WORLD COMPASS ACADEMY

BASIC FINANCIAL STATEMENTS

June 30, 2017

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JOHN CUTLER
& ASSOCIATES

Board of Directors
World Compass Academy
Castle Rock, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of World Compass Academy (the "Academy") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of World Compass Academy as of and for the year ended 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.

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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 33-35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

John Cutler & Associates, LLC

October 2, 2017

WORLD COMPASS ACADEMY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2017

As management of World Compass Academy (the School) we offer readers of the School's annual financial report this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2017. Readers are encouraged to consider the information presented here in conjunction with the annual financial report.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the School's basic financial statements. The School's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the School's finances as a whole, in a manner similar to a private-sector business and include two statements:

The *statement of net position* presents information on all of the School's assets and liabilities, with the difference between the two 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 reporting 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 result in cash flows in future fiscal periods. Accrued interest expense is an example of this type of item.

Both government-wide financial statements distinguish functions of the School that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School include general government of running a K-8 charter school in Douglas County School District, Castle Rock, Colorado.

Fund Financial Statements

A fund is a grouping of related accounts used to maintain control over resources segregated for specific activities or objectives. The fund financial statements provide more detailed information about the School's operations, focusing on its most significant funds, not the School as a whole. The School has a general fund, which is a governmental fund.

Governmental Funds: The School's basic services are included in this governmental fund, which focuses on (1) how money flows into and out of the fund and (2) the balances left at year-end that are available for spending or reserves. Consequently, the governmental fund statements provide a detailed short-term view that helps determine the status of financial resources that can be spent in the near future to finance the School's programs.

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. Thus, readers may better understand the long-term impact of the School's near-term financing decisions. To facilitate this comparison between governmental funds and governmental activities, reconciliations are provided for both the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balance.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the School. The School adopts an annual appropriated budget for the general fund. A budgetary comparison schedule has been provided to demonstrate compliance with the budget.

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 the School, it exceeded its liabilities exceeded assets by ($3,746,903) during the fiscal year resulting in a negative net position balance. This includes net pension liability of ($11,085,452), deferred outflows related to pensions ($7,499,873), and deferred inflows related to pensions ($50,088).

Condensed Statement of Net Position

	2017	2016
Cash & Cash Equivalents	$ 471,193	$148,160
Restricted Cash and Investments	1,098,522	
Accounts Receivable	3,939	
Grants Receivable	105,495	61,119
Prepaid Expenses	8,232	2,513
Deposits	4,500	4,200
Capital Assets, Not Depreciated	2,000,874	
Capital Assets, Depreciated	9,208,557	37,446
Total assets	$ 12,901,312	$ 253,438
Deferred Outflows Related to Pensions	7,499,873	2,655,421

Accounts Payable And Unearned Revenue	$130,244	$122,515
Accrued Salary and Benefits	27,202	18,493
Unearned Revenue	216,102	
Note Payable – Current Portion	12,645,000	
Noncurrent Liability-Net Pension Liability	11,085,452	3,394,517
Total liabilities	24,104,000	3,535,525
Deferred Inflows of Resources Related to Pensions	50,088	48,111
Net position:		
Capital Assets, net of Depreciation	(337,047)	37,446
Restricted for Emergencies (TABOR)	133,000	116,113
Unrestricted	(3,548,856)	(828,336)
Total Net Position	(3,752,903)	(674,777)

Condensed Statement of Changes in Net Position

	2017	2016
Revenues:		
General revenues:		
Local Sources	$ 4,255,259	$3,437,649
State and Federal Sources	350,281	432,789
Total revenues	4,605,540	3,870,438
Expenses:		
Instruction	4,745,898	2,429,732
Support services	2,937,768	2,064,916
Total expenses	7,683,666	4,494,648
Change in net position	(3,078,126)	(624,210)
Net position, beginning	(674,777)	(50,567)
Net position, ending	$ (3,752,903)	$ (674,777)

ANALYSIS OF THE SCHOOL'S FUNDS

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

The general fund is the operating fund of the School. The fund balance for the general fund was $453,315 at the end of the current fiscal year.

BUDGETARY HIGHLIGHTS

The School's budget is prepared in accordance with state law.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The School acquired capital equipment and recorded capital assets of $9,208,557. Please see Note 4 for more information.

Debt Administration

The School has obtained bonds for purchase of building during 2016-2017 as reflected in audited statements. Please see Note 5 for more information.

ECONOMIC FACTORS

- World Compass Academy is chartered within the Douglas County School District. Growth within the county is expected to remain strong for the foreseeable future, thus providing a strong economic growth outlook for out student population

- The state forecasts that slight increases should be expected for the near future.

SCHOOL INFORMATION

- World Compass Academy is a K-5 charter school operating under the authorization of Douglas County School District since 2014. Colorado

- The school maintains a steady and full enrollment of 550 funded students. This number may fluctuate slightly on student count day causing the annual operating budget to be originally based on slightly fewer students and then adjusted to actual enrollment at mid-year.

REQUESTS FOR INFORMATION

This financial report is designed to provide the School's taxpayers and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lance Howard, World Compass Academy for assistance.

BASIC FINANCIAL STATEMENTS

WORLD COMPASS ACADEMY

STATEMENT OF NET POSITION
June 30, 2017

	GOVERNMENTAL ACTIVITIES	
	2017	2016
ASSETS		
Cash and Investments	$ 471,193	$ 148,160
Restricted Cash and Investments	1,098,522	-
Accounts Receivable	3,939	-
Grants Receivable	105,495	61,119
Prepaid Expenses	8,232	2,513
Deposits	4,500	4,200
Capital Assets, Not Depreciated	2,000,874	-
Capital Assets, Depreciated, Net of Accumulated Depreciation	9,208,557	37,446
TOTAL ASSETS	12,901,312	253,438
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	7,499,873	2,655,421
LIABILITIES		
Accounts Payable	19,885	10,299
Accrued Salaries and Benefits	27,202	18,493
Unearned Revenue	110,359	112,216
Accrued Interest Payable	216,102	-
Note Payable - Current Portion	12,645,000	-
Noncurrent Liability - Net Pension Liability	11,085,452	3,394,517
TOTAL LIABILITIES	24,104,000	3,535,525
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	50,088	48,111
NET POSITION		
Invested in Capital Assets	(337,047)	37,446
Restricted for Emergencies	133,000	116,113
Unrestricted	(3,548,856)	(828,336)
TOTAL NET POSITION	$ (3,752,903)	$ (674,777)

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

WORLD COMPASS ACADEMY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

		PROGRAM REVENUES			Net (Expense) Revenues and Changes in Net Position	
			Operating	Capital	Governmental Activities	
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions	2017	2016
PRIMARY GOVERNMENT						
Governmental Activities						
Instruction	$ 4,745,898	$ 494,443	$ 20,395	$ -	$ (4,231,060)	$ (1,442,357)
Supporting Services	2,721,666	-	246,155	133,386	(2,342,125)	(1,970,696)
Interest and Fiscal Charges	216,102	-	-	-	(216,102)	-
Total Governmental Activities	$ 7,683,666	$ 494,443	$ 266,550	$ 133,386	$ (6,789,287)	(3,413,053)
GENERAL REVENUES						
Per Pupil Revenue					3,418,975	2,762,987
Mill Levy Revenue					261,416	-
Investment Income					3,410	-
Other					27,360	25,856
TOTAL GENERAL REVENUES					3,711,161	2,788,843
CHANGE IN NET POSITION					(3,078,126)	(624,210)
NET POSITION, Beginning					(674,777)	(50,567)
NET POSITION, Ending					$ (3,752,903)	$ (674,777)

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

WORLD COMPASS ACADEMY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	GENERAL FUND	
	2017	2016
ASSETS		
Cash and Investments	$ 471,193	$ 148,160
Accounts Receivable	3,856	-
Grants Receivable	105,495	61,119
Due From Other Fund	17,485	-
Prepaid Items	8,232	2,513
Deposits	4,500	4,200
TOTAL ASSETS	$ 610,761	$ 215,992
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	$ 19,885	$ 10,299
Accrued Liabilities	27,202	18,493
Unearned Revenue	110,359	112,216
TOTAL LIABILITIES	157,446	141,008
FUND BALANCES		
Nonspendable	12,732	6,713
Restricted for Emergencies	133,000	116,113
Unassigned	307,583	(47,842)
TOTAL FUND BALANCES	453,315	74,984
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.	69,117	37,446
Internal service funds are used by management to charge the lease costs to governmental funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.	(639,668)	-
Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This liability includes net pension liability of ($11,085,452), deferred outflows related to pensions of $7,499,873 and deferred inflows related to pensions of ($50,088).	(3,635,667)	(787,207)
Net position of governmental activities	$ (3,752,903)	$ (674,777)

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

WORLD COMPASS ACADEMY
STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	GENERAL FUND	
REVENUES	2017	2016
Local Sources	$ 4,251,849	3,437,649
State and Federal Sources	350,281	432,789
TOTAL REVENUES	4,602,130	3,870,438
EXPENDITURES		
Instruction	2,338,446	1,791,052
Supporting Services	1,885,353	1,953,835
TOTAL EXPENDITURES	4,223,799	3,744,887
NET CHANGE IN FUND BALANCES	378,331	125,551
FUND BALANCES, Beginning	74,984	(50,567)
FUND BALANCES, Ending	$ 453,315	$ 74,984

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

WORLD COMPASS ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	$	378,331
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlay $34,167 exceeded depreciation expense ($2,496) for the year.		31,671
The Internal Service fund is used by management to charge the cost of lease payments to the governmental funds. The net revenue of the internal service fund is reported with the governmental activities.		(639,668)
Deferred Charges related to pensions are not recognized in the governmental funds. However, for the government-wide funds those amounts are capitalized and amortized.		(2,848,460)
Change in net position of governmental activities	$	(3,078,126)

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

WORLD COMPASS ACADEMY

STATEMENT OF NET POSITION
PROPRIETARY FUND TYPES
June 30, 2017

	GOVERNMENTAL ACTIVITIES Internal Service Fund
ASSETS	
Current Assets	
Restricted Investments	$ 1,098,522
Accounts Receivable	83
Total Current Assets	1,098,605
Long-term Assets	
Capital Assets, Net of Accumulated Depreciation	11,140,314
Total Long-term Assets	11,140,314
TOTAL ASSETS	12,238,919
LIABILITIES	
Current Liabilities	
Due To General Fund	17,485
Interest Payable	216,102
Note Payable - Current Portion	12,645,000
Total Current Liabilities	12,878,587
Long-Term Liabilities	
Note Payable	-
TOTAL LIABILITIES	12,878,587
NET POSITION	
Net Investment in Capital Assets	(406,164)
Unrestricted	(233,504)
TOTAL NET POSITION	$ (639,668)

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

WORLD COMPASS ACADEMY

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

	GOVERNMENTAL ACTIVITIES Internal Service Fund
OPERATING REVENUES	
Rent	$ 216,019
Investment Income	3,410
TOTAL OPERATING REVENUES	219,429
OPERATING EXPENSES	
Depreciation	76,341
TOTAL OPERATING EXPENSES	76,341
OPERATING INCOME	143,088
NON-OPERATING REVENUES (EXPENSES)	
Interest Expense	(216,102)
Debt Issuance Costs	(566,654)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(782,756)
NET INCOME (LOSS)	(639,668)
NET POSITION, Beginning	-
NET POSITION, Ending	$ (639,668)

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

WORLD COMPASS ACADEMY

STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES
Year Ended June 30, 2017
Increase (Decrease) in Cash

	GOVERNMENTAL ACTIVITIES Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Rental Operations	$ 233,421
Investment Income	3,410
Net Cash Provided by Operating Activities	236,831
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(11,216,655)
Proceeds from Issuance of Debt	12,645,000
Debt Issuance Costs	(566,654)
Net Cash Provided (Used) by Financing Activities	861,691
NET INCREASE IN CASH	1,098,522
CASH, Beginning	-
CASH, Ending	$ 1,098,522
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Income	$ 143,088
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities	
Depreciation Expense	76,341
Changes in Assets and Liabilities	
Accounts Receivable	(83)
Due to General Fund	17,485
Total Adjustments	93,743
Net Cash (Used) by Operating Activities	$ 236,831

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

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

World Compass Academy (the "Academy") was formed in 2015 pursuant to the Colorado Charter Schools Act to form and operate a charter school. The Academy receives their primary funding from the Douglas County School District (the "District").

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.

World Compass Academy Building Corporation

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

The Academy is a component unit of the Douglas County 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. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

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

Government-Wide and Fund Financial Statements (Continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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.

Additionally, the Academy reports the following fund types:

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

Deferred Outflows/Inflows of Resources

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

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

Assets, Liabilities and Fund Balance/Net Position

Investments – Investments are recorded at fair value.

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

Prepaid Expenses - Payments for goods and services to be received in the near future. An expenditure is reported in the year in which the goods or services are received.

Deposits – This amount represents a security deposit per the lease agreement for their building.

NOTE 1: ***<u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>*** (Continued)

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

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 acquistion value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: buildings 50 years, equipment 15 years.

Unearned Revenues –The unearned revenues includes deposits for fees received but not yet available for expenditure until the following year.

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

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

- <u>Investment in Capital Assets</u> is intended to reflect the portion of net position which are associated with non-liquid, capital assets less outstanding capital asset related debt. The net related debt is the debt less the outstanding liquid assets and any associated unamortized cost.

- <u>Restricted Net Position</u> are liquid assets, which have third party limitations on their use.

- <u>Unrestricted Net Position</u> represents assets that do not have any third party limitation on their use. While Academy management may have categorized and segmented portion for various purposes, the School Board has the unrestricted right to revisit or alter these managerial decisions.

NOTE 1: ***<u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>*** (Continued)

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

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

- <u>Nonspendable</u> – This classification includes amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The Academy has classified prepaid items and deposits as nonspendable as of June 30, 2017.

- <u>Restricted</u> – 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.

- <u>Committed</u> – 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.

- <u>Unassigned</u> – 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.

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

Risk Management

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

Comparative Data

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

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

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

Budgets and Budgetary Accounting

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

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

NOTE 3: ***CASH AND INVESTMENTS***

Cash and Investments at June 30, 2017 consisted of the following:

Deposits	$ 471,193
Investments	1,098,522
Total	**$ 1,569,715**

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. 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 $471,193. The bank balances with the financial institutions were $502,179. Of these balances, $250,000 was covered by federal depository insurance and $252,179 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.

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

Investments (Continued)

Credit Risk

Colorado statutes specify in which instruments units of local government may invest, which include:

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

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

Fair Value

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

The Academy had invested $1,098,522 in the Colorado Government Liquid Asset Trust (ColoTrust) which has a credit rating of AAAm by Standard and Poor's. ColoTrust is an investment vehicle established for local government entities in Colorado to pool surplus funds and is regulated by the State Securities Commissioner. It operates similarly to a money market fund and each share is equal in value to $1.00. Investments consist of U.S. Treasury and U.S. Agency securities, and repurchase agreements collateralized by U.S. Treasury and U.S. Agency securities. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities owned are held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the entities.

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

Investments (Continued)

ColoTrust is not a 2a7-like external investment pool. The unit of account is each share held, and the value of the position would be the fair value of the pool's share price multiplied by the number of shares held. The government-investor does not "look through" the pool to report a pro rata share of the pool's investments, receivables, and payables. This investment is valued using Level 2 inputs.

Restricted Cash and Investments

Investments totaling $1,098,522 are restricted in the Internal Service Fund for the payment of the Academy's debt.

NOTE 4: ***CAPITAL ASSETS***

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

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Governmental Activities				
Capital Assets, Not Depreciated				
Land	$ -	$ 2,000,000	$ -	$ 2,000,000
Construction in Progress	-	874	-	874
Total Capital Assets, Not Depreciated	-	2,000,874	-	2,000,874
Capital Assets, Being Depreciated				
Buildings and Improvements	-	9,215,781	-	9,215,781
Machinery & Equipment	37,446	34,167	-	71,613
Total Capital Assets, Being Depreciated	37,446	9,249,948	-	9,287,394

NOTE 4: ***CAPITAL ASSETS*** (Continued)

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Governmental Activities				
Accumulated Depreciation				
Buildings and Improvements	-	76,341	-	76,341
Machinery & Equipment	-	2,496	-	2,496
Total Accumulated Depreciation	-	78,837	-	78,837
Total Capital Assets, Being Depreciated, Net	37,446	9,171,111	-	9,208,557
Net Capital Assets	**$ 37,446**	**$ 11,171,985**	**$ -**	**$ 11,209,431**

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

NOTE 5: ***LONG-TERM DEBT***

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

	Balance June 30, 2016	Additions	Payments	Balance June 30, 2017	Due In One Year
2017 Notes Payable	**$ -**	**$12,645,000**	**$ -**	**$ 12,645,000**	$ **12,645,000**

Notes Payable

In February 2017, the Colorado Educational and Cultural Facilities Authority (CECFA) issued $12,645,000 Charter School Revenue Bond Anticipation Notes. Proceeds were loaned to the Corporation to purchase educational facilities. The Academy is obligated under a lease agreement to make monthly lease payments to the Corporation for the use of educational facilities. The Corporation is required to make equal loan payments to the Trustee, for payment of the bonds. The notes accrue interest of 5.00% per annum.

The principal balance and all accrued interest of the term notes are due on July 1, 2018. The Academy intends to pay all amounts due on the maturity date from amounts deposited pursuant to the lease and loan agreement, from amounts on deposit in the note reserve fund, and from proceeds of one or more series of tax-exempt bonds expected to be issued by a conduit issuer for the benefit of the Academy.

NOTE 6: ***DEFINED BENEFIT PENSION PLAN***

Defined Benefit Pension Plan

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

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

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.

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

General Information about the Pension Plan (Continued)

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

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit

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

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

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

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, 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

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

General Information about the Pension Plan (Continued)

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 SCHDTF.

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

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

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

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2017
Employer contribution rate[1]	10.15%	10.15%
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) [1]	(1.02)%	(1.02)%
Amount apportioned to the SCHDTF[1]	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 [1]	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 [1]	4.50%	5.00%
Total employer contribution rate to the SCHDTF[1]	**18.13%**	**18.63%**

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

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

General Information about the Pension Plan (Continued)

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the Academy were $377,240 for the year ended June 30, 2017.

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

At June 30, 2017 the Academy reported a liability of $11,085,452 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 Academy's proportion of the net pension liability was based on the Academy's contributions to the SCHDTF for the calendar year 2016 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2016, the Academy proportion was 0.03723 percent, which is an increase of 0.01504 percent from its proportion measured as of December 31, 2015.

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

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

For the year ended June 30, 2017 the Academy recognized pension expense of $3,225,699. At June 30, 2017, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 138,585	$ 98
Changes of assumptions or other inputs	$3,596,998	$ 49,990
Net difference between projected and actual earnings on pension plan investments	$ 370,674	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	$ 3,196,128	N/A
Contributions subsequent to the measurement date	$ 197,488	N/A
Total	$7,499,873	$ 50,088

$197,488 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	$ 2,908,834
2019	$ 2,612,145
2020	$ 1,263,975
2021	$ 462,755
2022	$ 4,588

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

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

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

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	5.26 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

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

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

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.

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.

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

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

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

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 SCHDTF, 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.

NOTE 6: ***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%**	

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%.

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

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

Discount rate. The discount rate used to measure the total pension liability was 5.26 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.

NOTE 6: ***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 projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Board of Governors of the Federal Reserve System, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.86 percent, resulting in a discount rate of 5.26 percent.

As of the prior measurement date, the projection test indicated the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.50 percent was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use a municipal bond index rate and the discount rate was 7.50 percent, 2.24 percent higher compared to the current measurement date.

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

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

Sensitivity of the Academy's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 5.26 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 (4.26 percent) or 1-percentage-point higher (6.26 percent) than the current rate:

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	$13,939,600	$11,085,452	$8,760,852

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

Other Post-Employment Benefits

Health Care Trust Fund

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

Funding Policy – The Academy is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Academy are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the year ending June 30, 2017 and 2016, the Academy's contributions to the HCTF were $19,817 and $13,776, equal to the required contributions for each year.

NOTE 7: ***COMMITMENTS AND CONTINGENCIES***

Building Lease

In October 2014, the Academy entered into a 25-year lease agreement for its educational facility. Beginning with the commencement date, the Academy will make lease payments in the amount of 9.0% of the development costs of the building. Beginning on the first day of the third year of the lease, annual lease payments will increase by 2.5% annually. Under the terms of this lease, the lease payments commenced in October 2015.

The lease agreement includes an option to purchase the building prior to the expiration of the lease agreement at an amount determined as a percentage of the total development costs. In February 2017, the Academy purchased the building with proceeds from the 2017 Charter School Revenue Bond Anticipation Notes.

The Academy made rent payments in the amount of $506,246 under the terms of the agreement during the year ended June 30, 2017.

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.

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 $133,000 was recorded as a reservation of net position in the General Fund.

NOTE 8: ***DEFICIT NET POSITION***

The net position of the government type activities is in a deficit position of $3,752,903 due to the Academy including the Net Pension Liability per GASB No. 68.

The net position of the internal service fund is in a deficit position of $639,668. The Academy expect to eliminate the deficit position as it pays down its debt.

REQUIRED SUPPLEMENTARY INFORMATION

WORLD COMPASS ACADEMY

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2017

	2017				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)	TOTAL 2016
REVENUES					
Local Sources					
Per Pupil Operating Revenue	3,319,485	$ 3,692,639	$ 3,418,975	$ (273,664)	$ 2,762,987
Mill Levy Revenue	-	-	261,416	261,416	528,312
Charges for Services	485,500	445,380	494,443	49,063	120,494
Grants and Donations	30,000	30,000	49,655	19,655	-
Other Revenue	22,000	22,000	27,360	5,360	25,856
State and Federal Sources					
Grants and Donations	306,425	306,425	350,281	43,856	432,789
TOTAL REVENUES	4,163,410	4,496,444	4,602,130	105,686	3,870,438
EXPENDITURES					
Instruction					
Salaries	1,466,775	1,629,957	1,668,763	(38,806)	1,225,219
Employee Benefits	409,391	438,142	468,474	(30,332)	319,057
Purchased Services	24,500	41,660	17,128	24,532	11,860
Supplies and Materials	134,400	120,200	173,485	(53,285)	234,916
Property	-	-	10,596	(10,596)	-
Other	500	500	-	500	-
Total Instruction	2,035,566	2,230,459	2,338,446	(107,987)	1,791,052
Supporting Services					
Salaries	167,000	150,750	305,691	(154,941)	284,928
Employee Benefits	71,762	41,074	84,381	(43,307)	102,062
Purchased Services	1,501,214	1,518,965	1,275,736	243,229	1,282,732
Supplies and Materials	143,567	210,200	85,055	125,145	110,676
Property	50,000	58,000	134,227	(76,227)	173,437
Other	30,000	40,000	263	39,737	-
Total Supporting Services	1,963,543	2,018,989	1,885,353	133,636	1,953,835
TOTAL EXPENDITURES	3,999,109	4,249,448	4,223,799	25,649	3,744,887
NET CHANGE IN FUND BALANCE	164,301	246,996	378,331	131,335	125,551
FUND BALANCE, Beginning	66,747	66,747	74,984	8,237	(50,567)
FUND BALANCE, Ending	$ 231,048	$ 313,743	$ 453,315	$ 139,572	$ 74,984

See the accompanying independent auditors' report.

WORLD COMPASS ACADEMY

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

Years Ended December 31,

	2015	2016
School's proportionate share of the Net Pension Liability	0.02219%	0.03723%
School's proportionate share of the Net Pension Liability	$ 3,394,517	$ 11,085,452
School's covered-employee payroll	$ 695,574	$ 1,636,269
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	488.0%	677.5%
Plan fiduciary net position as a percentage of the total pension liability	59.2%	43.1%

See the accompanying independent auditors' report.

WORLD COMPASS ACADEMY

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DIVISION TRUST FUND

Years Ended June 30,

	2016	2017
Statutorily required contributions	$ 267,890	$ 377,240
Contributions in relation to the Statutorily required contributions	267,890	377,240
Contribution deficiency (excess)	$ -	$ -
School's covered-employee payroll	$ 1,427,962	$ 1,942,831
Contributions as a percentage of covered-employee payroll	18.76%	19.42%

See the accompanying independent auditors' report.