

THE ACADEMY OF CHARTER SCHOOLS, INC.

BASIC FINANCIAL STATEMENTS

June 30, 2016



**RECEIVED**

*By Justin L. Smith at 1:43 pm, Jan 03, 2017*

## TABLE OF CONTENTS

	<b>PAGE</b>
Independent Auditors' Report	
Management's Discussion and Analysis	i -vi
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 Balance of Governmental Funds	5
Statement of Net Position – Proprietary Fund Types	6
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund Types	7
Statement of Cash Flows – Proprietary Fund Types	8
Notes to the Financial Statements	9 – 30
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	31
Schedule of the School's Proportionate Share	32
Schedule of the School's Contributions	33



## JOHN CUTLER & ASSOCIATES

Board of Directors  
The Academy of Charter Schools, Inc.  
Westminster, Colorado

### INDEPENDENT AUDITORS' REPORT

#### Report on the Financial Statements

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

*John Cutler & Associates, LLC*

October 12, 2016

**The Academy of Charter Schools, Inc.**  
**Management's Discussion and Analysis**  
**As of and for the fiscal year ended June 30, 2016**

As management of The Academy of Charter Schools, we offer readers of the School's basic financial statements this narrative and analysis of the financial activities of the School for the fiscal year ended June 30, 2016.

### **Financial Highlights**

- The liabilities of the School exceeded its assets at the close of the most recent fiscal year by \$16,698,919 (net position). This is a change from the previous year's deficit net position of \$13,157,186. The majority of this deficit (\$14,273,583) is caused by the Governmental Accounting Standards Board (GASB) Statement 68, new last year. All Colorado Schools, The Academy included, are now required to include its Net Pension Liability as part of the net position of the governmental activities. GASB 68 caused a significant restatement of the beginning net position last year and caused a significant increase in the deficit for this year. The remaining portion of the deficit (\$2,425,336) was created when the Academy used bond proceeds to construct its facilities. This will be eliminated as the school pays down its debt.
- The General Fund balance increased from \$1,043,275 to \$1,564,704. The increase was caused by an increase in revenue coupled with The Academy's practice to limit routine expenditures so as to not exceed revenue in any particular year. The revenue increase was from both local sources and State and Federal Grants and Donations. The funds will provide additional reserves.

### **Overview of the Financial Statements**

Management's discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the basic financial statements. This report also contains other required supplemental information in addition to the basic financial statements themselves.

### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the financial activities in a manner similar to a private sector business.

The statement of net position presents information about all of the School's assets and liabilities. The difference between assets and liabilities is reported as net position. Over time, changes 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 net assets of the School changed during the current fiscal year. Changes in net assets are recorded in the statement of activities when the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement even though the resulting cash flow may be recorded in a future period.

The government-wide financial statements consolidate governmental activities that are supported from taxes, intergovernmental revenues, and business-type activities that are intended to recover all or most of their costs from user fees and charges.

## **Fund Financial Statements**

Fund financial statements are designed to demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for special objectives. Fund financial statements for the Academy include two fund types. The fund types presented here are governmental and proprietary.

Governmental funds account for essentially the same information reported in the governmental activities of the government-wide financial statements. However, unlike the government-wide statements, the governmental fund financial statements focus on near-term financial resources and fund balances. Such information may be useful in evaluating financing requirements in the near term.

Since the governmental funds and the governmental activities report information using the same functions, it is useful to compare the information presented. Because the focus of each report differs, reconciliations are provided on the fund financial statements to assist the reader in comparing the near-term requirements with the long-term needs.

The Academy maintains one governmental fund, The Academy General Fund. The Academy adopts an annual appropriated budget for its general fund. A budgetary comparison schedule for the General Fund is included in the required supplemental information (page 31).

The School maintains one type of proprietary fund, The Academy Building Corporation. The Academy Building Corporation is considered a component unit of the charter school and is reported as business-type activities in the proprietary fund. This unit is presented with statements of net position, changes in net position and cash flows.

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

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes can be found on pages 9-30 of this report.

## **Government-wide Financial Analysis**

Net Position may serve over time as a useful indicator of a government's financial position. In the case of The Academy, liabilities exceeded assets by \$16,698,919 at the close of the most recent fiscal year. Again, the majority of this deficit is caused by the Governmental Accounting Standards Board (GASB) Statement 68. All Colorado Schools,

The Academy included, are now required to include its Net Pension Liability as part of the net position of the governmental activities. GASB 68 caused a significant increase in the deficit for this year. A detailed explanation of the Defined Benefit Pension Plan that impacted the financial statement as a result of GASB 68 can be found in note 7, pages 20-29. The remaining portion of the deficit was created when the Academy used bond proceeds to construct its facilities. This will be eliminated as the school pays down its debt.

The assets of the School are classified as current assets and capital assets. Cash and investments, receivables, internal balances and inventories are current assets. These assets are available to provide resources for the near-term operations of the School. The majority of the current assets are the result of unspent revenues received from the state. Capital assets are used in the operations of the School. These assets represent land, buildings, and equipment of the School.

Current and non-current liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable, accrued salaries and benefits, deferred revenue, and current debt obligations. The liquidation of current liabilities is anticipated to be either from current available resources, current assets, or new resources that become available during fiscal 2016.

Long-term liabilities such as long-term debt obligations will be liquidated from resources that will become available after fiscal year 2016. The noncurrent liabilities primarily relate to the debt incurred to fund the facilities of The Academy or are part of the GASB Statement 68 that requires schools to carry a share of the state's pension liability.

**The Academy's Net Position**  
**Governmental and Business-Type Activities**

	<b>June 30, 2016</b>	<b>June 30, 2015</b>
Current assets and other assets	\$ 303,453.00	\$ 317,129.00
Cash and Investments	\$ 5,865,980.00	\$ 5,242,504.00
Capital Assets	\$ 27,688,178.00	\$ 28,261,838.00
	<hr/>	
Total Assets	\$ 33,857,611.00	\$ 33,821,471.00
Current liabilities	\$ 2,299,632.00	\$ 2,172,926.00
Other liabilities	\$ 32,222,974.00	\$ 32,860,178.00
<i>Pension Liability (GASB 68)</i>		
<i>Net of Deferred Amounts</i>	\$ 16,033,924.00	\$ 11,945,553.00
	<hr/>	
Total Liabilities	\$ 50,556,530.00	\$ 46,978,657.00
Net Position		
Net investment in Capital Assets	\$ (1,403,001.00)	\$ (1,669,345.00)
Restricted for:		
Emergencies		
Tabor	\$ 439,000.00	\$ 419,000.00
Unrestricted	\$ (15,734,918.00)	\$ (11,906,841.00)
	<hr/>	
Total Net Position	\$ (16,698,919.00)	\$ (13,157,186.00)

Cash and investments are 17.3% of the Academy's Governmental and Business-Type assets (up from 15.5 last year and 14.4% the year before) and 81.8% are net capital assets. The remaining assets represent accounts receivable.

**The Academy's Change in Net Position**

**For the year ending June 30, 2016**

**Governmental and Business-Type Activities**

	<b>June 30, 2016</b>	<b>June 30, 2015</b>
Program Revenue:		
Charges for Services	\$ 1,749,450.00	\$ 1,791,980.00
Operating Grants and Contributions	\$ 665,300.00	\$ 581,048.00
Capital Grants and Contributions	\$ 457,090.00	\$ 296,347.00
Total Program Revenues	<u>\$ 2,871,840.00</u>	<u>\$ 2,669,375.00</u>
General Revenue		
Per Pupil Revenue	\$ 12,456,899.00	\$ 11,854,128.00
Other	\$ 427,443.00	\$ 302,379.00
Total General Revenue	<u>\$ 12,884,342.00</u>	<u>\$ 12,156,507.00</u>
Total Revenue	<u>\$ 15,756,182.00</u>	<u>\$ 14,825,882.00</u>
Expenses:		
Current:		
Instruction	\$ 9,834,320.00	\$ 8,520,586.00
Supporting Services	\$ 7,522,067.00	\$ 6,139,826.00
Interest on Long-term Debt	\$ 1,941,528.00	\$ 1,972,919.00
Total Expenses	<u>\$ 19,297,915.00</u>	<u>\$ 16,633,331.00</u>
Increase (Decrease) in Net Position	\$ (3,541,733.00)	\$ (1,807,449.00)
Beginning Net Position - restated	<u>\$ (13,157,186.00)</u>	<u>\$ (11,349,737.00)</u>
Ending Net Position	<u>\$ (16,698,919.00)</u>	<u>\$ (13,157,186.00)</u>

**Financial Analysis of Government and Business-type Activities Net Position**

From the previous two statements, the impact of the implementation of Governmental Accounting Standards Board (GASB) Statement 68 is quite evident. GASB published an article, **New GASB Pension Statements to Bring about Major Improvements in Financial Reporting – Dec 2013**. In this article it states:

“This is an important change that will more clearly depict the government's financial position. While this information will, in some cases, give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed.”

This is exactly the case for The Academy. It is important to note that without the impact of the Pension Liability and associated reporting created by GASB 68, the net position of The Academy would have been an increase of \$550,557 as opposed to the depicted decrease of \$3,541,733.

### **Financial Analysis of the School's Governmental 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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**Proprietary Fund.** The Academy Building Corporation net position deficit decreased to a balance of \$2,425,336 from a balance of \$2,449,913. The deficit decrease was the result of additional principal payments on bond debt. This trend is expected to continue as the Academy continues to pay down its debt. The Building Fund has \$3,255,982 in restricted cash and investments required to be held for future debt service.

### **General Fund Budgetary Highlights**

The Academy approves a budget in June based on enrollment projections for the following school year. In October after enrollment stabilizes, adjustments are made to the budget. The Academy approved a supplemental budget to true up the beginning fund balance and adjustment to the actual student count. Actual expenditures in the general fund were under revenues by \$521,429. The General Fund balance increased by \$521,429 during fiscal year 2016.

### **Capital Asset and Debt Administration**

**Capital assets.** Capital assets include the land and building in the Academy Building Corporation Fund of \$27,465,872 and other capital assets in the governmental activities fund of \$222,306. Depreciation expense of \$28,572 and \$584,676 was reported in the Governmental Activities and the Building Corporation Funds on capital assets.

**Long-term lease.** The Academy participates in a long-term lease agreement with the Corporation. Monthly principal and interest payments are due under the lease agreements, with interest accruing at rates ranging from 3.75% to 7.25%. The lease ends in Oct 2040. Annual debt service ranges from \$1,954,688 to \$2,232,612 and is clearly outlined in the bond documents.

## **Economic Factors and Next Year's Budgets and Rates**

The FY 2016/2017 budget projects the Academy's general fund balance will increase by \$155,956. This is primarily due to a projected increase in per pupil revenue with stable State and Federal grant funding. Enrollment is projected to be stable in FY 2016/2017 and beyond.

## **Requests for Information**

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

Chief Executive Officer  
The Academy of Charter Schools, Inc.  
11800 Lowell Blvd.  
Westminster, CO 80031

## **BASIC FINANCIAL STATEMENTS**

THE ACADEMY OF CHARTER SCHOOLS, INC.

STATEMENT OF NET POSITION

June 30, 2016

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and Investments	\$ 2,094,185	\$ 1,708,509
Restricted Cash and Investments	3,771,795	3,533,995
Accounts Receivable	303,453	317,129
Capital Assets, Not Being Depreciated	4,120,406	4,120,406
Capital Assets, Depreciated, Net of Accumulated Depreciation	<u>23,567,772</u>	<u>24,141,432</u>
<b>TOTAL ASSETS</b>	<u>33,857,611</u>	<u>33,821,471</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Related to Pensions	<u>9,293,630</u>	<u>9,763,931</u>
<b>LIABILITIES</b>		
Accounts Payable	430,135	234,461
Accrued Salaries and Benefits	839,572	967,834
Unearned Revenue	33,823	19,913
Accrued Interest Payable	329,433	329,433
Compensated Absences	26,669	16,285
Noncurrent Liabilities		
Due Within One Year	640,000	605,000
Due in More Than One Year	32,222,974	32,860,178
Pension Liability	<u>24,973,594</u>	<u>21,708,268</u>
<b>TOTAL LIABILITIES</b>	<u>59,496,200</u>	<u>56,741,372</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Related to Pensions	<u>353,960</u>	<u>1,216</u>
<b>NET POSITION</b>		
Investment in Capital Assets	(1,403,001)	(1,669,345)
Restricted for Emergencies	439,000	419,000
Unrestricted	<u>(15,734,918)</u>	<u>(11,906,841)</u>
<b>TOTAL NET POSITION</b>	<u>\$ (16,698,919)</u>	<u>\$ (13,157,186)</u>

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			Net Expense (Revenue) and Changes in Net Postion	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2016	2015
PRIMARY GOVERNMENT						
Governmental Activities						
Instruction	\$ 9,834,320	\$ 477,900	\$ 480,207	\$ -	\$ (8,876,213)	\$ (7,621,024)
Supporting Services	7,522,067	1,271,550	185,093	457,090	(5,608,334)	(4,370,013)
Interest and Fiscal Charges	1,941,528	-	-	-	(1,941,528)	(1,972,919)
Total Governmental Activities	<u>\$ 19,297,915</u>	<u>\$ 1,749,450</u>	<u>\$ 665,300</u>	<u>\$ 457,090</u>	<u>(16,426,075)</u>	<u>(13,963,956)</u>
GENERAL REVENUES						
Per Pupil Revenue					12,456,899	11,854,128
Investment Earnings					3,526	980
Other					423,917	301,399
TOTAL GENERAL REVENUES					<u>12,884,342</u>	<u>12,156,507</u>
CHANGE IN NET POSITION					(3,541,733)	(1,807,449)
NET POSITION, Beginning					<u>(13,157,186)</u>	<u>(11,349,737)</u>
NET POSITION, Ending					<u>\$ (16,698,919)</u>	<u>\$ (13,157,186)</u>

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

BALANCE SHEET  
ALL GOVERNMENTAL FUNDS  
June 30, 2016

	<u>GENERAL FUND</u>	
	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and Investments	\$ 2,094,185	\$ 1,708,509
Restricted Cash and Investments	470,596	239,845
Accounts Receivable	303,453	317,129
	<u>303,453</u>	<u>317,129</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 2,868,234</u></u>	<u><u>\$ 2,265,483</u></u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts Payable	\$ 430,135	\$ 234,461
Accrued Salaries and Benefits	839,572	967,834
Unearned Revenue	33,823	19,913
	<u>33,823</u>	<u>19,913</u>
<b>TOTAL LIABILITIES</b>	<u>1,303,530</u>	<u>1,222,208</u>
<b>FUND BALANCES</b>		
Restricted for Emergencies	439,000	419,000
Unassigned	1,125,704	624,275
	<u>1,125,704</u>	<u>624,275</u>
<b>TOTAL FUND BALANCES</b>	1,564,704	1,043,275
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.	222,306	211,290
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 (\$24,973,594), deferred outflows related to pensions \$9,293,630, deferred inflows related to pensions (\$353,960), and compensated absences (\$26,669).	(16,060,593)	(11,961,838)
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>(2,425,336)</u>	<u>(2,449,913)</u>
<b>Net position of governmental activities</b>	<u><u>\$ (16,698,919)</u></u>	<u><u>\$ (13,157,186)</u></u>

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

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

	<u>GENERAL FUND</u>	
	<u>2016</u>	<u>2015</u>
REVENUES		
Local Sources	\$ 14,636,215	\$ 13,946,923
State and Federal Sources	1,122,390	878,309
TOTAL REVENUES	<u>15,758,605</u>	<u>14,825,232</u>
EXPENDITURES		
Instruction	7,209,547	6,861,537
Supporting Services	8,027,629	7,243,585
TOTAL EXPENDITURES	<u>15,237,176</u>	<u>14,105,122</u>
NET CHANGE IN FUND BALANCES	521,429	720,110
FUND BALANCES, Beginning	<u>1,043,275</u>	<u>323,165</u>
FUND BALANCES, Ending	<u>\$ 1,564,704</u>	<u>\$ 1,043,275</u>

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

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	\$ 521,429
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 \$43,508 exceeded depreciation expense (\$28,572) and gain on disposal of assets (\$3,920) for the year.	11,016
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 amount of the change in compensated absences for the year.	(10,384)
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.	24,577
Deferred Charges related to pensions are not recognized in the governmental funds. However, in the government-wide statements these amounts are capitalized and amortized.	<u>(4,088,371)</u>
Change in net position of governmental activities	<u><u>\$ (3,541,733)</u></u>

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

STATEMENT OF NET POSITION  
 PROPRIETARY FUND TYPES  
 June 30, 2016

	GOVERNMENTAL ACTIVITIES	
	Internal Service Fund	
	2016	2015
<b>ASSETS</b>		
Current Assets		
Cash and Investments	\$ -	\$ -
Restricted Cash and Investments	3,301,199	3,294,150
Total Current Assets	3,301,199	3,294,150
Long-term Assets		
Capital Assets, Net of Accumulated Depreciation	27,465,872	28,050,548
Total Long-term Assets	27,465,872	28,050,548
<b>TOTAL ASSETS</b>	<b>30,767,071</b>	<b>31,344,698</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accrued Interest Payable	329,433	329,433
Mortgage Payable - Current Portion	640,000	605,000
Total Current Liabilities	969,433	934,433
Long-Term Liabilities		
Mortgage Payable	32,222,974	32,860,178
<b>TOTAL LIABILITIES</b>	<b>33,192,407</b>	<b>33,794,611</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	(2,095,903)	(2,120,480)
Restricted for Debt Service	(329,433)	(329,433)
<b>TOTAL NET POSITION</b>	<b>\$ (2,425,336)</b>	<b>\$ (2,449,913)</b>

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

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

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>Internal Service Fund</u>	
	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Rent	\$ 2,581,031	\$ 2,579,426
Investment Income	1,496	650
TOTAL OPERATING REVENUES	<u>2,582,527</u>	<u>2,580,076</u>
OPERATING EXPENSES		
Purchased Services	28,950	29,409
Depreciation	584,676	584,676
Amortization	2,796	2,796
TOTAL OPERATING EXPENSES	<u>616,422</u>	<u>616,881</u>
OPERATING INCOME	<u>1,966,105</u>	<u>1,963,195</u>
NON-OPERATING EXPENSES		
Interest Expense	<u>(1,941,528)</u>	<u>(1,972,919)</u>
TOTAL NON-OPERATING EXPENSES	<u>(1,941,528)</u>	<u>(1,972,919)</u>
NET INCOME (LOSS)	24,577	(9,724)
NET POSITION, Beginning	<u>(2,449,913)</u>	<u>(2,440,189)</u>
NET POSITION, Ending	<u>\$ (2,425,336)</u>	<u>\$ (2,449,913)</u>

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

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

	GOVERNMENTAL ACTIVITIES	
	Internal Service Fund	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Rental Operations	\$ 2,581,031	\$ 2,579,426
Cash Paid to Suppliers	(28,950)	(29,409)
Investment Income	1,496	650
Net Cash Provided by Operating Activities	<u>2,553,577</u>	<u>2,550,667</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Interest Expense	(1,941,528)	(1,972,919)
Principal Payments on Loan	(605,000)	(575,000)
Net Cash Used by Financing Activities	<u>(2,546,528)</u>	<u>(2,547,919)</u>
NET INCREASE (DECREASE) IN CASH	7,049	2,748
CASH, Beginning	<u>3,294,150</u>	<u>3,291,402</u>
CASH, Ending	<u>\$ 3,301,199</u>	<u>\$ 3,294,150</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 1,966,105	\$ 1,963,195
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities		
Depreciation Expense	584,676	584,676
Amortization Expense	2,796	2,796
Total Adjustments	<u>587,472</u>	<u>587,472</u>
Net Cash (Used) by Operating Activities	<u>\$ 2,553,577</u>	<u>\$ 2,550,667</u>

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

The Academy of Charter Schools, Inc. (the “Academy”) was formed in 1994 pursuant to the Colorado Charter Schools Act to form and operate a charter school. 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.

The Academy of Charter Schools Building Corporation

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

**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.

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

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

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

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

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

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

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

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

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

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

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

The Academy reports the following major governmental 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 the Building Corporation.

**Deferred Outflows/Inflows of Resources**

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

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

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

*Investments* – Investments are recorded at fair value.

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

*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.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: buildings 20 - 50 years, furniture and equipment 5 to 25 years.

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

*Compensated Absences* – Eligible employees earn vacation time up to 160 hours per year depending on their length of service to the Academy. Employees may carry over up to 80 hours to the next contract year. Any unused vacation time in excess of 80 hours will be paid to the employee in August of each year.

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

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

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

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

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

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 balances.

**Risk Management**

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

**Budgets and Budgetary Accounting**

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

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

**NOTE 3: CASH AND INVESTMENTS**

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

Deposits	\$ 1,507,813
Investments	<u>4,358,168</u>
Total	<u><b>\$ 5,865,980</b></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.

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

**Deposits** (Continued)

At June 30, 2016, the Academy had deposits with financial institutions with a carrying amount of \$1,507,813. The bank balances with the financial institutions were \$1,573,313. Of these balances \$250,000 were covered by federal depository insurance and \$1,323,313 were covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

**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
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

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

At June 30, 2016, The Academy invested \$3,255,982 in the Federated Treasury Obligation Fund. The Fund invests exclusively in US Treasury Obligations and repurchase agreements that are fully collateralized by US Treasury Obligations. The Fund is rated AAAM by Standard and Poor's.

The Academy had invested \$1,102,186 in the Colorado Surplus Asset Fund Trust (CSAFE), which has a credit rating of AAAM by Standard and Poor's. CSAFE is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to \$1.00.

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

**Investments** (Continued)

Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities.

Restricted Cash

Cash in the amount of \$3,301,199 is restricted for debt service in the Internal Service Fund. Cash in the amount of \$470,596 is restricted in the General Fund as collateral for the Academy's line of credit and repair and replacement reserve.

**NOTE 4 CAPITAL ASSETS**

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

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2016</u>
<b>Governmental Activities</b>				
Capital Assets, Not Depreciated				
Land	\$ 4,120,406	\$ -	\$ -	\$ 4,120,406
Capital Assets, Depreciated				
Buildings and Improvements	28,417,915	-	-	28,417,915
Equipment	<u>440,853</u>	<u>43,508</u>	<u>9,722</u>	<u>474,640</u>
Total Capital Assets, Depreciated	<u>28,858,768</u>	<u>43,508</u>	<u>9,722</u>	<u>28,892,555</u>
Accumulated Depreciation				
Building	4,487,773	584,676	-	5,072,449
Equipment	<u>229,563</u>	<u>28,573</u>	<u>5,802</u>	<u>252,334</u>
Total Accumulated Depreciation	<u>4,717,336</u>	<u>613,249</u>	<u>5,802</u>	<u>5,324,783</u>
Net Capital Assets, Depreciated	<u>24,141,432</u>	<u>(569,741)</u>	<u>3,920</u>	<u>23,567,772</u>
Net Capital Assets	<u>\$ 28,261,838</u>	<u>\$ (569,741)</u>	<u>\$ 3,920</u>	<u>\$ 27,688,178</u>

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

**NOTE 5: ACCRUED SALARIES AND BENEFITS**

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve-month period from August to July, but are earned during a school year of nine months. The salaries and benefits earned, but unpaid, as of June 30, 2016, were \$839,572 in the General Fund.

**NOTE 6: LONG-TERM DEBT**

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

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2016</u>	<u>Due In One Year</u>
2004 Bonds Payable	\$ 17,700,000	\$ -	\$ 480,000	\$ 16,715,000	\$ 505,000
2008 Bond Payable	6,145,000	-	-	6,145,000	-
2010 Bonds Payable	9,720,000	-	125,000	9,595,000	135,000
Unamortized Discount	<u>(99,822)</u>	<u>-</u>	<u>2,796</u>	<u>(97,026)</u>	<u>-</u>
Total	<b><u>\$ 33,465,178</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 602,204</u></b>	<b><u>\$ 32,862,974</u></b>	<b><u>\$ 640,000</u></b>

**2004 Bonds Payable**

In May 2004, the Colorado Educational and Facilities Authority (CECFA) issued \$20,365,000 Charter School Revenue Bonds, Series 2004. Proceeds from the bonds were used to construct the Academy's building. 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 3.75% to 5.50% per year. Interest payments are due semi-annually on May 1 and November 1 and principal payments are due annually on May 1. Bonds maturing on May 1, 2009 and thereafter are subject to mandatory sinking fund redemption beginning May 1, 2007. The lease matures in May, 2036.

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

**2008 Bonds Payable**

In August 2008, the Colorado Educational and Facilities Authority (CECFA) issued \$6,145,000 Charter School Revenue Bonds, Series 2008. Proceeds from the bonds were used to construct an addition to the Academy's building. 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 of 5.625% per year. Interest payments are due semi-annually on May 1 and November 1 and principal payments are due annually on May 1 starting in 2037. Bonds maturing on May 1, 2040 and thereafter are subject to mandatory sinking fund redemption beginning May 1, 2037. The lease matures in May, 2040.

**2010 Bonds Payable**

In November 2010, the Colorado Educational and Facilities Authority (CECFA) issued \$4,435,000 Charter School Revenue Bonds, Series 2010A and \$5,625,000 in Charter School Revenue Bonds, Series 2010B. Proceeds from the bonds were used to purchase land and construct an additional 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 6.125% to 7.25% per year. Interest payments are due semi-annually on May 1 and November 1 and principal payments are due annually on November 1. Series 2010A Bonds maturing on or after November 1, 2040 are subject to mandatory sinking fund redemption beginning November 1, 2034. Series 2010B Bonds maturing on or after November 1, 2020 are subject to mandatory sinking fund redemption beginning November 1, 2012. The lease matures in November, 2040.

THE ACADEMY OF CHARTER SCHOOLS, INC.

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	\$ 640,000	\$ 1,912,499	\$ 2,552,499
2018	675,000	1,877,718	2,552,718
2019	715,000	1,842,337	2,557,337
2020	745,000	1,804,844	2,549,844
2021	785,000	1,765,793	2,550,793
2022-2026	4,640,000	8,137,030	12,777,030
2027-2031	6,190,000	6,615,558	12,805,558
2032-2036	8,820,000	4,511,756	13,331,756
2037-2041	<u>9,750,000</u>	<u>1,644,188</u>	<u>11,394,188</u>
Total	<b><u>\$ 32,960,000</u></b>	<b><u>\$ 30,111,723</u></b>	<b><u>\$ 63,071,723</u></b>

**Line of Credit**

In June 2013, the Academy obtained a \$10,423 line of credit with Valley Bank and Trust secured by a Certificate of Deposit. The line carries an interest rate of 2.60% and matured in October 2013. During the year ended June 30, 2016 no funds were drawn on the line of credit and no amount is outstanding as of June 30, 2016.

**NOTE 7: 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.

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

**General Information about the Pension Plan**

*Plan description.* Eligible employees of the 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](http://www.copera.org/investments/pera-financial-reports).

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

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

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

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

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

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

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs), referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve for the SCHDTF.

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

*Contributions.* Eligible employees and the School are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

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

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

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF School were \$1,369,654 for the year ended June 30, 2016.

**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 \$24,973,594 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.

THE ACADEMY OF CHARTER SCHOOLS, INC.

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)

At December 31, 2015, the School's proportion was .16329%, which was an increase of .00312% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016 the School recognized pension expense of \$5,458,028. 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	\$ 2,123,456	\$ 1,040
Changes in assumptions or other inputs	N/A	\$ 352,920
Net difference between projected and actual earnings on pension plan investments	\$ 329,779	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$ 6,145,424	N/A
Contributions subsequent to the measurement date	\$ 694,971	N/A
Total	\$ 9,293,630	\$ 353,960

\$694,971 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	\$3,588,854
2018	\$3,589,039
2019	\$631,367
2020	\$435,439

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

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

*Actuarial assumptions.* The total pension liability in the December 31, 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.

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 ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

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

The following methodology changes were made:

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

The SCHDTF's long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

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

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

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

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

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

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2016

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

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

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

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

Based on the above actuarial cost method and assumptions, the SCHDTF’s fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$32,373,077	\$27,973,594	\$18,818,605

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

**Other Post-Employment Benefits** (Continued)

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](http://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, 2016, 2015, and 2014, the Academy's contributions to the HCTF were \$74,520, \$70,093 and \$63,775 respectively, equal to their required contributions for each year.

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgments**

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

**Tabor Amendment**

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The Academy believes it has complied with the Amendment. As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2016, the reserve of \$439,000 was recorded as a reservation of fund balance in the General Fund.

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

The net position of the governmental activities is in a deficit position of \$16,698,919 due to the Academy including its Net Pension Liability per the requirements of GASB Statement No. 68.

As of June 30, 2016 the Academy had an internal service fund net position deficit of \$2,425,336. The deficit was created when the Academy used bond proceeds to construct its facilities. The deficit will be eliminated as the Academy pays down its debt.

**REQUIRED SUPPLEMENTARY INFORMATION**

THE ACADEMY OF CHARTER SCHOOLS, INC.

BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 Year Ended June 30, 2016

	2016			VARIANCE Positive (Negative)	2015 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
<b>REVENUES</b>					
Local Sources					
Per Pupil Operating Revenue	\$ 12,286,890	\$ 12,378,492	\$ 12,456,899	\$ 78,407	\$ 11,854,128
Pupil Activities	350,000	450,000	477,900	27,900	481,574
Charges for Services	1,310,000	1,285,000	1,271,550	(13,450)	1,309,492
Earnings on Investments	250	350	2,030	1,680	330
Other Revenue	346,000	332,000	427,836	95,836	301,399
State and Federal Sources					
Grants and Donations	1,000,647	1,086,581	1,122,390	35,809	878,309
<b>TOTAL REVENUES</b>	<b>15,293,787</b>	<b>15,532,423</b>	<b>15,758,605</b>	<b>226,182</b>	<b>14,825,232</b>
<b>EXPENDITURES</b>					
Current					
Salaries	7,177,130	7,428,387	7,330,690	97,697	6,741,810
Employee Benefits	2,279,241	2,317,677	2,504,892	(187,215)	2,225,776
Purchased Services	1,510,326	4,002,475	3,790,595	211,880	3,815,291
Supplies and Materials	1,007,300	1,176,657	1,042,198	134,459	840,580
Property	40,300	-	43,508	(43,508)	8,836
Other	2,929,531	457,085	525,293	(68,208)	472,829
<b>TOTAL EXPENDITURES</b>	<b>14,943,828</b>	<b>15,382,281</b>	<b>15,237,176</b>	<b>145,105</b>	<b>14,105,122</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>349,959</b>	<b>150,142</b>	<b>521,429</b>	<b>371,287</b>	<b>720,110</b>
FUND BALANCE, Beginning	715,591	1,043,275	1,043,275	-	323,165
FUND BALANCE, Ending	<u>\$ 1,065,550</u>	<u>\$ 1,193,417</u>	<u>\$ 1,564,704</u>	<u>\$ 371,287</u>	<u>\$ 1,043,275</u>

See the accompanying independent auditors' report.

THE ACADEMY OF CHARTER SCHOOLS, INC.

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	0.079%	0.160%	0.163%
School's proportionate share of the Net Pension Liability	\$ 10,030,429	\$ 21,708,268	\$ 24,973,594
School's covered-employee payroll	\$ 6,374,528	\$ 6,710,029	\$ 7,116,195
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	157.4%	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.

THE ACADEMY OF CHARTER SCHOOLS, INC.

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	\$ 1,064,275	\$ 1,102,441	\$ 1,369,654
Contributions in relation to the Statutorily required contributions	<u>1,064,275</u>	<u>1,102,441</u>	<u>1,369,654</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 6,252,422	\$ 6,710,029	\$ 7,305,839
Contributions as a percentage of covered-employee payroll	17.02%	16.43%	18.75%

See the accompanying independent auditors' report.