ADDENBROOKE CLASSICAL ACADEMY

BASIC FINANCIAL STATEMENTS

June 30, 2015

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FINANCIAL SECTION

JOHN CUTLER
& ASSOCIATES

Board of Directors
Addenbrooke Classical Academy
Lakewood, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Addenbrooke Classical Academy, component unit of Jefferson County School District No. R-1, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Academy, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 expression an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluation 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Addenbrooke Classical Academy, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedule of the school's proportionate share, and schedule of the school's contributions on pages 22-24 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

December 16, 2015

Management's Discussion and Analysis

As management of the Addenbrooke Classical Academy (the "Academy"), we offer readers of the Academy's financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2015.

Financial Highlights

The year ended June 30, 2015 was the second year of operations for the School. The School opened under a charter granted by the Jefferson County School District in August 2013. As of June 30, 2015, net position decreased to ($542,394) based on the implementation of new regulations under the Governmental Accounting Standards Board Statement (GASB) Number 68. Based on the timing of implementing the regulation in 2014, the Beginning Net Position of the Government Type Activities was restated for FY2015. Further information about GASB 68 is provided in Note 5 of the financial statements. The School finished the 2014-2015 fiscal year with a fund balance of $430,959 up from $(26,427) from the previous year.

Overview of Financial Statements

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

Government-wide Financial Statements

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

The statement of net position presents information on all of the Addenbrooke Classical Academy'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 Academy is improving or deteriorating.

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

The government-wide financial statement of activities distinguishes functions/programs of the Academy supported primarily by per pupil revenue (PPR) passed through from the District (Jefferson County School District, No. R-1. The governmental activities of the Academy include instruction and supporting expenses.

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

Fund Financial Statements

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

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Academy's near-term financing requirements.

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

Addenbrooke Classical Academy maintains one governmental fund, the general fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund which is considered to be major. This information is provided in pages 3-4.

Addenbrooke Classical Academy adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the budget on page 22.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 6-21.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Addenbrooke Classical Academy, assets did not exceed liabilities for all government funds at the close of the most recent fiscal year.

STATEMENT OF NET POSITION
As of June 30, 2015

	Governmental Activities 2015	Governmental Activities 2014
ASSETS		
Cash and Investments	$ 448,073	$ 1,328
Restricted Cash and Investments	48,047	23,038
Accounts Receivable	5,124	-
TOTAL ASSETS	501,244	24,366
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	1,011,361	-
LIABILITIES		
Accounts Payable	1,622	9,723
Accrued Salaries	68,663	41,070
Noncurrent Liabilities		
Net Pension Liability	1,984,566	-
TOTAL LIABILITIES	2,054,851	50,793
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	148	-
NET POSITION		
Restricted for Emergencies	48,047	23,038
Unrestricted	(590,441)	(49,465)
TOTAL NET POSITION	$ (542,394)	(26,427)

ADDENBROOKE CLASSICAL ACADEMY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

		PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION	
			Operating	Capital	GOVERNMENTAL ACTIVITIES	
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions	2015	2014
PRIMARY GOVERNMENT						
Governmental Activities						
Instruction	$ 778,050	$ 42,878	$ 26,634	$ -	$ (708,538)	$ (442,120)
Supporting Services	1,266,100	-	-	36,652	(1,229,448)	(343,682)
Total Governmental Activities	$ 2,044,150	$ 42,878	$ 26,634	$ 36,652	(1,937,986)	(785,802)
		GENERAL REVENUES				
		Per Pupil Revenue			1,476,113	722,640
		Mill Levy Override			241,575	21,966
		Donations			286,898	5,755
		Other			19,291	9,014
		TOTAL GENERAL REVENUES			2,023,877	759,375
		CHANGE IN NET POSITION			85,891	(26,427)
		NET POSITION, Beginning, As Restated			(628,285)	-
		NET POSITION, Ending			$ (542,394)	$ (26,427)

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, June 30, 2015, the Academy's General Fund reported an ending fund balance of $430,959.

General Fund Budgetary Highlights

The Academy approves a budget in March based on enrollment projections for the following school year. In October after enrollment stabilizes, adjustments are made to the budget. Enrollment for FY 15/16 is projected to increase by 200 students (400) due to the increase in size of the new campus.

Capital Asset and Debt Administration

Capital Assets. Addenbrooke Classical Academy's does not hold any capital as of June 30, 2015

Long-Term Lease Agreement

Addenbrooke Classical Academy was not committed to any long-term lease agreements during the 2014-2015 fiscal year.

Economic Factors and Next Year's Budget

Each year, the State Education Fund and a percentage of the marijuana excise tax provides an appropriation for Charter School and Institute Charter School Capital Construction. This funding can be used by the Charter School or Institute Charter School to pay for school construction, renovation, financing, or the purchasing or leasing of facilities. The purpose of this funding is to promote a safe and healthy learning environment for all Colorado students. This year, $22 million was appropriated, which equates to $255 per eligible FTE.

The cap on the state's Moral Obligation Program increased from $400 million to $500 million. This program enhances the credit of a "qualified charter school." A qualified charter school is one that has obtained an investment grade credit rating on a "stand-alone" basis. The enhancement enables these qualified schools to obtain even more favorable financing terms on their capital construction bonds. A buy-down of the negative factor was achieved, therefore increasing per-pupil funding to approximately $7109 for Jefferson County Public School District. This is an increase of approximately $260 per FTE or 3.8%.

Jefferson County Public Schools approved and allocated to Charter Schools an additional Mill Levy of approximately $273 per FTE for a total Mill Levy of $1,394 per FTE. This increase is additional funding for ACA of approximately $106,366.26.

Requests for Information

This financial report is designed to provide a general overview of the Addenbrooke Classical Academy's finances for all those with an interest in the Academy's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Addenbrooke Classical Academy, Attn: Charles Wright, Principal, 3940 S. Teller St., Lakewood, CO 80235.

BASIC FINANCIAL STATEMENTS

ADDENBROOKE CLASSICAL ACADEMY

STATEMENT OF NET POSITION
As of June 30, 2015

	Governmental Activities	
	2015	2014
ASSETS		
Cash and Investments	$ 448,073	$ 1,328
Restricted Cash and Investments	48,047	23,038
Accounts Receivable	5,124	-
TOTAL ASSETS	501,244	24,366
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	1,011,361	-
LIABILITIES		
Accounts Payable	1,622	9,723
Accrued Salaries	68,663	41,070
Noncurrent Liabilities		
Net Pension Liability	1,984,566	-
TOTAL LIABILITIES	2,054,851	50,793
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	148	-
NET POSITION		
Restricted for Emergencies	48,047	23,038
Unrestricted	(590,441)	(49,465)
TOTAL NET POSITION	$ (542,394)	$ (26,427)

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

ADDENBROOKE CLASSICAL ACADEMY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

		PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION	
					GOVERNMENTAL ACTIVITIES	
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2015	2014
PRIMARY GOVERNMENT						
Governmental Activities						
Instruction	$ 778,050	$ 42,878	$ 26,634	$ -	$ (708,538)	$ (442,120)
Supporting Services	1,266,100	-	-	36,652	(1,229,448)	(343,682)
Total Governmental Activities	$ 2,044,150	$ 42,878	$ 26,634	$ 36,652	(1,937,986)	(785,802)
GENERAL REVENUES						
Per Pupil Revenue					1,476,113	722,640
Mill Levy Override					241,575	21,966
Donations					286,898	5,755
Other					19,291	9,014
TOTAL GENERAL REVENUES					2,023,877	759,375
CHANGE IN NET POSITION					85,891	(26,427)
NET POSITION, Beginning, As Restated					(628,285)	-
NET POSITION, Ending					$ (542,394)	$ (26,427)

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

ADDENBROOKE CLASSICAL ACADEMY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	TOTAL GOVERNMENTAL FUNDS 2015	TOTAL GOVERNMENTAL FUNDS 2014
ASSETS		
Cash and Investments	$ 448,073	$ 1,328
Restricted Cash and Investments	48,047	23,038
Accounts Receivable	5,124	-
TOTAL ASSETS	$ 501,244	$ 24,366
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts Payable	$ 1,622	$ 9,723
Accrued Salaries	68,663	41,070
TOTAL LIABILITIES	70,285	50,793
FUND BALANCES		
Restricted for Emergencies	48,047	23,038
Restricted for Construction	269,276	-
Unassigned	113,636	(49,465)
TOTAL FUND BALANCE	430,959	(26,427)
Amounts reported for governmental activities in the statement of net position are different because:		
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 ($1,984,566), deferred outflows related to pensions of $1,011,361, and deferred inflows related to pensions of ($148).	(973,353)	-
	(542,394)	(26,427)

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

ADDENBROOKE CLASSICAL ACADEMY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2015

	TOTAL GOVERNMENTAL FUNDS	
	2015	2014
REVENUES		
Local Sources	$ 2,066,755	$ 769,323
State Sources	63,286	31,891
TOTAL REVENUES	2,130,041	801,214
EXPENDITURES		
Instruction	778,050	483,959
Supporting Services	894,605	343,682
TOTAL EXPENDITURES	1,672,655	827,641
NET CHANGE IN FUND BALANCE	457,386	(26,427)
FUND BALANCE, Beginning	(26,427)	-
FUND BALANCE, Ending	$ 430,959	$ (26,427)

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

ADDENBROOKE CLASSICAL ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Net Changes in Fund Balances - Total Governmental Funds	$	457,386
Deferred Charges related to pensions are not recognized in the governmental funds. However, for the government-wide funds those amounts are capitalized and amortized.		(371,495)
Change in Net Position of Governmental Activities	$	85,891

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

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

Addenbrooke Classical Academy (the "Academy") was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Jefferson County School District No. R-1 of the State of Colorado.

The accounting policies of the Academy conform to generally accepted accounting principles as applicable to governmental units. Following is a summary of the more significant policies.

Reporting Entity

The financial reporting entity consists of the Academy and organizations for which the Academy is financially accountable. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the Academy. In addition, any legally separate organizations for which the Academy is financially accountable are considered part of the reporting entity. Financial accountability exists if the Academy appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if the organization provides benefits to, or imposes financial burdens on the Academy.

Based upon the application of these criteria, no additional organizations are included in the Academy's reporting entity. However, the Academy is a component unit of Jefferson County School District No. R-1.

Government-Wide and Fund Financial Statements

The Academy financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

The 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.

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

Government-Wide and Fund Financial Statements (Continued)

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.

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 fund:

> *General Fund* – This fund is the general operating fund of the Academy. It is used to account for all financial resources.

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

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

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital Assets are depreciated using the straight line method over an estimated useful life of 30 years for the buildings and 10-15 years for equipment. The Academy has no capital assets as of June 30, 2015.

Unearned Revenues – The unearned revenues include amounts received but not yet available for expenditure.

Long-term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures. The Academy has no long-term debt as of June 30, 2015.

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

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

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

Net Investment in Capital Assets includes the Academy's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The Academy typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

Unrestricted Net Position typically includes unrestricted liquid assets. The Board has the authority to revisit or alter this designation.

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>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, 2015.

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

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

- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Academy would typically use restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned fund balance.

Compensated Absences

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

Risk Management

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

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

Budgets and Budgetary Accounting

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

Academy management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July1. 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 yearend.

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

Cash and investment consist of the following:

Pooled Cash with the District	$ 495,620
Petty Cash	500
Total Cash and Investments	**$ 496,120**

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, 2015, State regulatory commissioners have indicated that all financial institutions holding deposits for the Academy are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group.

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

The Academy has no deposits as of June 30, 2015.

Pooled Cash with the District

Cash deposits are pooled with the District cash and investments which were held by several banking institutions. Pooled investments represent investments in local government investment pools or in money market funds. At June 30, 2015 the Academy's balance in equity in both restricted and unrestricted pooled cash of the District totaled $495,620.

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 had no investments as of June 30, 2015.

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

Restricted Cash and Investments

Cash and Investments of $48,047 are restricted in the General Fund as an emergency reserve related to the TABOR amendment.

NOTE 4: **ACCRUED SALARIES AND BENEFITS**

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from August to July, but are earned during a school year of nine months. The salaries and benefits earned, but unpaid, as of June 30, 2015, were $68,663 in the General Fund.

NOTE 5: ***DEFINED BENEFIT PENSION PLAN***

Summary of Significant Accounting Policies

Pensions. The School 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 employees of the School 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.

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.

NOTE 5: ***<u>DEFINED BENEFIT PENSION PLAN</u>*** (Continued)

General Information about the Pension Plan (Continued)

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

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

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

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

NOTE 5: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

General Information about the Pension Plan (Continued)

	For the Year Ended December 31, 2014	For the Year Ended December 31, 2015
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]	3.80%	4.20%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 [1]	3.50%	4.00%
Total Employer Contribution Rate to the SCHDTF[1]	16.43%	17.33%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF School were $437,459 for the year ended June 30, 2015.

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

At June 30, 2015 the School reported a liability of $1,984,566 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013. Standard update procedures were used to roll forward the total pension liability to December 31, 2014. The School proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2014 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2014, the School proportion was .01464%, which was an increase of 0.009798% from its proportion measured as of December 31, 2013.

NOTE 5: ***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, 2015 the School recognized pension expense of $525,751. At June 30, 2015, the School 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	N/A	$148
Net difference between projected and actual earnings on pension plan investments	$45,639	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	$911,981	N/A
Contributions subsequent to the measurement date	$53,741	N/A
Total	$1,011,361	$148

$53,741 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, 2016. 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, 2015	
2016	$349,126
2017	$349,126
2018	$247,811
2019	$ 11,705

NOTE 5: *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, 2013 actuarial valuation was determined using the following actuarial assumptions and other inputs:

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
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00 percent
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years.

The actuarial assumptions used in the December 31, 2013 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.

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

NOTE 5: ***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 most recent analysis of the long-term expected rate of return, presented to the PERA Board on November 15, 2013, 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**	**10 Year Expected Geometric Real Rate of Return**
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

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

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the fixed statutory rates specified in law, including current and future AED and SAED, until the Actuarial Value Funding Ratio reaches 103 percent, at which point, the AED and SAED will each drop 0.50 percent every year until they are zero. Based on those assumptions, the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

NOTE 5: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	$2,616,832	$1,984,566	$1,455,349

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 School 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.

NOTE 5: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

Other Post-Employment Benefits (Continued)

Funding Policy – The School 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 School are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2014, and 2015, the School's employer contributions to the HCTF were $4,462 and $8,790, respectively, equal to their required contributions for each year.

NOTE 6: ***COMMITMENTS AND CONTINGENCIES***

Claims and Judgments

The Academy participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Academy may be required to reimburse the grantor government. As of June 30, 2015, 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, 2015, the reserve of $48,047 was recorded as a restriction of fund balance in the General Fund. The District also holds $48,047 in pooled cash on behalf of the Academy for this reserve.

NOTE 7: ***RESTATEMENT OF NET POSITION***

The beginning net position of the governmental activities was decreased by $601,858 to ($628,285) as the School implemented Governmental Accounting Standards Board (GASB) Statement 68.

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

The net position of the governmental activities is in a deficit position of $542,394 due to the School including its Net Pension Liability per the requirements of GASB Statement No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

ADDENBROOKE CLASSICAL ACADEMY

GENERAL FUND
BUDGETARY COMPARISON STATEMENT
Year Ended June 30, 2015

	2015				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)	2014 ACTUAL
REVENUES					
Local Sources					
Per Pupil Operating Revenue	$ 1,436,877	$ 1,476,616	$ 1,476,113	$ (503)	$ 722,640
Mill Levy Override	235,410	241,576	241,575	(1)	21,966
Charges for Services	11,500	34,500	42,878	8,378	9,948
Donations	-	-	286,898	286,898	5,755
Other	5,000	5,000	19,291	14,291	9,014
State Sources					
Grants and Donations	25,060	46,357	63,286	16,929	31,891
TOTAL REVENUES	1,713,847	1,804,049	2,130,041	325,992	801,214
EXPENDITURES					
Salaries	859,040	932,900	895,457	37,443	488,621
Employee Benefits	244,363	235,352	203,212	32,140	115,042
Purchased Services	475,976	483,885	530,589	(46,704)	95,284
Supplies and Materials	63,880	67,693	39,555	28,138	128,094
Other	-	-	3,842	(3,842)	600
TOTAL EXPENDITURES	1,643,259	1,719,830	1,672,655	47,175	827,641
NET CHANGE IN FUND BALANCE	70,588	84,219	457,386	373,167	(26,427)
FUND BALANCE, Beginning	(26,427)	(26,427)	(26,427)	-	-
FUND BALANCE, Ending	$ 44,161	$ 57,792	$ 430,959	$ 373,167	$ (26,427)

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

ADDENBROOKE CLASSICAL ACADEMY

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

Years Ended December 31,
(School Division Trust Fund Measurement Date)

	2013	2014
School's proportionate share of the Net Pension Liability	0.005%	0.015%
School's proportionate share of the Net Pension Liability	$ 617,909	$ 1,984,566
School's covered-employee payroll	$ 198,232	$ 632,472
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	311.7%	313.8%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%

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

ADDENBROOKE CLASSICAL ACADEMY

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

Years Ended June 30,

	2014	2015
Statutorily required contributions	$ 75,574	$ 154,256
Contributions in relation to the Statutorily required contributions	75,574	154,256
Contribution deficiency (excess)	$ -	$ -
School's covered-employee payroll	$ 444,555	$ 861,766
Contributions as a percentage of covered-employee payroll	17.00%	17.90%

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