

**NORTH STAR ACADEMY**

**FINANCIAL STATEMENTS**

**June 30, 2017**



**RECEIVED**

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Board of Directors  
North Star Academy  
Parker, Colorado

## INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of North Star Academy, component unit of Douglas County School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of North Star Academy, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of North Star Academy as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters (Required Supplementary Information)**

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

*Emanuelson & Company, LLC*

September 28, 2017

**North Star Academy  
Management's Discussion and Analysis  
June 30, 2017**

As management of North Star Academy (the School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2017.

**Financial Highlights**

The year ended June 30, 2017 was the eleventh year of operations for the School. The School operated within or favorably to the approved operating budget, with relatively minor exceptions and began work on the expansion of the School facilities which will be completed in the first half of fiscal 2018.

The School's operations are funded primarily by the tax revenue received under the State School Finance Act. Tax revenue for the year from per pupil revenue was \$4.6 million, which represents approximately 82% of total revenues for the year. Other sources of revenues were primarily from tuition, capital construction funds, school district mill levy funding and fundraising activities.

At the close of the fiscal year, the School's governmental fund reported an ending fund balance of \$2.1 million. The fund balance decreased by \$308,000 for the year ended June 30, 2017 due to expenditures approved by the Board of Directors to expand the facilities. The expansion costs were funded in fiscal 2017 utilizing available cash and \$500,000 drawn on the Building Corporation debt facility. The completion of the expansion in fiscal 2018 will be funded through cash on hand and fundraising activities.

**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 report information on all activities of the School and the Building Corporation. They are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business. The government-wide financial statements include the statement of net position and the statement of activities.

The statement of net position presents information on all of the School's assets and liabilities, and deferred inflows and outflows, with the difference reported as net position. 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 revenues and earned but unpaid salaries and benefits).

**North Star Academy**  
**Management's Discussion and Analysis**  
**June 30, 2017**

The government-wide statement of activities distinguishes functions/programs of the School supported primarily by per pupil revenue. The governmental activities of the School include instruction and supporting services.

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

**Fund Financial Statements**

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

**Governmental funds.** 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 expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School's near-term financing requirements.

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

The School maintains one individual governmental fund, the General Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the general fund. The General Fund is considered a major fund.

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

**Proprietary fund.** The Building Corporation is considered a component unit of the School and has one fund, the proprietary fund. Its activity is related to the assets purchased with tax-exempt financing and the rental of those assets to the School. It is represented in the financial statements with statements of net position, revenues, expenses and changes in net position and cash flows.

**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 8-21.

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Management's Discussion and Analysis  
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**Government-Wide Financial Analysis**

Governmental Activities

As noted previously, net position may serve over time as a useful indicator of the School's financial position. As of June 30, 2017, liabilities exceeded assets by \$8.0 million for the governmental activities at the close of the most recent fiscal year. The negative balance is due primarily to a net pension liability of \$16.9 million, representing the School's proportionate share of the Public Employees' Retirement Association of Colorado School Division Trust Fund's net pension liability. Excluding the pension liability and related deferred inflows and outflows of resources, the School has a positive fund balance of \$2.1 million.

**Net Position as of June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Current assets	\$4,178,901	\$3,925,310
Capital assets	7,965,340	7,209,199
Total Assets	<u>12,144,241</u>	<u>11,134,509</u>
 Deferred Outflows of Resources	 <u>9,118,061</u>	 <u>2,760,525</u>
 Current liabilities	 782,180	 311,476
Noncurrent liabilities	13,361,448	12,267,400
Net pension liability	16,907,903	8,166,339
Total Liabilities	<u>31,051,531</u>	<u>20,745,215</u>
 Deferred Inflows of Resources	 <u>107,417</u>	 <u>173,032</u>
 Net position		
Net investment in capital assets	(3,153,387)	(3,436,117)
Restricted for debt service	1,211,959	1,124,609
Restricted for repair and replacement	74,277	70,292
Restricted for emergencies	173,471	163,756
Unrestricted	(8,202,966)	(4,945,753)
Total Net Position	<u><u>\$ (9,896,646)</u></u>	<u><u>\$ (7,023,213)</u></u>

The largest portion of the School's assets (99%) is in cash and investments and the largest portion of the Building Corporation's assets (85%) is the school facility.

**North Star Academy  
Management's Discussion and Analysis  
June 30, 2017**

**Change in Net Position  
For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Program Revenue:		
Charges for services	\$312,630	\$297,681
Operating Grants and Contributions	32,256	25,560
Total Program Revenue	<u>344,886</u>	<u>323,241</u>
General Revenue:		
Per pupil revenue	4,613,152	4,434,981
Mill levy	353,794	347,048
Capital construction	179,866	163,340
Contributions, donations and other	167,741	190,540
Total General Revenue	<u>5,314,553</u>	<u>5,135,909</u>
 Total Revenue	 <u>5,659,439</u>	 <u>5,459,150</u>
Expenses:		
Instruction	5,507,029	3,304,155
Supporting services	1,940,668	1,380,766
Building Corporation	1,085,175	1,059,470
Total Expenses	<u>8,532,872</u>	<u>5,744,391</u>
 Change in net position	 (2,873,433)#	 (285,241)
Beginning Net Position	<u>(7,023,213)</u>	<u>(6,737,972)</u>
Ending Net Position	<u><u>\$(9,896,646)#</u></u>	<u><u>\$(7,023,213)</u></u>

- The increase in per pupil revenue is primarily due to an increase in the funding on a per pupil basis in 2017 vs. 2016.
- During 2017, the School received a donation of approximately \$43,000 from the North Star Academy Foundation, which compares to a donation of approximately \$138,000 in 2016. The North Star Academy Foundation has designated \$103,000 of additional donations received in fiscal 2017 for distribution to specific projects in fiscal 2018.
- The increase in instruction expenses is primarily due to an increase in pension costs and annual salary and benefits. The increase in supporting services is primarily due to an increase in pension costs, annual salary and benefits and an increase in the cost of services purchased from the Douglas County School District. Total pension costs for the School's proportionate share of the Public Employee Retirement Association of Colorado School Division Trust Fund was \$842,394 for the year ended June 30, 2016 and \$3,396,386 for the year ended June 30, 2017. Total annual salaries and benefits cost per funded pupil was \$5,041 for the year ended June 30, 2017 and \$5,034 for the year ended June 30, 2016.

**North Star Academy  
Management's Discussion and Analysis  
June 30, 2017**

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

As of the end of the current fiscal year, June 30, 2017, the School's General Fund reported an ending fund balance of \$2.1 million, a decrease of \$308,000 over the prior year balance of \$2.4 million. The decrease was due primarily to capital contributions to the Building Corporation for expansion of the school facilities.

**Proprietary Fund.** The activities of the Building Corporation consist entirely of holding title to the School's facilities and debt service related to those facilities. Rental payments from the school are transferred monthly to the Building Corporation to service the long-term debt. These rental payments are then held in restricted cash accounts to service the debt when interest and principal payments become due.

All of the Building Corporation's cash and investments are restricted. Of the \$1.4 million held as of June 30, 2017, \$1.3 million was restricted for future debt service and \$74,000 was restricted for future repairs and replacement cost of the School's facilities. The amount held for debt service includes a reserve of \$897,810 which is required to be held for the term of the debt. The Building Corporation's net position as of June 30, 2017 was negative \$1.9 million. This negative amount is expected to decrease over time as the Building Corporation's debt is paid.

**General Fund Budgetary Highlights**

The School approves a budget each year based on enrollment projections for the following school year. The School's actual net decrease in fund balance of \$308,448 was less than the budgeted decrease of \$1.6 million. This was primarily due to the School not requiring the \$1.6 million available for contingencies and lower than planned expenditures, partially offset by contributions of \$551,366 to the Building Corporation for the expansion of the school's facilities. The expenditures for the expansion of the School's facilities were approved by the Board of Directors subsequent to the approval of the budget.

**Capital Assets and Debt Administration**

*Capital assets* – The Building Corporation's investment in capital assets as of June 30, 2017 amounts to \$7.9 million, net of accumulated depreciation. These assets account for land, building and equipment and furniture for the facility. During 2017, capital additions of \$1,068,715 mainly consisted of the expansion of the School's facilities.

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**Management's Discussion and Analysis**  
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*Long-term debt* - As of June 30, 2017, the NSA Building Corporation had outstanding debt of \$13,4 million.

Additional information on capital assets and long-term debt is provided in Notes 4 and 5 to the financial statements.

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

The primary factor driving the budget for the School is student enrollment. Enrollment for the 2016-2017 school year was 681. The enrollment projected for the 2017-2018 school year is 685.

Capital expenditures for the expansion of the School's facilities and improvements to the field areas are expected to be approximately \$1.2 million in fiscal 2018 which are planned to be funded with available cash and contributions by the North Star Academy Foundation.

**Requests for Information**

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the CFO or Business Director, North Star Academy, 16700 Keystone Boulevard, Parker, CO 80134.

## **BASIC FINANCIAL STATEMENTS**

NORTH STAR ACADEMY

STATEMENT OF NET POSITION

June 30, 2017

	PRIMARY GOVERNMENT			COMPONENT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	UNIT FOUNDATION
<b>ASSETS</b>				
Cash	\$ 2,786,399	\$ -	\$ 2,786,399	\$ 112,867
Restricted Investments	-	1,373,496	1,373,496	-
Prepaid Expenses	19,006	-	19,006	-
Capital Assets, Not Being Depreciated	-	1,486,781	1,486,781	-
Capital Assets, Net of Accumulated Depreciation	-	6,478,559	6,478,559	-
<b>TOTAL ASSETS</b>	<b>2,805,405</b>	<b>9,338,836</b>	<b>12,144,241</b>	<b>112,867</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pensions, Net of Accumulated Amortization	6,875,340	-	6,875,340	-
Loss on Debt Refunding, Net of Accumulated Amortization	-	2,242,721	2,242,721	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>6,875,340</b>	<b>2,242,721</b>	<b>9,118,061</b>	<b>-</b>
<b>LIABILITIES</b>				
Accounts Payable	481,301	-	481,301	-
Accrued Salaries and Benefits	213,619	-	213,619	-
Accrued Interest Payable	-	87,260	87,260	-
Noncurrent Liabilities				
Due Within One Year	-	330,000	330,000	-
Due in More Than One Year	-	13,031,448	13,031,448	-
Net Pension Liability	16,907,903	-	16,907,903	-
<b>TOTAL LIABILITIES</b>	<b>17,602,823</b>	<b>13,448,708</b>	<b>31,051,531</b>	<b>-</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pensions, Net of Accumulated Amortization	107,417	-	107,417	-
<b>NET POSITION</b>				
Net Investment in Capital Assets	-	(3,153,387)	(3,153,387)	-
Restricted for Debt Service	-	1,211,959	1,211,959	-
Restricted for Repair and Replacement	-	74,277	74,277	-
Restricted for Emergencies	173,471	-	173,471	-
Unrestricted	(8,202,966)	-	(8,202,966)	112,867
<b>TOTAL NET POSITION</b>	<b>\$ (8,029,495)</b>	<b>\$ (1,867,151)</b>	<b>\$ (9,896,646)</b>	<b>\$ 112,867</b>

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

NORTH STAR ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
<b>PRIMARY GOVERNMENT</b>			
<b>Governmental Activities</b>			
Instruction	\$ 5,507,029	\$ 312,630	\$ 32,256
Supporting Services	1,940,668	-	-
Total Governmental Activities	7,447,697	312,630	32,256
<b>Business-Type Activities</b>			
Building Corporation	1,085,175	-	-
TOTAL PRIMARY GOVERNMENT	\$ 8,532,872	\$ 312,630	\$ 32,256
<b>COMPONENT UNIT</b>			
Foundation	\$ 43,954	\$ -	\$ -
GENERAL REVENUES			
Per Pupil Revenue			
District Mill Levy			
Capital Construction			
Contributions not Restricted to Specific Programs			
Investment Income			
Other			
TRANSFERS			
TOTAL GENERAL REVENUES AND TRANSFERS			
CHANGE IN NET POSITION			
NET POSITION, Beginning			
NET POSITION, Ending			

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

NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION

PRIMARY GOVERNMENT		COMPONENT	
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	UNIT FOUNDATION
\$ (5,162,143)	\$ -	\$ (5,162,143)	\$ -
(1,940,668)	-	(1,940,668)	-
(7,102,811)	-	(7,102,811)	-
-	(1,085,175)	(1,085,175)	-
(7,102,811)	(1,085,175)	(8,187,986)	-
-	-	-	(43,954)
4,613,152	-	4,613,152	-
353,794	-	353,794	-
179,866	-	179,866	-
54,174	-	54,174	146,821
1,256	3,344	4,600	-
108,967	-	108,967	-
(1,455,896)	1,455,896	-	-
3,855,313	1,459,240	5,314,553	146,821
(3,247,498)	374,065	(2,873,433)	102,867
(4,781,997)	(2,241,216)	(7,023,213)	10,000
<u>\$ (8,029,495)</u>	<u>\$ (1,867,151)</u>	<u>\$ (9,896,646)</u>	<u>\$ 112,867</u>

NORTH STAR ACADEMY

BALANCE SHEET  
GOVERNMENTAL FUND

June 30, 2017

	<u>GENERAL</u>
ASSETS	
Cash	\$ 2,786,399
Prepaid Expenditures	<u>19,006</u>
TOTAL ASSETS	<u>\$ 2,805,405</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 481,301
Accrued Salaries and Benefits	<u>213,619</u>
TOTAL LIABILITIES	<u>694,920</u>
FUND BALANCE	
Nonspendable Prepaid Expenditures	19,006
Restricted for Emergencies	173,471
Unrestricted, Unassigned	<u>1,918,008</u>
TOTAL FUND BALANCE	<u>2,110,485</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,805,405</u>

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

Total Fund Balance of the Governmental Fund	\$ 2,110,485
Long-term liabilities and related items, including net pension liability (\$16,907,903), pension-related deferred outflows of resources \$6,875,340, and pension-related deferred inflows of resources (\$107,417), are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(10,139,980)</u>
Total Net Position of Governmental Activities	<u>\$ (8,029,495)</u>

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

NORTH STAR ACADEMY

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUND  
Year Ended June 30, 2017

	GENERAL
REVENUES	
Local Sources	\$ 5,443,973
State Sources	212,122
	5,656,095
TOTAL REVENUES	
EXPENDITURES	
Instruction	3,226,659
Supporting Services	2,716,884
	5,943,543
TOTAL EXPENDITURES	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(287,448)
OTHER FINANCING SOURCES (USES)	
Transfers Out	(21,000)
	(21,000)
NET CHANGE IN FUND BALANCE	(308,448)
FUND BALANCE, Beginning	2,418,933
	2,418,933
FUND BALANCE, Ending	\$ 2,110,485
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Net Change in Fund Balance of the Governmental Fund	\$ (308,448)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in net pension liability (\$8,741,564), pension-related deferred outflows of resources \$5,736,899, and pension-related deferred inflows of resources \$65,615 in the current year.	(2,939,050)
Change in Net Position of Governmental Activities	\$ (3,247,498)

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

NORTH STAR ACADEMY

STATEMENT OF NET POSITION

PROPRIETARY FUND

June 30, 2017

	<u>BUILDING CORPORATION</u>
ASSETS	
CURRENT ASSETS	
Restricted Investments	\$ 1,373,496
TOTAL CURRENT ASSETS	<u>1,373,496</u>
NONCURRENT ASSETS	
Capital Assets, Not Being Depreciated	1,486,781
Capital Assets, Net of Accumulated Depreciation	<u>6,478,559</u>
TOTAL NONCURRENT ASSETS	<u>7,965,340</u>
TOTAL ASSETS	<u>9,338,836</u>
DEFERRED OUTFLOWS OF RESOURCES	
Loss on Debt Refunding, Net of Accumulated Amortization	<u>2,242,721</u>
LIABILITIES	
CURRENT LIABILITIES	
Accrued Interest Payable	87,260
Loans Payable, Current Portion	<u>330,000</u>
TOTAL CURRENT LIABILITIES	417,260
NONCURRENT LIABILITIES	
Loans Payable	<u>13,031,448</u>
TOTAL LIABILITIES	<u>13,448,708</u>
NET POSITION	
Net Investment in Capital Assets	(3,153,387)
Restricted for Debt Service	1,211,959
Restricted for Repair and Replacement	<u>74,277</u>
TOTAL NET POSITION	<u>\$ (1,867,151)</u>

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

NORTH STAR ACADEMY

STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
 Year Ended June 30, 2017

	<u>BUILDING CORPORATION</u>
OPERATING REVENUES	
Lease Income	<u>\$ 883,530</u>
OPERATING EXPENSES	
Depreciation	312,574
Debt Service	
Interest and Fiscal Charges	<u>574,916</u>
TOTAL OPERATING EXPENSES	<u>887,490</u>
NET OPERATING INCOME (LOSS)	<u>(3,960)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment Income	3,344
Debt Issuance Costs	<u>(197,685)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(194,341)</u>
NET LOSS BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	(198,301)
Contributed Capital Assets	551,366
Transfers In	<u>21,000</u>
CHANGE IN NET POSITION	374,065
NET POSITION, Beginning	<u>(2,241,216)</u>
NET POSITION, Ending	<u><u>\$ (1,867,151)</u></u>

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

NORTH STAR ACADEMY

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Increase (Decrease) in Cash and Cash Equivalents

Year Ended June 30, 2017

	<u>BUILDING CORPORATION</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Lease Payments Received	\$ 883,530
Loan Interest Paid	(514,666)
Loan Principal Paid	<u>(285,000)</u>
Net Cash Provided by Operating Activities	<u>83,864</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of Capital Assets	(517,349)
Loan Proceeds	4,683,038
Payment to Escrow Agent	(4,000,336)
Debt Issuance Costs Paid	(197,685)
School Transfers	<u>21,000</u>
Net Cash Used by Capital and Related Financing Activities	<u>(11,332)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment Income Received	<u>3,344</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	75,876
<b>CASH AND CASH EQUIVALENTS, Beginning</b>	<u>1,297,620</u>
<b>CASH AND CASH EQUIVALENTS, Ending</b>	<u>\$ 1,373,496</u>
<b>RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Net Operating Income (Loss)	\$ (3,960)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided by Operating Activities	
Depreciation Expense	312,574
Amortization of Loss on Debt Refunding	84,699
Amortization of Premiums	(8,990)
Changes in Assets and Liabilities	
Accrued Interest Payable	(15,459)
Loans Payable	<u>(285,000)</u>
Net Cash Provided by Operating Activities	<u>\$ 83,864</u>
<b>NONCASH CAPITAL FINANCING ACTIVITIES</b>	
Contributed Capital Assets	<u>\$ 551,366</u>

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

NORTH STAR ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

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

North Star Academy (the “School”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District (the “District”).

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

**Reporting Entity**

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

The School includes the NSA Building Corporation (the “Corporation”) within its reporting entity. The Corporation was formed to support and assist the School to perform its function and carry out its purpose, specifically to assist in the financing and construction of the School’s facilities. The Corporation is blended into the School’s financial statements as an enterprise fund and does not issue separate financial statements.

The School includes the North Star Academy Foundation (the “Foundation”) within its reporting entity. The Foundation is a non-profit entity formed exclusively to support the educational program of the School through grant applications and other fundraising activities and to make the same available for use by the School. The Foundation is discretely presented in the School’s financial statements. The Foundation does not issue separate financial statements.

The School is a component unit of the District. The School’s charter was granted by the District and the majority of the School’s funding is provided by the District.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the School and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The *primary government* is reported separately from the legally separate *component unit* for which the School is financially accountable.

NORTH STAR ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

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

Separate financial statements are provided for the governmental fund and the proprietary fund. Major individual funds are reported as 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*, as is the proprietary fund in the fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Available means collected within the current year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

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

The School reports the following major funds:

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

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

NORTH STAR ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

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

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

*Cash and Investments* - For purposes of the statement of cash flows, cash equivalents include investments with original maturities of three months or less.

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

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

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

Land Improvements	10 years
Buildings	15 - 30 years
Equipment	5 years

*Accrued Salaries and Benefits* - Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve-month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, are reported as a liability of the General Fund.

*Long-Term Debt* - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Debt premiums, discounts, and accounting losses resulting from debt refundings are deferred and amortized over the life of the debt using the straight-line method. In the governmental fund financial statements, 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 are reported as other financing uses. Issuance costs, whether or not withheld from the debt proceeds, are reported as current expenses or expenditures.

NORTH STAR ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

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

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

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

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

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

**Risk Management**

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

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

**Accountability**

At June 30, 2017, the Corporation had a negative net position of \$1,867,151. Management expects this negative balance to be eliminated as the Corporation's debt is paid.

**NOTE 3: CASH AND INVESTMENTS**

At June 30, 2017, cash and investments consisted of the following:

Deposits	\$ 2,786,399
Investments	<u>1,373,496</u>
Total	<u><b>\$ 4,159,895</b></u>

NORTH STAR ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

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

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

Cash	\$ 2,786,399
Restricted Investments	<u>1,373,496</u>
Total	<u><u>\$ 4,159,895</u></u>

**Deposits**

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2017, the School had bank deposits of \$2,580,755 collateralized with securities held by the financial institution's agent but not in the School's name.

**Investments**

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

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

*Interest Rate Risk* - State statutes generally limit investments to an original maturity of five years unless the governing board authorizes the investment for a period in excess of five years.

*Credit Risk* - State statutes limit certain investments to those with specified ratings from nationally recognized statistical rating organizations, depending on the type of investment.

*Concentration of Credit Risk* - State statutes do not limit the amount the School may invest in a single issuer, except for corporate securities.

NORTH STAR ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2017

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

**Investments (Continued)**

*Local Government Investment Pool* - At June 30, 2017, the Corporation had \$1,373,496 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment vehicle established for local government entities in Colorado to pool surplus funds for investment purposes. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7. Colotrust is measured at the net asset value per share, with each share valued at \$1. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

**Restricted Investments**

At June 30, 2017, the Corporation had investments of \$1,299,219 and \$74,277 restricted for future debt service and building repair and replacement, respectively.

**NOTE 4: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017, is summarized below.

	Balances 6/30/16	Additions	Deletions	Balances 6/30/17
<b>Business-Type Activities</b>				
Capital Assets, Not Being Depreciated				
Land	\$ 465,000	\$ -	\$ -	\$ 465,000
Construction in Progress	-	1,021,781	-	1,021,781
Total Capital Assets, Not Being Depreciated	<u>465,000</u>	<u>1,021,781</u>	<u>-</u>	<u>1,486,781</u>
Capital Assets, Being Depreciated				
Land Improvements	59,180	-	-	59,180
Buildings	8,718,635	23,415	-	8,742,050
Equipment	207,752	23,519	-	231,271
Total Capital Assets, Being Depreciated	<u>8,985,567</u>	<u>46,934</u>	<u>-</u>	<u>9,032,501</u>
Less Accumulated Depreciation				
Land Improvements	(8,876)	(5,918)	-	(14,794)
Buildings	(2,064,331)	(291,402)	-	(2,355,733)
Equipment	(168,161)	(15,254)	-	(183,415)
Total Accumulated Depreciation	<u>(2,241,368)</u>	<u>(312,574)</u>	<u>-</u>	<u>(2,553,942)</u>
Capital Assets, Being Depreciated, Net	<u>6,744,199</u>	<u>(265,640)</u>	<u>-</u>	<u>6,478,559</u>
Business-Type Activities Capital Assets, Net	<u>\$ 7,209,199</u>	<u>\$ 756,141</u>	<u>\$ -</u>	<u>\$ 7,965,340</u>

NORTH STAR ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2017

**NOTE 5: LONG-TERM DEBT**

Following is a summary of the long-term debt transactions for the year ended June 30, 2017:

	Balance <u>6/30/16</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>6/30/17</u>	Due Within <u>One Year</u>
<b>Business-Type Activities</b>					
2008 Building Loan	\$ 3,340,000	\$ -	\$ 3,340,000	\$ -	\$ -
2015 Building Loan	8,830,000	-	240,000	8,590,000	245,000
2017 Building Loan	-	4,465,000	-	4,465,000	85,000
Loan Premiums	<u>97,400</u>	<u>218,038</u>	<u>8,990</u>	<u>306,448</u>	<u>-</u>
Total	<b><u>\$ 12,267,400</u></b>	<b><u>\$ 4,683,038</u></b>	<b><u>\$ 3,588,990</u></b>	<b><u>\$ 13,361,448</u></b>	<b><u>\$ 330,000</u></b>

In November, 2008, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$10,975,000 Charter School Revenue Refunding and Improvement Bonds, Series 2008A and 2008B. Bond proceeds were used to refund the CECFA Charter School Revenue Bonds, Series 1999, originally loaned to the Corporation to purchase the School's facilities. In addition, proceeds of approximately \$5,500,000 were loaned to the Corporation to finance improvements to the facilities. Interest accrued on the bonds at 8.25% per annum and was payable semi-annually on May 1 and November 1. Principal payments were due annually on November 1, through 2039.

On June 10, 2015, CECFA issued \$8,830,000 Charter School Refunding Revenue Bonds, Series 2015. Bond proceeds were used to refund a portion of the outstanding Series 2008 Bonds. Interest accrues on the bonds at rates ranging from 2.25% to 5% per annum and is payable semi-annually on May 1 and November 1. Principal payments are due on November 1, from 2016 through 2039.

On February 16, 2017, CECFA issued \$4,465,000 Charter School Refunding and Improvement Revenue Bonds, Series 2017. Bond proceeds were used to refund the remainder of the outstanding Series 2008 Bonds. In addition, the Corporation received proceeds of \$500,000 to construct improvements to the facilities. Interest accrues on the bonds at rates ranging from 4% to 5% per annum and is payable semi-annually on May 1 and November 1. Principal payments are due on November 1, from 2017 through 2039.

Proceeds of the Series 2017 Bonds, in the amount of \$4,000,336 were deposited in an irrevocable trust with an escrow agent to refund the Series 2008 Bonds on February 16, 2017. The refunding resulted in an accounting loss of \$705,336, a decrease in aggregate debt service payments of \$391,125, and an economic gain (difference between the present values of the old and new debt service payments) of approximately \$771,199.

The School is obligated under a lease agreement to make monthly payments to the Corporation for using the facilities. The Corporation is required to make equal loan payments to the Trustee, for payment of the bonds.

NORTH STAR ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2017

**NOTE 5: LONG-TERM DEBT (Continued)**

Future debt service requirements for the bonds are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 330,000	\$ 519,263	\$ 849,263
2019	380,000	505,063	885,063
2020	395,000	490,888	885,888
2021	410,000	477,488	887,488
2022	425,000	464,657	889,657
2023 - 2027	2,315,000	2,113,150	4,428,150
2028 - 2032	2,820,000	1,568,400	4,388,400
2033 - 2037	3,510,000	870,341	4,380,341
2038 - 2040	<u>2,470,000</u>	<u>153,857</u>	<u>2,623,857</u>
Total	<u>\$ 13,055,000</u>	<u>\$ 7,163,107</u>	<u>\$ 20,218,107</u>

**NOTE 6: INTERFUND TRANSACTIONS**

During the year ended June 30, 2017, the School transferred \$21,000 to the Corporation to fund the repair and replacement reserve, as required by the CECFA loan agreements (See Note 5). In addition, the School contributed assets with a cost of \$551,366 to the Corporation.

**NOTE 7: DEFINED BENEFIT PENSION PLAN**

**General Information**

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

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

NORTH STAR ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

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

**General Information** (Continued)

Retirees may elect to withdraw their contributions upon termination of employment, and may be eligible to receive a matching amount if five years of service credit is earned and certain other criteria is met. Retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State statutes. Retirees who began employment before January 1, 2007, receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year. Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

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

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

*Contributions* - The School and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The School's contribution rate for calendar years 2016 and 2017 was 19.15% and 19.65% of covered salaries, respectively. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 8). The School's contributions to the SDTF for the year ended June 30, 2017, were \$512,269, equal to the required contributions.

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

At June 30, 2017, the School reported a net pension liability of \$16,907,903, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016.

The School's proportion of the net pension liability was based on the School's contributions to the SDTF for the calendar year ended December 31, 2016, relative to the contributions of all participating employers. At December 31, 2016, the School's proportion was 0.0567877278%, which was an increase of 0.0033930529% from its proportion measured at December 31, 2015.

For the year ended June 30, 2017, the School recognized pension expense of \$3,396,386. At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NORTH STAR ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2017

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

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 207,117	\$ 142
Changes of assumptions and other inputs	5,486,263	71,691
Net difference between projected and actual earnings on plan investments	533,840	-
Changes in proportion	405,368	35,584
Contributions subsequent to the measurement date	<u>242,752</u>	<u>-</u>
Total	<b><u>\$ 6,875,340</u></b>	<b><u>\$ 107,417</u></b>

School contributions subsequent to the measurement date of \$242,752 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

2018	\$ 2,628,799
2019	2,601,808
2020	1,288,925
2021	<u>5,639</u>
Total	<b><u>\$ 6,525,171</u></b>

*Actuarial Assumptions* - The actuarial valuation as of December 31, 2015, determined the total pension liability using the following actuarial assumptions and other inputs. On November 18, 2016, PERA's governing board adopted revised economic and demographic assumptions, which were effective on December 31, 2016, and which were reflected in the roll-forward calculation of the total pension liability from December 31, 2015, to December 31, 2016, as follows:

NORTH STAR ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2017

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

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

	<u>Assumptions</u>	<u>Revised Assumptions</u>
Price inflation	2.8%	2.4%
Real wage growth	1.1%	1.1%
Wage inflation	3.9%	3.5%
Salary increases, including wage inflation	3.9% - 10.1%	3.5% - 9.7%
Long-term investment rate of return, net of plan investment expenses, including price inflation	7.5%	7.25%
Discount rate	7.5%	5.26%
Future post-retirement benefit increases:		
Hired prior to 1/1/07	2%	2%
Hired after 12/31/06	ad hoc	ad hoc

Mortality rates were based on the RP-2000 Combined Mortality Table for Males and Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with males set back one year, and females set back two years. Active member mortality was adjusted to 55 percent of the base rate for males and 40 percent for females. For disabled retirees, the RP-2000 Disabled Retiree Mortality Table was used, set back two years.

The actuarial assumptions used in the December 31, 2015, valuation were based on the results of an actuarial experience study for the period January 1, 2008, through December 31, 2011, adopted by PERA's governing board on November 13, 2012, and an economic assumption study adopted by PERA's governing board on November 15, 2013, and January 17, 2014.

As a result of a 2016 experience analysis, revised economic and demographic actuarial assumptions were adopted by PERA's governing board on November 18, 2016, to more closely reflect PERA's actual experience. The revised assumptions reflected in the roll-forward of the total pension liability included healthy mortality assumptions for active members using the RP-2014 White Collar Employee Mortality Table. The mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates. For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

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

The most recent analysis of the long-term expected rate of return was adopted by PERA's governing board on November 18, 2016, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as follows:

NORTH STAR ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2017

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>30 Year Expected Geometric Real Rate of Return</u>
U.S. Equity - Large Cap	21.20%	4.30%
U.S. Equity - Small Cap	7.42%	4.80%
Non U.S. Equity - Developed	18.55%	5.20%
Non U.S. Equity - Emerging	5.83%	5.40%
Core Fixed Income	19.32%	1.20%
High Yield	1.38%	4.30%
Non U.S. Fixed Income - Developed	1.84%	0.60%
Emerging Market Debt	0.46%	3.90%
Core Real Estate	8.50%	4.90%
Opportunity Fund	6.00%	3.80%
Private Equity	8.50%	6.60%
Cash	1.00%	0.20%
Total	<u><u>100.00%</u></u>	

*Discount Rate* - The discount rate used to measure the total pension liability was 5.26%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the employer contributions will be made at the rates specified in State statutes, which currently require annual increases, to a total of 20.15% of covered salaries for the year ended December 31, 2018. When the actuarially determined funding ratio reaches 103%, the employer contribution rate will decrease 0.5% each year, to a minimum of 10.15%.

Based on the assumptions described previously, the SDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate, defined as the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index, was used in the determination of the discount rate. The long-term expected rate of return of 7.25% on plan investments was applied to all periods through 2041, and the municipal bond index rate was applied to periods after 2041 to develop the discount rate. On the measurement date of December 31, 2016, the municipal bond index rate was 3.86%, resulting in a discount rate of 5.26%. The discount rate at the prior measurement date was 7.5%.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* - The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 5.26%, as well as the School's proportionate share of the net pension liability if it were calculated using a discount rate that is one percentage point lower (4.26%) or one percentage point higher (6.26%) than the current rate, as follows:

NORTH STAR ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
 June 30, 2017

**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)**

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	<b><u>\$ 21,261,144</u></b>	<b><u>\$ 16,907,903</u></b>	<b><u>\$ 13,362,345</u></b>

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

**NOTE 8: POSTEMPLOYMENT HEALTHCARE BENEFITS**

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

*Funding Policy* - The School is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The contribution requirements for the School are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The School's apportionment to the HCTF for the years ended June 30, 2017, 2016 and 2015 was \$26,938, \$24,528 and \$23,284, respectively, equal to the required amounts for each year.

**NOTE 9: COMMITMENTS AND CONTINGENCIES**

**Claims and Judgments**

The School participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the School may be required to reimburse the other government. At June 30, 2017, significant amounts of related expenditures have not been audited but management believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

NORTH STAR ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017

**NOTE 9:**      **COMMITMENTS AND CONTINGENCIES** (Continued)

**Tabor Amendment**

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to many interpretations, but the School believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the School has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2017, the reserve was reported as restricted fund balance in the General Fund in the amount of \$173,471.

**REQUIRED SUPPLEMENTARY INFORMATION**

NORTH STAR ACADEMY

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

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO SCHOOL DIVISION TRUST FUND

June 30, 2017

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>	<u>12/31/13</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY				
School's Proportion of the Net Pension Liability	0.0567877278%	0.0533946749%	0.0539774123%	0.0524865433%
School's Proportionate Share of the Net Pension Liability	\$ 16,907,903	\$ 8,166,339	\$ 7,315,752	\$ 6,694,644
School's Covered Payroll	\$ 2,548,732	\$ 2,326,926	\$ 2,261,264	\$ 2,115,404
School's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	663%	351%	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	43%	59%	63%	64%
	<u>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
SCHOOL CONTRIBUTIONS				
Statutorily Required Contribution	\$ 485,331	\$ 426,423	\$ 385,246	\$ 352,656
Contributions in Relation to the Statutorily Required Contribution	<u>(485,331)</u>	<u>(426,423)</u>	<u>(385,246)</u>	<u>(352,656)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 2,641,000	\$ 2,404,717	\$ 2,282,712	\$ 2,206,390
Contributions as a Percentage of Covered Payroll	18.38%	17.73%	16.88%	15.98%

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

See the accompanying Independent Auditors' Report.

NORTH STAR ACADEMY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
<b>REVENUES</b>				
Local Sources				
Per Pupil Revenue	\$ 4,497,176	\$ 4,614,281	\$ 4,613,152	\$ (1,129)
District Mill Levy	360,470	363,876	353,794	(10,082)
Tuition	186,000	186,000	180,450	(5,550)
Student Fees	66,675	121,900	132,180	10,280
Contributions	150,000	150,000	54,174	(95,826)
Investment Income	2,000	2,000	1,256	(744)
Other	-	-	108,967	108,967
State Sources				
Grants	30,500	32,176	32,256	80
Capital Construction	171,888	186,276	179,866	(6,410)
<b>TOTAL REVENUES</b>	<b>5,464,709</b>	<b>5,656,509</b>	<b>5,656,095</b>	<b>(414)</b>
<b>EXPENDITURES</b>				
Salaries	2,642,821	2,646,386	2,643,729	2,657
Employee Benefits	853,614	820,915	768,567	52,348
Purchased Services	1,473,539	1,588,190	2,146,595	(558,405)
Supplies and Materials	203,492	262,034	292,449	(30,415)
Property	184,545	245,545	82,792	162,753
Other	22,500	28,676	9,411	19,265
Contingency	50,000	1,692,000	-	1,692,000
<b>TOTAL EXPENDITURES</b>	<b>5,430,511</b>	<b>7,283,746</b>	<b>5,943,543</b>	<b>1,340,203</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>34,198</b>	<b>(1,627,237)</b>	<b>(287,448)</b>	<b>1,339,789</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers Out	(30,000)	(21,000)	(21,000)	-
<b>NET CHANGE IN FUND BALANCE</b>	<b>4,198</b>	<b>(1,648,237)</b>	<b>(308,448)</b>	<b>1,339,789</b>
FUND BALANCE, Beginning	1,937,626	2,418,933	2,418,933	-
FUND BALANCE, Ending	<u>\$ 1,941,824</u>	<u>\$ 770,696</u>	<u>\$ 2,110,485</u>	<u>\$ 1,339,789</u>

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

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

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

**Changes in Assumptions and Other Inputs**

For the year ended June 30, 2017, the total pension liability was determined by an actuarial valuation as of December 31, 2015. In addition, the following revised economic and demographic assumptions were effective as of December 31, 2016, and were reflected in the roll-forward procedures to determine the total pension liability at December 31, 2016.

- Investment rate of return assumption decreased from 7.5% per year, compounded annually, net of investment expenses, to 7.25%.
- Price inflation assumption decreased from 2.8% per year to 2.4%.
- Real rate of investment return assumption increased from 4.7% per year, net of investment expenses, to 4.85%.
- Wage inflation assumption decreased from 3.9% per year to 3.5%.
- Healthy and disabled mortality assumptions are based on the RP-2014 Mortality Tables, updated from the RP-2000 Mortality Tables.

**NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY****Budgets and Budgetary Accounting**

Budgets are required by State statutes for all funds, and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The School adheres to the following procedures to establish the budgetary information reported in the financial statements.

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