

AMERICAN ACADEMY

FINANCIAL STATEMENTS

June 30, 2017

AMERICAN ACADEMY

ROSTER OF SCHOOL OFFICIALS

June 30, 2017

BOARD OF DIRECTORS

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SCHOOL MANAGEMENT

Amanda Lane-Cline, Executive Director of Schools

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Board of Directors
American Academy
Castle Pines, Colorado

INDEPENDENT AUDITORS' REPORT

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters (Required Supplementary Information)

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

Ernst & Young LLP

October 10, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information (RSI)

June 30, 2017

The subsequent Management Discussion and Analysis (MD&A) of American Academy financial performance provides an overall review of financial activities for the fiscal year ended June 30, 2017. The intent of this narrative overview and analysis is to review the school's financial performance as a whole. Readers should also review Financial Statements, including the Notes to Financial Statements, to expand understanding of the school's financial performance.

American Academy is a high-performing Core Knowledge, PreK-8, public charter school with a special emphasis on science, technology, engineering and math (STEM) and an outstanding visual and performing arts program. For more information on the school, you can visit their website anytime at www.aak8.org.

Financial Highlights

The period from July 1, 2016 through June 30, 2017 marks the twelfth year of operation for American Academy. During 2016/17, American Academy student enrollment was relatively flat compared with the prior year. As of June 30, 2017, fund balance for combined campus operations had increased approximately 32% from prior year to reach \$3,196,590. When including GASB Statement No. 68 and related campus facilities, combined total net position as was (27,944,107).

Funding provided in the Colorado State School Finance Act Basic is the primary support received for basic school operations. Tax revenue for the year July 1, 2016 - June 30, 2017 increased by 1% from \$11,874,135 compared with \$11,948,833. The American Academy - Castle Pines and Motsenbocker campuses currently operate near capacity serving 882 and 889 students, respectively, in 2016/17. In addition, the Motsenbocker campus offers KindiePrep, a pre-kindergarten program for 3 and 4-year olds; this program served over one hundred students during 2016/17; this program operates at full capacity.

The success of American Academy's educational program and the continued demand for enrollment led the school to make the decision to expand operations to a third campus in Parker, Colorado. The Lincoln Meadows campus will open in 2017/18 and will operate an educational program that mirrors the structure at the Castle Pines and Motsenbocker campuses. In addition, the Lincoln Meadows campus will also offer a KindiePrep program that emulates the Motsenbocker campus set up. During the 2016/17 year, the AA Building Corporation II secured facility bonds through a Colorado Educational and Cultural Facilities Authority (CECFA) bond issuance to support new facility construction and occupation for the 2017/18 school year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information (RSI)

June 30, 2017

Overview of Financial Statements

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

Government-Wide Financial Statements

Government-wide financial statements are prepared to provide interested parties with a broad overview of American Academy's financial reporting in similar format to a private-sector business. The statement of net position presents information related to assets and liabilities, and deferred inflows and outflows, and remaining assessment of financial value. With historical data, increases or decreases in net position may serve as a useful indicator of whether the financial position of the school is weakening or improving.

The statement of activities, or income statement, presents information showing how American Academy's net position changed during the year. Change to net position is reported at the primary occurrence, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of fiscal year end).

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of American Academy, liabilities exceeded assets by \$27,944,107 at the close of the most recent fiscal year. The negative balance is due primarily to the adoption of GASB Statement No. 68, resulting in a net pension liability of \$46,363,813, representing its proportionate share of the plan's net pension liability.

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, as designated by Colorado state statute. American Academy monitors these funds to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements, except that the focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information (RSI)

June 30, 2017

American Academy adopts an annual budget for the general fund. A budgetary comparison has been provided to demonstrate compliance with the budget as part of the required supplementary information included in the audited financial statements.

The AA Building Corporation II is considered to be a blended component unit of American Academy and is reported as a proprietary fund. Information is presented in the statement of net position, statement of revenues, expenses and changes in net position and the statement of cash flows.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Government-wide Financial Analysis

Table I: Net Position

	2017 Governmental Activities	2016 Governmental Activities	2017 Business Type Activities	2016 Business Type Activities
ASSETS				
Capital Assets, Net	-	-	48,586,076	31,223,060
Other Assets	4,193,675	3,307,637	12,160,304	1,635,937
Total Assets	4,193,675	3,307,637	60,746,380	32,858,997
DEFERRED OUTFLOWS OF RESOURCES				
Pensions, Net of Accumulated Amortization	20,459,090	7,795,748	-	-
Loss on Debt Refunding	-	-	3,550,651	3,994,482
Total Deferred Outflows	20,459,090	7,795,748	3,550,651	3,994,482
LIABILITIES				
Long Term Liabilities	283,963	24,728	64,925,000	38,055,000
Net Pension Liability	46,363,813	25,396,025	-	-
Other Liabilities	1,177,158	944,226	2,796,138	805,549
Total Liabilities	47,824,934	26,364,979	67,721,138	38,860,549
DEFERRED INFLOWS OF RESOURCES				
Pensions, Net of Accumulated Amortization	1,347,831	359,798	-	-
Total Deferred Inflows	1,347,831	359,798	-	-
NET POSITION				
Net Investment in Capital Assets	-	-	(7,329,517)	(3,773,162)
Restricted for Debt Service	-	-	3,765,410	1,566,326
Restricted for Repair & Replace	-	-	-	-
Restricted for Emergencies	500,000	500,000	-	-
Unrestricted	(25,020,000)	(16,121,392)	140,000	199,766
Total Net Position	(24,520,000)	(15,621,392)	(3,424,107)	(2,007,070)

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information (RSI)

June 30, 2017

For the year ended June 30, 2017, the governmental activities net position of American Academy was recognized as (\$24,520,000) due to the adoption of GASB Statement No. 68 that created a net pension liability of \$46,363,813. Including the net pension liability, the school acknowledged (\$25,020,000) in unrestricted funds and \$500,000 to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. For the business-type activities, (\$7,329,517) was the net investment in capital assets, \$3,765,410 was restricted for debt service and \$140,000 was unrestricted. The Foundation recognized total net position of \$53,078 in unrestricted funds. The AA Building Corporation II recognized total net position of (\$3,424,107) with \$140,000 of this amount unrestricted.

Table II: Change in Net Position

	2017 Governmental Activities	2016 Governmental Activities	2017 Business Type Activities	2016 Business Type Activities
REVENUES				
<i>General Revenues</i>				
Per Pupil Revenue	11,948,833	11,874,135	-	-
District Mill Levy	917,162	929,899	-	-
Capital Construction Funding	466,492	437,652	-	-
Grants and Contributions not restricted to specific programs	272,266	277,643	-	-
Investment Earnings	8,167	11,884	37,653	5,878
Other	1,200	87,346	-	-
<i>Program Revenues</i>				
Charges for Services: Instruction	3,024,327	2,922,135	-	-
Charges for Services: Supporting Services	82,301	87,490	-	-
Operating Grants & Contributions:	58,117	62,565	-	-
Total Revenue	16,778,865	16,690,749	37,653	5,878
EXPENSES				
Instruction	15,320,075	11,135,779	-	-
Supporting Services	7,939,541	6,098,500	-	-
Foundation	-	-	-	-
Building Corporation	-	-	3,816,781	3,015,202
Total Expenses	23,259,616	17,234,279	3,816,781	3,015,202
Transfers	(2,417,857)	(2,956,250)	2,417,857	3,922,603
Change in Net Position	(8,898,608)	(3,499,780)	(1,361,271)	913,279
Net Position, Beginning	(15,621,392)	(12,121,612)	(2,062,836)	(2,976,115)
Net Position, Ending	(24,520,000)	(15,621,392)	(3,424,107)	(2,062,836)

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information (RSI)

June 30, 2017

Fund Financial Analysis

General Fund

During 2016/17, PPR funding increased 1% overall due to minor changes in student count combined with over a 1.5% increase to per student funding. Mill Levy revenue decreased 1%; this revenue stream is 100% funded and is expected to decrease annually as a result of a fixed dollar amount for DCSD being distributed over the student population. Contributions decreased 2% compared with the prior year due to timing of distributions from the PTO organizations that support each campus. Extracurricular activity revenue increased 16% compared with prior year as teachers and staff continued to provide additional educational opportunities for the American Academy student population.

Expenditures - Total expenditures for the period of July 1, 2016 - June 30, 2017 were \$16,526,729, a 0% change from prior year. Salaries were \$7,907,235 (2% increase), benefits were \$2,447,464 (10% increase); purchased services were \$4,537,726 (4% decrease), materials and supplies were \$710,911 (20% decrease), property was \$753,696 (3% increase) and other expenditures were \$169,697 (1% increase).

Salaries increased for a variety of reasons, including additional staff related to planning for the Lincoln Meadows campus expansion, additional positions at all levels to support the overall organization and modest raises for all employees. Salaries also increased relative to the increased income for American Academy Extracurricular programs. Benefits increased as a result of these salary increases combined with annual increases to statutory contributions to the Public Employees' Retirement Association of Colorado (PERA) and increases to health, dental and vision premiums for employees along with plan utilization rates.

Purchased services decreased 4%; the significant change that created the decrease cost involved the flood damage repair work at the Motsenbocker campus the prior year. Materials and supplies decreased 20%; property expenditures increased 3%; and other expenses increased 1%; all recognized modest changes year-to-year due to purchasing needs specific to each operating year. Supplies in 2015/16 included significant textbooks purchases that were not repeated during 2016/17.

Net Change in Fund Balance - As of June 30th the American Academy General Fund recorded net change in fund balance of \$777,129.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information (RSI)

June 30, 2017

AA Building Corporation II

During 2016/17, the AA Building Corporation II continued to hold the debt issuance for the American Academy campus facility issuances and completed a new debt issuance for the American Academy - Lincoln Meadows facility through a CECFA financing.

Revenues - Total gross revenues for the period of July 1, 2016 - June 30, 2017 were \$2,455,510. This included investment income, contributions and lease payments from the General Fund based on the facility purchase agreement.

Expenses - Total expenses for the period of July 1, 2016 - June 30, 2017 were \$3,816,781. Interest expense was recognized as \$2,053,865. Debt issuance costs for the Lincoln Meadows campus project were acknowledged in the amount of \$460,021 and furniture and equipment purchases were \$352,702. Depreciation expense was \$919,719 for this fiscal year; and purchased service costs totaled \$30,474 for cash management fees and the site lease expense.

Change in Net Position - As of June 30th AA Building Corporation II recorded a decrease in net position of (\$1,361,271) and ending net position of (\$3,424,107). It is anticipated that the negative balance will be eliminated over time as debt is paid.

Analysis of Significant Budget Variations: General Fund

The adopted budget for the American Academy General Fund was approved May of 2016 for the 2016/17 school year. The adopted budget is reviewed in detail by school administration and the Board of Directors in the spring with specific effort to correlate the budget with the strategic plan for the subsequent school year. Assumptions such as projected student count, per pupil revenue and hiring decisions are not finalized at the time the adopted budget is approved. American Academy reviewed and revised all key revenue and expense considerations for the final budget adoption in the fall of 2016. In addition, there was a Supplemental Budget resolution approved in April 2017 to incorporate Lease Proceeds not identified fall of 2016.

As a result of planning and additional allocations for specific needs, the actual activity for 2016/17 realized only minor variances from the final budget amounts approved for all major budget categories. Supplies recognized the largest variance with 81% of budget spent; the variance was due to actual purchasing needs for the year to support the educational program. There are no known variations that are expected to have a significant effect on future services or liquidity.

Capital Assets and Debt Administration

Capital assets - American Academy's capital assets as of June 30, 2017 amount to \$48,586,076, net of accumulated depreciation. These assets account for land, buildings and equipment and furniture for the Castle Pines and Motsenbocker facilities as well as the Lincoln Meadows facility still under construction as of June 30, 2017. Construction in Progress was added for the Lincoln Meadows campus in the amount of \$16,673,148.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Required Supplementary Information (RSI)

June 30, 2017

Long-term debt - As of June 30, 2017, American Academy had outstanding debt of \$66,089,036. This amount includes the balances of the two CECFA issuances for Castle Pines, Molsenbocker and Lincoln Meadows and the technology leases in place to support the school One-to-One computer program.

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

Economic Factors and Next Year's Budget

The primary factor driving the budget for American Academy is the future of the Colorado state budget and related Per Pupil Revenue (PPR) for K-12 education. American Academy regularly reviews projected plans for PPR funding and budget impact. Many budget scenarios and operation plans have been developed to analyze options to respond to state decisions. Student count changes across the three campus locations, facility financing costs and additional considerations specific to the new facility growth were all considered in the strategic budgeting process for 2017/18 - 2021/22. American Academy has developed detailed budget projections for each campus through 2021/22 and is confident in the success of expansion plans.

Requests for Information

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

American Academy
6971 Mira Vista Lane
Castle Pines, CO 80108

BASIC FINANCIAL STATEMENTS

AMERICAN ACADEMY

STATEMENT OF NET POSITION

June 30, 2017

	PRIMARY GOVERNMENT			COMPONENT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	UNIT FOUNDATION
ASSETS				
Cash and Investments	\$ 3,493,953	\$ -	\$ 3,493,953	\$ 53,078
Restricted Cash and Investments	398,287	12,020,304	12,418,591	-
Accounts Receivable	157,380	-	157,380	-
Prepaid Expenses	132,055	140,000	272,055	-
Deposits	12,000	-	12,000	-
Capital Assets, Not Being Depreciated	-	20,536,450	20,536,450	-
Capital Assets, Net of Accumulated Depreciation	-	28,049,626	28,049,626	-
TOTAL ASSETS	4,193,675	60,746,380	64,940,055	53,078
DEFERRED OUTFLOWS OF RESOURCES				
Pensions, Net of Accumulated Amortization	20,459,090	-	20,459,090	-
Loss on Debt Refunding, Net of Accumulated Amortization	-	3,550,651	3,550,651	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	20,459,090	3,550,651	24,009,741	-
LIABILITIES				
Accounts Payable	134,323	1,869,897	2,004,220	-
Accrued Salaries and Benefits	569,051	-	569,051	-
Unearned Revenues	293,711	-	293,711	-
Accrued Interest Payable	-	226,241	226,241	-
Noncurrent Liabilities				
Due Within One Year	180,073	700,000	880,073	-
Due in More Than One Year	283,963	64,925,000	65,208,963	-
Net Pension Liability	46,363,813	-	46,363,813	-
TOTAL LIABILITIES	47,824,934	67,721,138	115,546,072	-
DEFERRED INFLOWS OF RESOURCES				
Pensions, Net of Accumulated Amortization	1,347,831	-	1,347,831	-
NET POSITION				
Net Investment in Capital Assets	-	(7,329,517)	(7,329,517)	-
Restricted for Debt Service	-	3,765,410	3,765,410	-
Restricted for Emergencies	500,000	-	500,000	-
Unrestricted	(25,020,000)	140,000	(24,880,000)	53,078
TOTAL NET POSITION	\$ (24,520,000)	\$ (3,424,107)	\$ (27,944,107)	\$ 53,078

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

AMERICAN ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT			
Governmental Activities			
Instruction	\$ 15,320,075	\$ 3,024,327	\$ 36,833
Supporting Services	7,939,541	82,301	21,284
Total Governmental Activities	23,259,616	3,106,628	58,117
Business-Type Activities			
Building Corporation	3,816,781	-	-
TOTAL PRIMARY GOVERNMENT	\$ 27,076,397	\$ 3,106,628	\$ 58,117
COMPONENT UNIT			
Foundation	\$ 3,809	\$ -	\$ -

GENERAL REVENUES

Per Pupil Revenue
 District Mill Levy
 Capital Construction
 Grants and Contributions not Restricted
 to Specific Programs
 Investment Income
 Other

TRANSFERS

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION, Beginning

NET POSITION, Ending

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

NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION

PRIMARY GOVERNMENT			COMPONENT
GOVERNMENTAL	BUSINESS-TYPE		UNIT
ACTIVITIES	ACTIVITIES	TOTALS	FOUNDATION
\$ (12,258,915)	\$ -	\$ (12,258,915)	\$ -
(7,835,956)	-	(7,835,956)	-
(20,094,871)	-	(20,094,871)	-
-	(3,816,781)	(3,816,781)	-
(20,094,871)	(3,816,781)	(23,911,652)	-
-	-	-	(3,809)
11,948,833	-	11,948,833	-
917,162	-	917,162	-
466,492	-	466,492	-
272,266	-	272,266	1,040
8,167	37,653	45,820	81
1,200	-	1,200	-
(2,417,857)	2,417,857	-	-
11,196,263	2,455,510	13,651,773	1,121
(8,898,608)	(1,361,271)	(10,259,879)	(2,688)
(15,621,392)	(2,062,836)	(17,684,228)	55,766
\$ (24,520,000)	\$ (3,424,107)	\$ (27,944,107)	\$ 53,078

AMERICAN ACADEMY

BALANCE SHEET
GOVERNMENTAL FUND

June 30, 2017

	<u>GENERAL</u>
ASSETS	
Cash and Investments	\$ 3,493,953
Restricted Cash	398,287
Accounts Receivable	157,380
Prepaid Expenditures	132,055
Deposits	<u>12,000</u>
TOTAL ASSETS	<u>\$ 4,193,675</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts Payable	\$ 134,323
Accrued Salaries and Benefits	569,051
Unearned Revenues	<u>293,711</u>
TOTAL LIABILITIES	<u>997,085</u>
FUND BALANCE	
Nonspendable Prepaid Expenditures	132,055
Nonspendable Deposits	12,000
Restricted for Emergencies	500,000
Unrestricted, Unassigned	<u>2,552,535</u>
TOTAL FUND BALANCE	<u>3,196,590</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 4,193,675</u>
 Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Total Fund Balance of the Governmental Fund	\$ 3,196,590
Long-term liabilities and related items, including capital leases (\$464,036), net pension liability (\$46,363,813), pension-related deferred outflows of resources \$20,459,090, and pension-related deferred inflows of resources (\$1,347,831), are not due and payable in the current year and, therefore, are not reported in governmental funds.	<u>(27,716,590)</u>
Total Net Position of Governmental Activities	<u>\$ (24,520,000)</u>

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

AMERICAN ACADEMY

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

	GENERAL
REVENUES	
Local Sources	\$ 16,254,256
State Sources	524,609
	16,778,865
TOTAL REVENUES	
EXPENDITURES	
Instruction	8,774,255
Supporting Services	7,752,474
	16,526,729
TOTAL EXPENDITURES	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	252,136
OTHER FINANCING SOURCES	
Capital Leases	524,993
	777,129
NET CHANGE IN FUND BALANCE	
FUND BALANCE, Beginning	2,419,461
FUND BALANCE, Ending	\$ 3,196,590

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

Net Change in Fund Balance of the Governmental Fund	\$ 777,129
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities. Repayments of debt principal are expenditures in governmental funds, but they reduce long-term liabilities in the statement of net position and do not affect the statement of activities. This amount represents debt issued (\$524,993) and debt payments \$141,735 in the current year.	(383,258)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the change in net pension liability (\$20,967,788), pension-related deferred outflows of resources \$12,663,342, and pension-related deferred inflows of resources (\$988,033) in the current year.	(9,292,479)
Change in Net Position of Governmental Activities	\$ (8,898,608)

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

AMERICAN ACADEMY

STATEMENT OF NET POSITION

PROPRIETARY FUND

June 30, 2017

	<u>BUILDING CORPORATION</u>
ASSETS	
CURRENT ASSETS	
Restricted Cash and Investments	\$ 12,020,304
Prepaid Expenses	140,000
	<hr/>
TOTAL CURRENT ASSETS	12,160,304
	<hr/>
NONCURRENT ASSETS	
Capital Assets, Not Being Depreciated	20,536,450
Capital Assets, Net of Accumulated Depreciation	28,049,626
	<hr/>
TOTAL NONCURRENT ASSETS	48,586,076
	<hr/>
TOTAL ASSETS	60,746,380
	<hr/>
DEFERRED OUTFLOWS OF RESOURCES	
Loss on Debt Refunding, Net of Accumulated Amortization	3,550,651
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LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	1,869,897
Accrued Interest Payable	226,241
Loans Payable, Current Portion	700,000
	<hr/>
TOTAL CURRENT LIABILITIES	2,796,138
	<hr/>
NONCURRENT LIABILITIES	
Loans Payable	64,925,000
	<hr/>
TOTAL LIABILITIES	67,721,138
	<hr/>
NET POSITION	
Net Investment in Capital Assets	(7,329,517)
Restricted for Debt Service	3,765,410
Unrestricted	140,000
	<hr/>
TOTAL NET POSITION	<u>\$ (3,424,107)</u>

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

AMERICAN ACADEMY

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

	<u>BUILDING CORPORATION</u>
OPERATING REVENUES	
Lease Revenue	<u>\$ 2,297,535</u>
OPERATING EXPENSES	
Purchased Services	30,474
Depreciation	919,719
Debt Service	
Interest	<u>2,053,865</u>
TOTAL OPERATING EXPENSES	<u>3,004,058</u>
NET OPERATING INCOME (LOSS)	<u>(706,523)</u>
NONOPERATING REVENUES (EXPENSES)	
Investment Income	37,653
Furniture and Equipment	(352,702)
Debt Issuance Costs	<u>(460,021)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(775,070)</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(1,481,593)
CAPITAL CONTRIBUTIONS	
Contributed Capital Assets	<u>120,322</u>
CHANGE IN NET POSITION	(1,361,271)
NET POSITION, Beginning	<u>(2,062,836)</u>
NET POSITION, Ending	<u>\$ (3,424,107)</u>

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

AMERICAN ACADEMY

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

Increase (Decrease) in Cash and Cash Equivalents
Year Ended June 30, 2017

	<u>BUILDING CORPORATION</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Lease Payments Received	\$ 2,297,535
Cash Paid to Suppliers	(26,474)
Loan Interest Paid	(1,612,380)
Loan Principal Paid	<u>(670,000)</u>
Net Cash Provided (Used) by Operating Activities	<u>(11,319)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Cash Paid to the Academy	(265,704)
Debt Proceeds	27,570,000
Debt Issuance Costs Paid	(460,021)
Construction and Acquisition of Capital Assets	(15,493,165)
Interest Paid and Capitalized	(840,540)
Interest Earned and Capitalized	134,238
Furniture and Equipment Purchased	<u>(352,702)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>10,292,106</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income Received	<u>37,653</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	10,318,440
CASH AND CASH EQUIVALENTS, Beginning	<u>1,701,864</u>
CASH AND CASH EQUIVALENTS, Ending	<u><u>\$ 12,020,304</u></u>
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Net Operating Income (Loss)	\$ (706,523)
Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation Expense	919,719
Amortization of Loss on Debt Refunding	443,831
Changes in Assets and Liabilities	
Prepaid Expenses	4,000
Accrued Interest Payable	(2,346)
Loans Payable	<u>(670,000)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (11,319)</u></u>
NONCASH CAPITAL TRANSACTIONS	
Contributed Capital Assets	<u><u>\$ 120,322</u></u>

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

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The American Academy (the “Academy”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Douglas County School District (the “District”). The Academy began operations in the Fall of 2005, and currently operates two campuses in Castle Pines and Parker, Colorado, with a third campus opening in the Fall of 2017.

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

Reporting Entity

The financial reporting entity consists of the Academy, organizations for which the Academy is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the Academy. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the Academy. 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 there is a potential for the organization to provide benefits to, or impose financial burdens on, the Academy.

The Academy includes the American Academy Foundation (the “Foundation”) and the AA Building Corporation II (the “Corporation”) within its reporting entity. The Foundation was formed exclusively to support the educational program of the Academy through grant applications and other fundraising activities, and for the purpose of holding title to real and personal property and to make same available for use by the Academy and to otherwise provide facilities, equipment, and other physical plant and related support to the Academy. The Corporation was organized exclusively for charitable and educational purposes, but primarily to finance the acquisition and construction of the Academy’s education facilities. The Foundation currently performs fundraising activities and is discretely presented in the Academy’s financial statements. The Corporation is blended into the financial statements as an enterprise fund. The Foundation and the Corporation do not issue separate financial statements.

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

Government-Wide and Fund Financial Statements

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

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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

Separate financial statements are provided for the governmental fund and the proprietary fund. Major individual funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

When both restricted and unrestricted resources are available for a specific 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 fund:

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

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Academy reports one major proprietary fund, as follows:

Building Corporation - This fund is used to account for the financial activities of the Corporation, including facilities acquisition and construction, and the related debt service.

Assets, Liabilities and Fund Balance/Net Position

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

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

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

Deposits - The Academy has provided a deposit for utilities, refundable after three years of service.

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

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 and the proprietary fund in the fund financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method.

Buildings and Improvements	40 - 45 years
Equipment and Furniture	3 - 10 years

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

Unearned Revenues - Unearned revenues represent resources received by the Academy before it has a legal claim to them, including tuition and fees.

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Long-Term Debt - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Debt premiums, discounts, and accounting losses resulting from debt refundings are deferred and amortized over the life of the debt using the straight-line method. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as current expenses or expenditures.

Compensated Absences - The Academy's policy allows employees to use eight days of personal leave during each school year. Employees are compensated for any unused leave prior to the end of the fiscal year, at the rate of \$100 per day. Therefore, no liability for compensated absences is reported in the financial statements.

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

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

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

Risk Management

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Accountability

At June 30, 2017, the Corporation had a negative net position of \$3,424,107. Management expects this negative balance to be eliminated as the Corporation's debt is paid.

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 3: CASH AND INVESTMENTS

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

Petty Cash	\$ 1,900
Deposits	3,941,175
Investments	<u>12,022,547</u>
Total	<u>\$ 15,965,622</u>

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

Cash and Investments	\$ 3,493,953
Restricted Cash and Investments	12,418,591
Foundation Cash	<u>53,078</u>
Total	<u>\$ 15,965,622</u>

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2017, the Academy had bank deposits of \$3,806,353 collateralized with securities held by the financial institution's agent but not in the Academy's name.

Investments

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

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

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

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

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

Concentration of Credit Risk - State statutes do not limit the amount the Academy may invest in one issuer of investment securities, except for corporate securities.

Local Government Investment Pool - At June 30, 2017, the Academy and the Corporation had \$12,022,547 invested in the Colorado Local Government Liquid Asset Trust (Colotrust), an investment trust established for local government entities in Colorado to pool surplus funds for investment purposes. The Colorado Division of Securities administers and enforces the requirements of creating and operating Colotrust. Colotrust operates in conformity with the Securities and Exchange Commission's Rule 2a-7. Colotrust is measured at the net asset value per share, with each share valued at \$1. Colotrust is rated AAAM by Standard and Poor's. Investments of Colotrust are limited to those allowed by State statutes. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. The custodian's internal records identify the investments owned by the participating governments.

Restricted Cash and Investments

At June 30, 2017, the Academy had certificates of deposit of \$398,287 restricted as collateral for a letter of credit securing infrastructure improvements at the new campus. The Corporation had investments of \$8,028,653 restricted for capital projects and \$3,991,651 restricted for future debt service.

NOTE 4: CAPITAL ASSETS

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

	Balances 6/30/16	Additions	Deletions	Balances 6/30/17
Business-Type Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 2,158,333	\$ 1,489,265	\$ -	\$ 3,647,598
Construction in Progress	<u>215,704</u>	<u>16,673,148</u>	<u>-</u>	<u>16,888,852</u>
Total Capital Assets, Not Being Depreciated	<u>2,374,037</u>	<u>18,162,413</u>	<u>-</u>	<u>20,536,450</u>

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 4: CAPITAL ASSETS (Continued)

	<u>Balances</u> <u>6/30/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>6/30/17</u>
Business-Type Activities (Continued)				
Capital Assets, Being Depreciated				
Buildings and Improvements	32,259,181	67,648	-	32,326,829
Equipment and Furniture	<u>830,487</u>	<u>52,674</u>	<u>-</u>	<u>883,161</u>
Total Capital Assets, Being Depreciated	<u>33,089,668</u>	<u>120,322</u>	<u>-</u>	<u>33,209,990</u>
Less Accumulated Depreciation				
Buildings and Improvements	(3,962,805)	(808,451)	-	(4,771,256)
Equipment and Furniture	<u>(277,840)</u>	<u>(111,268)</u>	<u>-</u>	<u>(389,108)</u>
Total Accumulated Depreciation	<u>(4,240,645)</u>	<u>(919,719)</u>	<u>-</u>	<u>(5,160,364)</u>
Total Capital Assets, Being Depreciated, Net	<u>28,849,023</u>	<u>(799,397)</u>	<u>-</u>	<u>28,049,626</u>
Business-Type Activities Capital Assets, Net	<u>\$ 31,223,060</u>	<u>\$ 17,363,016</u>	<u>\$ -</u>	<u>\$ 48,586,076</u>

NOTE 5: LONG-TERM DEBT

Governmental Activities

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

	<u>Balances</u> <u>6/30/16</u>	<u>Additions</u>	<u>Payments</u>	<u>Balances</u> <u>6/30/17</u>	<u>Due Within</u> <u>One Year</u>
Capital Leases	<u>\$ 80,778</u>	<u>\$ 524,993</u>	<u>\$ 141,735</u>	<u>\$ 464,036</u>	<u>\$ 180,073</u>

The Academy has entered into several lease agreements directly with the vendor to purchase laptop computers and related technology equipment. Monthly payments are required by the lease agreements, with terms of three years. The equipment does not qualify for capitalization under the Academy's policies.

Future minimum lease payments to maturity are as follows:

Year Ended June 30,

2018	\$ 180,073
2019	140,396
2020	106,263
2021	<u>53,621</u>
Total Minimum Lease Payments	480,353
Less: Interest Portion	<u>(16,317)</u>
Present Value of Future Minimum Lease Payments	<u>\$ 464,036</u>

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 5: LONG-TERM DEBT (Continued)

Business-Type Activities

Following is a summary of long-term debt transactions for the business-type activities for the year ended June 30, 2017.

	<u>Balances</u> <u>6/30/16</u>	<u>Additions</u>	<u>Payments</u>	<u>Balances</u> <u>6/30/17</u>	<u>Due Within</u> <u>One Year</u>
2015 Building Loan	\$ 38,725,000	\$ -	\$ 670,000	\$ 38,055,000	\$ 700,000
2016 Building Loan	<u>-</u>	<u>27,570,000</u>	<u>-</u>	<u>27,570,000</u>	<u>-</u>
Total	<u>\$ 38,725,000</u>	<u>\$ 27,570,000</u>	<u>\$ 670,000</u>	<u>\$ 65,625,000</u>	<u>\$ 700,000</u>

In October, 2015, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$38,725,000 Charter School Refunding Revenue Bonds, Series 2015. Bond proceeds were used to refund the Charter School Revenue Bonds, Series 2008 and Series 2012. Proceeds of the refunded bonds were loaned to the Foundation and the Corporation to construct education facilities. The Academy is obligated under a lease agreement to make monthly lease payments to the Corporation for using the facilities. The Corporation is required to make equal loan payments to the trustee, for payment of the bonds. Interest accrues on the outstanding balance of the bonds at 4.2% per annum, and is payable semi-annually on December 1 and June 1. Principal is payable annually beginning December 1, 2016, with a balloon payment of \$31,590,000 due on December 1, 2025.

On August 31, 2016, CECFA issued \$27,570,000 Charter School Revenue Bonds, Series 2016. Bond proceeds were loaned to the Corporation to finance the acquisition of land and the construction and equipping of a third campus, known as Lincoln Meadows. The Academy is obligated under a lease agreement to make monthly lease payments to the Corporation for using the facilities. The Corporation is required to make equal loan payments to the trustee, for payment of the bonds. Interest accrues on the outstanding balance of the bonds at 4.05% per annum, and is payable semi-annually on December 1 and June 1. Principal is payable annually beginning December 1, 2019, with a balloon payment of \$23,240,000 due at maturity on December 1, 2026.

Future debt service requirements for the bonds are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 700,000	\$ 2,700,195	\$ 3,400,195
2019	725,000	2,670,270	3,395,270
2020	1,300,000	2,628,154	3,928,154
2021	1,360,000	2,573,130	3,933,130
2022	1,415,000	2,515,729	3,930,729
2023 - 2027	<u>60,125,000</u>	<u>9,268,373</u>	<u>69,393,373</u>
Total	<u>\$ 65,625,000</u>	<u>\$ 22,355,851</u>	<u>\$ 87,980,851</u>

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 6: DEFINED BENEFIT PENSION PLAN

General Information

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

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

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

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

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

Contributions - The Academy and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The Academy's contribution rate for calendar years 2016 and 2017 was 19.15% and 19.65% of covered salaries, respectively. However, a portion of the Academy's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 7). The Academy's contributions to the SDTF for the year ended June 30, 2017, were \$1,454,349, equal to the required contributions.

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

NOTE 6: 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, 2017, the Academy reported a net pension liability of \$46,363,813, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll forward the total pension liability to December 31, 2016.

The Academy's proportion of the net pension liability was based on the Academy's contributions to the SDTF for the calendar year ended December 31, 2016, relative to the contributions of all participating employers. At December 31, 2016, the Academy's proportion was 0.1557198217%, which was a decrease of 0.0103291944% from its proportion measured at December 31, 2015.

For the year ended June 30, 2017, the Academy recognized pension expense of \$10,672,332. At June 30, 2017, the Academy 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>
Differences between expected and actual experience	\$ 592,577	\$ 374
Changes of assumptions and other inputs	15,044,090	222,947
Net difference between projected and actual earnings on plan investments	1,612,096	-
Changes in proportion	2,410,965	1,124,510
Contributions subsequent to the measurement date	<u>799,362</u>	<u>-</u>
Total	<u>\$ 20,459,090</u>	<u>\$ 1,347,831</u>

The Academy's contributions subsequent to the measurement date of \$799,362 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

2018	\$ 8,196,936
2019	6,919,447
2020	3,180,049
2021	<u>15,465</u>
Total	<u>\$ 18,311,897</u>

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

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

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

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

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

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

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

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

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

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

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

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

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

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2017

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)

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	<u>\$ 58,301,004</u>	<u>\$ 46,363,813</u>	<u>\$ 36,641,402</u>

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

NOTE 7: POSTEMPLOYMENT HEALTHCARE BENEFITS

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

Funding Policy - The Academy is required to contribute at a rate of 1.02% of covered salaries for all PERA participants. No employee contributions are required. The contribution requirements for the Academy are established under Title 24, Article 51, Part 4 of the CRS, as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208 of the CRS, as amended. The Academy's apportionment to the HCTF for the years ended June 30, 2017, 2016 and 2015 was \$76,431, \$74,130 and \$64,780, respectively, equal to the required amounts for each year.

NOTE 8: COMMITMENTS AND CONTINGENCIES

Claims and Judgments

The Academy participates in a number of federal and state programs that are fully or partially funded by revenues received from other governmental entities. Expenditures financed by these revenues are subject to audit by the appropriate government. If expenditures are disallowed due to noncompliance with program regulations, the Academy may be required to reimburse the other government. At June 30, 2017, significant amounts of related 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.

AMERICAN ACADEMY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 8: COMMITMENTS AND CONTINGENCIES

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to many interpretations, but the Academy believes it is in substantial compliance with the Amendment. As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2017, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$500,000.

Site Lease

On November 13, 2012, the Corporation entered into a site lease agreement with the District to use land owned by the District for a second campus. The Corporation prepaid the full amount of the lease in the amount of \$160,000. During the year ended June 30, 2017, the Corporation recognized lease expense of \$4,000, and the remaining balance of \$140,000 was reported as prepaid expenses of the Corporation. The lease agreement matures on December 31, 2052.

REQUIRED SUPPLEMENTARY INFORMATION

AMERICAN ACADEMY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND CONTRIBUTIONS
PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION OF COLORADO
SCHOOL DIVISION TRUST FUND

June 30, 2017

	<u>12/31/16</u>	<u>12/31/15</u>	<u>12/31/14</u>	<u>12/31/13</u>
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY				
Academy's Proportion of the Net Pension Liability	0.1557198217%	0.1660490161%	0.1423417169%	0.1024225986%
Academy's Proportionate Share of the Net Pension Liability	\$ 46,363,813	\$ 25,396,025	\$ 19,292,084	\$ 13,063,975
Academy's Covered Payroll	\$ 6,964,480	\$ 7,236,367	\$ 5,963,170	\$ 4,128,976
Academy's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	666%	351%	324%	316%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	43%	59%	63%	64%
	<u>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>
ACADEMY CONTRIBUTIONS				
Statutorily Required Contribution	\$ 1,377,714	\$ 1,290,913	\$ 1,073,514	\$ 870,362
Contributions in Relation to the Statutorily Required Contribution	<u>(1,377,714)</u>	<u>(1,290,913)</u>	<u>(1,073,514)</u>	<u>(870,362)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Academy's Covered Payroll	\$ 7,493,251	\$ 7,267,833	\$ 6,351,023	\$ 5,433,416
Contributions as a Percentage of Covered Payroll	18.39%	17.76%	16.90%	16.02%

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

See the accompanying Independent Auditors' Report.

AMERICAN ACADEMY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year Ended June 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)
REVENUES				
Local Sources				
Per Pupil Revenue	\$ 11,984,884	\$ 11,890,652	\$ 11,948,833	\$ 58,181
District Mill Levy	923,246	903,413	917,162	13,749
Contributions	246,000	285,250	272,266	(12,984)
Tuition and Fees	2,432,571	2,441,696	2,425,725	(15,971)
Child Care Fees	430,000	525,000	598,602	73,602
Facility Rental	65,000	65,000	82,301	17,301
Investment Income	6,000	6,000	8,167	2,167
Other	10,000	10,000	1,200	(8,800)
Total Local Sources	16,097,701	16,127,011	16,254,256	127,245
State Sources				
Capital Construction	382,410	463,271	466,492	3,221
Grants	100,486	86,102	58,117	(27,985)
Total State Sources	482,896	549,373	524,609	(24,764)
TOTAL REVENUES	16,580,597	16,676,384	16,778,865	102,481
EXPENDITURES				
Salaries	7,998,617	8,137,729	7,907,235	230,494
Employee Benefits	2,596,422	2,513,415	2,447,464	65,951
Purchased Services	4,566,715	4,678,295	4,537,726	140,569
Supplies and Materials	903,989	879,683	710,911	168,772
Property	266,250	803,966	753,696	50,270
Other	177,200	188,200	169,697	18,503
TOTAL EXPENDITURES	16,509,193	17,201,288	16,526,729	674,559
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	71,404	(524,904)	252,136	777,040
OTHER FINANCING SOURCES				
Capital Leases	-	524,993	524,993	-
NET CHANGE IN FUND BALANCE	71,404	89	777,129	777,040
FUND BALANCE, Beginning	2,398,016	2,419,461	2,419,461	-
FUND BALANCE, Ending	\$ 2,469,420	\$ 2,419,550	\$ 3,196,590	\$ 777,040

See the accompanying Independent Auditors' Report.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

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

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

Changes in Assumptions and Other Inputs

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

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

A budget is adopted for the Academy 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, for their approval. The budget includes proposed expenditures and the means of financing them.

Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

All annual appropriations lapse at fiscal year end.