

ACADEMY 360 CHARTER SCHOOL

BASIC FINANCIAL STATEMENTS

June 30, 2017

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FINANCIAL SECTION



JOHN CUTLER & ASSOCIATES

Board of Directors
Academy 360 Charter School
Denver, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of Academy 360 Charter School (the "Academy"), component unit of the Denver Public 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 the Academy, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 and each major fund of the Academy 360 Charter School as of June 30, 2017, 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 Luttrell & Associates, LLC

November 3, 2017

Academy 360 Charter School Management's Discussion and Analysis

As management of Academy 360 Charter School (A360 or the School), we offer readers of Academy 360 Charter School's financial statements our 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 is the fourth year of operations for A360. As of June 30, 2017, net position increased by \$16,152 to \$(92,987). This negative balance is the result of the implementation of regulations under the Governmental Accounting Standards Board Statement (GASB) Number 68. Further information about GASB 68 is provided in Note 6 of the financial statements.

The operations of the School are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue. Such revenue for the year was \$1,430,908. At the close of the fiscal year, Academy 360 Charter School's governmental funds reported a combined ending fund balance of \$552,154, an increase of \$245,133 from prior year. This increase is the result of an increase in student count in addition to grant funding of a one time DRG and Tech Bond funds and the new 2016 Mill Levy.

Overview of Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

Governmental Funds. The School has two 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 spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the School’s near-term financing requirements.

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

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

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 6-30.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of Academy 360 Charter School, liabilities exceeded assets resulting in a net position of \$(92,987) in FY 2016-2017. Again, this is directly related to the new pension liability reporting requirement under GASB 68. Of the School's total net position, \$54,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. Accordingly, these funds are not available to satisfy the school's general operating expenses.

Academy 360 Charter School's Net Position Governmental Activities

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
ASSETS		
Cash and investments	\$ 518,026	\$ 270,917
Accounts Receivable	29,248	17,192
Prepaid Expenses	40,559	23,000
Capital Assets, Net of Accum Depreciation	545,736	606,364
Total Assets	1,133,569	917,473
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	607,765	338,784
LIABILITIES		
Accounts Payable	3,917	3,115
Accrued Expenses	-	-
Unearned Revenue	31,762	973
Noncurrent Liabilities		
Due within One Year	39,267	36,911
Due in More Than One Year	394,890	434,157
Pension Liability	1,281,815	800,530
Total Liabilities	1,751,651	1,275,686
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	82,670	89,711
NET POSITION		
Investment in Capital Assets	111,579	135,296
Restricted for Emergencies	54,000	39,000
Unrestricted	(258,566)	(283,436)
Total Net Position	\$ (92,987)	\$ (109,140)

The largest portion of the School's assets is in capital assets, at 48% of total assets in 2017.

**Academy 360 Charter School's Change in Net Position
Governmental Activities**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Program Revenue:		
Charges for Services	\$ 26,430	\$ 13,182
Operating Grants and Contributions	274,627	368,146
Capital Grants and Contributions	45,730	-
Total Program Revenue	<u>346,787</u>	<u>381,328</u>
General Revenue:		
Per Pupil Revenue	1,430,908	1,115,578
Mill Levy Revenue	333,661	144,102
Interest	280	138
Total General Revenue	<u>1,764,849</u>	<u>1,259,818</u>
Total Revenue	<u>2,111,636</u>	<u>1,641,146</u>
Expenses:		
Current:		
Instruction	722,695	845,611
Supporting Services	1,343,539	740,577
Interest on Long Term Debt	29,250	27,467
Total Expenses	<u>2,095,484</u>	<u>1,613,655</u>
Increase/(Decrease) in Net Position	16,152	27,491
Net Position, Beginning	<u>(109,140)</u>	<u>(136,631)</u>
Net Position, Ending	<u>\$ (92,987)</u>	<u>\$ (109,140)</u>

The largest portion of the School's revenues came from per pupil revenue – 68%, respectively in 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 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

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 the School's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$552,154, an increase of \$245,133 from prior year. As of the end of the current fiscal year, the school's Debt Service Fund reported an ending fund balance of \$0, with no change from the prior year. This fund records the activity of the A360 Building Corporation (the "Corporation"), created for the purpose of issuing and paying debt on behalf of the school.

General Fund Budgetary Highlights

The School approves a final general fund budget in May based on enrollment projections for the school year. In October, after enrollment stabilizes, adjustments are made to the budget. At year-end, the school had some variances between its final budgeted and actual activities. Overall, the school recognized \$73,047 more revenue than expected and spent \$(121,493) less than planned, when compared to the final budget. One budget amendment was made during FY 2016-2017.

Capital Assets & Long-Term Debt

The School has invested in capital assets in the form of building improvements to the school's facility. Depreciation expenses for capital assets are booked under the Supporting expenses of the School's operations. Additional information related to capital assets can be found in Note 4 to the financial statements.

The School has three long-term debt obligations used to finance leasehold improvements; one loan through the Charter School Development Corporation (CSDC) and two agreements with the school's landlord. Additional information related to long-term debt can be found in Note 5 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for Academy 360 Charter School is student enrollment. Enrollment for the 2016-2017 school year was 146.8 funded students. This information was analyzed as part of the 2017-2018 budget which is projecting a 157.7 funded student count.

Requests for Information

This financial report is designed to provide a general overview of Academy 360 Charter 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 School:

Academy 360 Charter School
12000 East 47th Avenue, Denver, CO 80239

BASIC FINANCIAL STATEMENTS

ACADEMY 360 CHARTER SCHOOL

STATEMENT OF NET POSITION

As of June 30, 2017

	Governmental Activities	
	2017	2016
ASSETS		
Cash and Investments	\$ 518,026	\$ 270,917
Accounts Receivable	29,248	17,192
Prepays	40,559	23,000
Capital Assets, Depreciated, Net of Accumulated Depreciation	545,736	606,364
	<u>1,133,569</u>	<u>917,473</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	607,765	338,784
LIABILITIES		
Accounts Payable	3,917	3,115
Unearned Revenue	31,762	973
Noncurrent Liabilities		
Due within One Year	39,267	36,911
Due in More Than One Year	394,890	434,157
Pension Liability	1,281,815	800,530
	<u>1,751,651</u>	<u>1,275,686</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	82,670	89,711
NET POSITION		
Investment in Capital Assets	111,579	135,296
Restricted for Emergencies	54,000	39,000
Unrestricted	(258,566)	(283,436)
	<u>\$ (92,987)</u>	<u>\$ (109,140)</u>

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

ACADEMY 360 CHARTER SCHOOL

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
PRIMARY GOVERNMENT					2017	2016
Governmental Activities						
Instructional	\$ 722,694	\$ 26,430	\$ 143,278	\$ -	\$ (552,986)	\$ (614,459)
Supporting Services	1,343,539	-	131,349	45,730	(1,166,460)	(590,401)
Interest on Long Term Debt	29,250	-	-	-	(29,250)	(27,467)
 Total Governmental Activities	 <u>\$ 2,095,483</u>	 <u>\$ 26,430</u>	 <u>\$ 274,627</u>	 <u>\$ 45,730</u>	 <u>(1,748,696)</u>	 <u>(1,232,327)</u>
		GENERAL REVENUES				
					1,430,908	1,115,578
					333,661	144,102
					280	138
					<u>1,764,849</u>	<u>1,259,818</u>
					16,153	27,491
					<u>(109,140)</u>	<u>(136,631)</u>
					<u>\$ (92,987)</u>	<u>\$ (109,140)</u>

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

ACADEMY 360 CHARTER SCHOOL

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	GENERAL FUND	DEBT SERVICE FUND	TOTALS	
			2017	2016
ASSETS				
Cash and Investments	\$ 518,026	\$ -	\$ 518,026	\$ 270,917
Accounts Receivable	29,248	-	29,248	17,192
Prepays Expenses	40,559	-	40,559	23,000
TOTAL ASSETS	\$ 587,833	\$ -	\$ 587,833	\$ 311,109
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 3,917	\$ -	\$ 3,917	\$ 3,115
Unearned Revenue	31,762	-	31,762	973
TOTAL LIABILITIES	35,679	-	35,679	4,088
FUND BALANCES				
Nonspendable	40,559	-	40,559	23,000
Restricted for Emergencies	54,000	-	54,000	39,000
Unassigned	457,595	-	457,595	245,021
TOTAL FUND BALANCES	552,154	-	552,154	307,021
TOTAL LIABILITIES AND FUND BALANCES	\$ 587,833	\$ -		

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.

545,736 606,364

Long-term liabilities and related assets are not due and payable in the current period and therefore, are not reported in the funds. This liability includes net pension liability (\$1,281,815), deferred outflows related to pensions \$607,765, deferred inflows related to pensions (\$82,670) and notes payable (\$434,157).

(1,190,877) (1,022,525)

Net position of governmental activities

\$ (92,987) \$ (109,140)

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

ACADEMY 360 CHARTER SCHOOL

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

	GENERAL FUND	DEBT SERVICE FUND	TOTALS	
			2017	2016
REVENUES				
Local Sources	\$ 1,922,628	\$ 66,161	\$ 1,988,789	\$ 1,660,744
State Sources	74,237	-	74,237	94,349
Federal Sources	114,771	-	114,771	60,915
TOTAL REVENUES	<u>2,111,636</u>	<u>66,161</u>	<u>2,177,797</u>	<u>1,816,008</u>
EXPENDITURES				
Current				
Instruction	619,541	-	619,541	702,063
Supporting Services	1,246,962	-	1,246,962	906,436
Debt Service				
Principal	-	36,911	36,911	5,729
Interest	-	29,250	29,250	27,467
Capital Outlay	-	-	-	476,797
TOTAL EXPENDITURES	<u>1,866,503</u>	<u>66,161</u>	<u>1,932,664</u>	<u>2,118,492</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>245,133</u>	<u>-</u>	<u>245,133</u>	<u>(302,484)</u>
OTHER FINANCING SOURCES				
Proceeds from Issuance of Debt	-	-	-	476,797
NET CHANGE IN FUND BALANCES	245,133	-	245,133	174,313
FUND BALANCES, Beginning	<u>307,021</u>	<u>-</u>	<u>307,021</u>	<u>132,708</u>
FUND BALANCES, Ending	<u>\$ 552,154</u>	<u>\$ -</u>	<u>\$ 552,154</u>	<u>\$ 307,021</u>

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

ACADEMY 360 CHARTER SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

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

Net Changes in Fund Balances - Total Governmental Funds	\$ 245,133
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 depreciation of (\$68,125) exceeded capital outlay \$7,497 in the current period.	(60,628)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	36,911
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>(205,263)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 16,153</u></u>

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

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Academy 360 Charter School (the “Academy”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Denver Public School District of the State of Colorado.

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:

A360 Building Corporation

In June 2015, the A360 Building Corporation (the “Corporation”) was created. 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 a debt service fund. As part of its ongoing responsibilities, the Corporation provides the Academy with monthly financial statements. Separate financial statements are not available.

The Academy is a component unit of the Denver Public School District.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

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.

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

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

Debt Service Fund – This fund is used to account for the financial activities of the Academy's 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 of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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

Assets, Liabilities and Fund Balance/Net Position

Investments – Investments are stated at fair value.

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

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.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements.

Long-term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, 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, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

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

Fund Balance Classification – In the government-wide financial statements, net position is restricted when constraints placed on the net position are externally imposed. 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 (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Academy classifies Prepaid Expenses as nonspendable as these items are not expected to be converted to cash within the next year.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- 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, 2017.
- 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.

Compensated Absences

The Academy's policy allows employees to accumulate sick and vacation leave. Upon termination of employment, no financial compensation is paid for these unused compensated absences. Therefore, no liability for accumulated sick leave is reported in the financial statements.

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 coverage for these risks of loss. The Academy has not sustained any losses that exceeded the insurable amounts in the last three years.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Data

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

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

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

NOTE 3: CASH AND INVESTMENTS

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, 2017, 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.

ACADEMY 360 CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

Deposits (Continued)

The market value of the collateral must be at least equal to 102% of the uninsured deposits. The Academy has no policy regarding custodial credit risk for deposits.

At June 30, 2017, the Academy had deposits with financial institutions with a carrying amount of \$518,026. The bank balances with the financial institutions were \$551,750. Of these balances, \$250,000 was covered by federal depository insurance and \$301,750 was covered by collateral held by authorized escrow agents in the financial institution's 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 units of local government may invest, which include:

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

At June 30, 2017, the Academy did not hold any investments.

The Academy has no policy for managing credit risk or interest rate risk.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: CAPITAL ASSETS

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

	Balance <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2017</u>
Governmental Activities				
Capital Assets, Depreciated				
Building Improvements	644,500	7,497	-	651,997
Equipment	<u>28,894</u>	<u>-</u>	<u>-</u>	<u>28,894</u>
Total Capital Assets,				
Depreciated	<u>673,394</u>	<u>7,497</u>	<u>-</u>	<u>680,891</u>
Accumulated Depreciation				
Building Improvements	64,359	65,211	-	129,570
Equipment	<u>2,671</u>	<u>2,914</u>	<u>-</u>	<u>5,585</u>
Total Accumulated				
Depreciation	<u>67,030</u>	<u>68,125</u>	<u>-</u>	<u>135,155</u>
Net Capital Assets	<u>\$ 606,364</u>	<u>\$ (60,628)</u>	<u>\$ -</u>	<u>\$ 545,736</u>

Depreciation was charged to the supporting services activity of the Academy.

NOTE 5: LONG TERM DEBT

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

	Balance <u>June 30, 2016</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2017</u>	Due In <u>One Year</u>
Note Payable CSDC	\$ 350,000	\$ -	\$ 25,059	\$ 324,941	\$ 26,871
Note Payable Landlord	77,988	-	7,879	70,109	8,241
Note Payable Landlord	<u>43,080</u>	<u>-</u>	<u>3,973</u>	<u>39,107</u>	<u>4,155</u>
Total	<u>\$ 471,068</u>	<u>\$ -</u>	<u>\$ 36,911</u>	<u>\$ 434,157</u>	<u>\$ 39,267</u>

ACADEMY 360 CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 5: LONG TERM DEBT (Continued)

Note Payable - CSDC

On May 15, 2015, the Academy entered into a loan agreement with the Charter School Development Corporation (“CSDC”). Loan proceeds in the amount of \$350,000 were used to finance tenant leasehold improvements to the Academy’s new facility. The note carries an interest rate of 7%. Monthly interest payments in the amount of \$2,042 were due beginning in July 2015 through June 2016. Beginning in July 2016, monthly principal and interest payments in the amount of \$4,064 are due through June 2020. A balloon payment in the amount of the remaining outstanding principal balance and any accrued interest is due and payable at the maturity date.

Notes Payable – 12000 E. 47th, LLC (“Landlord”)

Sprinkler System

The Academy’s amended facilities lease agreement with its landlord includes an agreement that the landlord will make improvements to the property’s sprinkler system at a total cost not to exceed \$178,500 of which the Academy is to reimburse the landlord for a maximum 50% of the cost. The note carries an interest rate of 4.5%. Monthly principal and interest payments in the amount of \$964 are due to the landlord through June 2025.

Tenant Improvements

The Academy’s amended facilities lease agreement with its landlord also includes an agreement that landlord will reimburse the Academy for tenant improvements not to exceed \$45,000. This tenant improvement allowance is to be repaid by the Academy beginning in January 2016. The note carries an interest rate of 4.5%. Monthly principal and interest payments in the amount of \$486 are due to the landlord through June 2025.

ACADEMY 360 CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 5: 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>
2018	\$ 39,267	\$ 26,894	\$ 66,161
2019	41,748	24,413	66,161
2020	282,817	21,702	304,519
2021	14,184	3,208	17,392
2022	14,836	2,557	17,393
2023-2025	<u>41,305</u>	<u>3,456</u>	<u>44,761</u>
Total	<u>\$ 434,157</u>	<u>\$ 82,230</u>	<u>\$ 516,387</u>

NOTE 6: PENSION PLAN

Defined Benefit Pension Plan

Summary of Significant Accounting Policies

Pensions. The School participates in the Denver Public Schools Division Trust Fund (DPS Division), a single-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 DPS Division have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan description. Eligible employees of the School are provided with pensions through the Denver Public Schools Division Trust Fund (DPS Division)—a single-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.

ACADEMY 360 CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 6: **PENSION PLAN** (Continued)

Defined Benefit Pension Plan (Continued)

General Information about the Pension Plan (Continued)

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

The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) benefit structure is the greater of the:

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- \$15 times the first 10 years of service credit plus \$20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

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.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: **PENSION PLAN** (Continued)

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, 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 (AIR) for the DPS Division.

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 DPS Division 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:

ACADEMY 360 CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 6: PENSION PLAN (Continued)

Defined Benefit Pension Plan (Continued)

General Information about the Pension Plan (Continued)

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2017
Employer contribution rate	10.15%	10.15%
Amount of employer contribution apportioned to the DPS HCTF as specified in C.R.S. § 24-51-208(1)(f)	(1.02%)	(1.02%)
PCOP offset as specified in C.R.S. § 24-51-412	(15.54%)	(14.56%)
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411	4.50%	5.00%
Total employer contribution rate to the DPS Division	2.59%	4.07%

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

Employer contributions are recognized by the DPS Division in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the DPS Division. Employer contributions recognized by the DPS Division from the School were \$36,681 for the year ended June 30, 2017.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: PENSION PLAN (Continued)

Defined Benefit Pension Plan (Continued)

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

At June 30, 2016, the School reported a liability of \$1,281,815 for its proportionate share of the net pension liability. The net pension liability was measured as of 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 DPS Division for the calendar year 2016 relative to the total contributions of participating employers to the DPS Division.

At December 31, 2016, the School's proportion was 0.11701 percent, which was an increase of 0.001861 percent from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the School recognized pension expense of \$241,944. At June 30, 2017, 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	\$32,174	\$2,689
Changes in assumptions and other inputs	\$188,654	\$79,981
Net difference between projected and actual earnings on pension plan investments	\$164,548	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$200,188	N/A
Contributions subsequent to the measurement date	\$22,201	N/A
Total	\$607,765	\$82,670

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: PENSION PLAN (Continued)

Defined Benefit Pension Plan (Continued)

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

\$22,201 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, 2018. 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,	
2018	\$ 153,813
2019	\$ 154,572
2020	\$ 130,005
2021	\$ 64,207
2022	\$ 297

Actuarial assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.10 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.50 percent
Discount rate	7.50 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: PENSION PLAN (Continued)

Defined Benefit Pension Plan (Continued)

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

Based on the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA's Board on November 18, 2016 and effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015 to December 31, 2016:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.70 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Mortality rates used in the December 31, 2015 valuation 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. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back 2 years for males and set back 2 years for females) was assumed.

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 Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: **PENSION PLAN** (Continued)

Defined Benefit Pension Plan (Continued)

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

As a result of the 2016 experience analysis and the October 28, 2016, actuarial assumptions workshop, revised economic and demographic actuarial assumptions including withdrawal rates, retirement rates for early reduced and unreduced retirement, disability rates, administrative expense load, and pre- and post-retirement and disability mortality rates were adopted by PERA's Board on November 18, 2016 to more closely reflect PERA's actual experience. As the revised economic and demographic assumptions are effective as of the measurement date, December 31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

Healthy mortality assumptions for active members reflect the RP-2014 White Collar Employee Mortality Table, a table specifically developed for actively working people. To allow for an appropriate margin of improved mortality prospectively, the mortality rates incorporate a 70 percent factor applied to male rates and a 55 percent factor applied to female rates.

Healthy, post-retirement mortality assumptions reflect the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 93 percent factor applied to rates for ages less than 80, a 113 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 68 percent factor applied to rates for ages less than 80, a 106 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

ACADEMY 360 CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 6: *PENSION PLAN* (Continued)

Defined Benefit Pension Plan (Continued)

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

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016. As a result of the October 28, 2016 actuarial assumptions workshop and the November 18, 2016 PERA Board meeting, the economic assumptions changed, effective December 31, 2016, as follows:

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.
- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.
- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

Several factors were considered in evaluating the long-term rate of return assumption for the DPS Division, including long-term historical data, estimates inherent in current market data, and 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 by the investment consultant 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.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: PENSION PLAN (Continued)

Defined Benefit Pension Plan (Continued)

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

As of the November 18, 2016 adoption of the current long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	30 Year Expected Geometric Real Rate of Return
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	100.00%	

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 6: **PENSION PLAN** (Continued)

Defined Benefit Pension Plan (Continued)

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

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 7.25%.

Discount rate. The discount rate used to measure the total pension liability was 7.25 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:

- Updated economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.
- 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 3.50%.
- 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 and effective as of the measurement date, 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.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: PENSION PLAN (Continued)

Defined Benefit Pension Plan (Continued)

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

- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the DPS Division'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 of 7.25 percent 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, and therefore, the discount rate is 7.25 percent.

As of the prior measurement date, the long-term expected rate of return of 7.50 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use the municipal bond index rate, and therefore, the discount rate was 7.50 percent, 0.25 percent higher compared to the current measurement date.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: PENSION PLAN (Continued)

Defined Benefit Pension Plan (Continued)

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

Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	\$1,874,748	\$1,281,815	\$792,095

Pension plan fiduciary net position. Detailed information about the DPS Division's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at www.copera.org/investments/pera-financial-reports.

Other Post-Employment Benefits

Denver Public Schools Health Care Trust Fund

Plan Description – The Academy contributes to the Denver Public Schools Health Care Trust Fund ("DPS HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The DPS 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 DPS 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 DPS HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: PENSION PLAN (Continued)

Defined Benefit Pension Plan (Continued)

Other Post-Employment Benefits (Continued)

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 DPS HCTF is established under Title 24, Article 51, Section 208(1)(f.5) of the C.R.S., as amended. For the years ending June 30, 2017, 2016, and 2015 the Academy's contributions to the DPS HCTF were \$8,540, \$7,366, and \$5,393, respectively, equal to their required contributions for each year.

Taxable Pension Certificates of Participation (PCOPs)

The District issued Taxable Pension Certificates of Participation (PCOPs) on July 17, 1997 to fully fund the unfunded actuarial accrued liability (UAAL) of the Plan. Full funding of the UALL reduced the employer contribution rate from the full funding rate of 15.75% to the normal cost rate of 4.98%. This rate is based upon actuarially determined contribution requirements, the approval and recommendation of the Plan's Board and approval of the District's Board of Education. The Academy contributed 9.95%, 9.84%, and 10.80% of covered payroll for the fiscal years ended June 30, 2017, 2016, and 2015, respectively, to the District to cover its obligation relating to the PCOPs.

During the fiscal years ended June 30, 2017, 2016, and 2015, the Academy made contributions totaling \$91,075, \$71,857, and \$52,029, respectively to the District towards its PCOPs obligation.

NOTE 7: COMMITMENTS AND CONTINGENCIES

Building Lease Agreement

On August 25, 2014 the Academy entered into a lease agreement with 12000 E. 47th LLC for its facility. The lease agreement commenced on December 22, 2014 and lease payments commenced in April of 2015. The lease term includes two five-year lease term options that are renewable under the same terms as the initial lease. The lease agreement also includes an option for the Academy to purchase the building at market price after June 30, 2017. Under the terms of the lease the Academy is required to make monthly lease payments ranging from \$13,707 to \$74,177 through August 2024.

ACADEMY 360 CHARTER SCHOOL
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2017

NOTE 7: COMMITMENTS AND CONTINGENCIES (Continued)

Building Lease Agreement (Continued)

On May 1, 2015, the original agreement was amended. The lease commencement date was changed to July 1, 2015 and the Academy is required to make monthly lease payments beginning in December of 2015. The Academy is required to make monthly lease payments ranging from \$13,707 to \$74,159 through June 2025.

Future minimum lease payments are as follows:

Year Ended	
<u>June 30</u>	
2018	\$ 355,710
2019	442,784
2020	553,993
2021	664,570
2022	803,588
2023 - 2025	<u>2,857,022</u>
Total	<u>\$ 5,677,667</u>

Total rent expense for the year ended June 30, 2017 for this lease was \$338,881.

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, 2017, 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.

ACADEMY 360 CHARTER SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 7: **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, 2017, the reserve of \$54,000 was recorded as a reservation of fund balance in the General Fund.

NOTE 8: **DEFICIT NET POSITION**

The net position of the governmental activities is in a deficit position of \$92,987 due to the School including its Net Pension Liability per the requirements of GASB Statement No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

ACADEMY 360 CHARTER SCHOOL
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2017

	2017			VARIANCE Positive (Negative)	2016 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
REVENUES					
Local Sources					
Per Pupil Revenue	\$ 1,389,577	\$ 1,430,949	\$ 1,430,908	\$ (41)	\$ 1,115,578
Mill Levy Override	154,917	331,471	333,661	2,190	144,102
Tuition and Fees	9,497	17,050	26,430	9,380	13,182
Grants and Donations	75,000	118,752	131,349	12,597	212,882
Interest	102	175	280	105	138
Other	2,100	20,000	-	(20,000)	-
State Sources					
Grants and Donations	92,676	59,962	74,237	14,275	94,349
Federal Sources					
Grants and Donations	47,904	60,230	114,771	54,541	60,915
TOTAL REVENUES	1,771,773	2,038,589	2,111,636	73,047	1,641,146
EXPENDITURES					
Salaries	882,973	923,560	864,207	59,353	734,456
Employee Benefits	187,184	199,500	175,736	23,764	139,654
Purchased Services	620,195	761,086	729,788	31,298	467,559
Supplies and Materials	41,068	51,000	59,895	(8,895)	39,905
Property	11,000	30,700	34,476	(3,776)	59,269
Other	22,000	22,150	2,401	19,749	25,990
TOTAL EXPENDITURES	1,764,420	1,987,996	1,866,503	121,493	1,466,833
NET CHANGE IN FUND BALANCE	7,353	50,593	245,133	194,540	174,313
FUND BALANCE, Beginning	166,121	166,121	307,021	140,900	132,708
FUND BALANCE, Ending	\$ 173,474	\$ 216,714	\$ 552,154	\$ 335,440	\$ 307,021

See the accompanying independent auditors' report.

ACADEMY 360 CHARTER SCHOOL

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
DENVER PUBLIC SCHOOLS DIVISION TRUST FUND

Years Ended December 31,

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
School's proportionate share of the Net Pension Liability	0.073%	0.083%	0.098%	0.117%
School's proportionate share of the Net Pension Liability	\$ 378,340	\$ 520,522	\$ 800,530	\$ 1,281,815
School's covered-employee payroll	\$ 198,454	\$ 491,264	\$ 615,753	\$ 773,161
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	190.6%	106.0%	130.0%	165.8%
Plan fiduciary net position as a percentage of the total pension liability	86.3%	83.9%	79.3%	74.1%

See the accompanying independent auditors' report.

ACADEMY 360 CHARTER SCHOOL

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
DENVER PUBLIC SCHOOLS DIVISION TRUST FUND

Years Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Statutorily required contributions	\$ 20,683	\$ 25,395	\$ 21,764	\$ 36,681
Contributions in relation to the Statutorily required contributions	<u>20,683</u>	<u>25,395</u>	<u>21,764</u>	<u>36,681</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 426,591	\$ 528,750	\$ 722,178	\$ 837,285
Contributions as a percentage of covered-employee payroll	4.85%	4.80%	3.01%	4.38%

See the accompanying independent auditors' report.