General Fund.

FLAGSTAFF ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 10: INTERFUND TRANSFERS

The Building Corporation transferred \$295,698 to the General Fund as excess reserve funds were held related to the prior bonds that were refunded.

NOTE 11: DEFICIT NET POSITION

The Net Position of the government type activities is a deficit of \$9,238,973 due to the School included the Net Pension Liability per GASB No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

FLAGSTAFF 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	\$ 5,935,190	\$ 5,767,885	\$ 5,806,050	\$ 38,165	\$ 5,726,550
Mill Levy Override	783,867	940,906	940,906	-	772,877
Tuition and Fees	886,115	819,438	844,713	25,275	903,540
Contributions	60,000	128,000	131,781	3,781	93,861
Interest	10,000	19,963	18,611	(1,352)	10,122
Other	30,000	55,273	79,779	24,506	32,186
State Sources					
Grants and Donations	241,233	221,979	237,643	15,664	173,156
TOTAL REVENUES	<u>7,946,405</u>	<u>7,953,444</u>	<u>8,059,483</u>	<u>106,039</u>	<u>7,712,292</u>
EXPENDITURES					
Salaries	4,126,664	4,069,197	3,963,665	105,532	3,671,564
Employee Benefits	1,352,181	1,312,441	1,256,786	55,655	1,126,624
Purchased Services	1,870,175	2,048,571	2,044,161	4,410	2,376,610
Supplies and Materials	369,883	454,914	462,673	(7,759)	324,932
Property	68,401	294,092	246,000	48,092	247,099
Other	150,654	157,732	95,006	62,726	17,390
TOTAL EXPENDITURES	<u>7,937,958</u>	<u>8,336,947</u>	<u>8,068,291</u>	<u>268,656</u>	<u>7,764,219</u>
EXCESS OF EXPENDITURES OVER REVENUES	<u>8,447</u>	<u>(383,503)</u>	<u>(8,808)</u>	<u>374,695</u>	<u>(51,927)</u>
OTHER FINANCING SOURCES					
Transfers In	-	-	295,698	295,698	-
NET CHANGE IN FUND BALANCE	8,447	(383,503)	286,890	670,393	(51,927)
FUND BALANCE, Beginning	<u>3,046,515</u>	<u>3,184,311</u>	<u>3,184,991</u>	<u>680</u>	<u>3,236,918</u>
FUND BALANCE, Ending	<u>\$ 3,054,962</u>	<u>\$ 2,800,808</u>	<u>\$ 3,471,881</u>	<u>\$ 671,073</u>	<u>\$ 3,184,991</u>

See the accompanying independent auditors' report.

FLAGSTAFF ACADEMY

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

Years Ended December 31,

	<u>2013</u>	<u>2014</u>	<u>2015</u>
School's proportionate share of the Net Pension Liability	0.082%	0.078%	0.079%
School's proportionate share of the Net Pension Liability	\$ 10,517,371	\$ 10,572,687	\$ 12,108,223
School's covered-employee payroll	\$ 3,304,112	\$ 3,302,791	\$ 3,450,134
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	318.3%	320.1%	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.

FLAGSTAFF ACADEMY

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DISTRICT TRUST FUND

Years Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Statutorily required contributions	\$ 561,873	\$ 592,106	\$ 700,310
Contributions in relation to the Statutorily required contributions	<u>561,873</u>	<u>592,106</u>	<u>700,310</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 3,292,075	\$ 3,308,026	\$ 3,632,719
Contributions as a percentage of covered-employee payroll	17.07%	17.90%	19.28%

See the accompanying independent auditors' report.