

HERITAGE HEIGHTS ACADEMY
BASIC FINANCIAL STATEMENTS
June 30, 2017

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FINANCIAL SECTION



JOHN CUTLER & ASSOCIATES

Board of Directors
Heritage Heights Academy
Centennial, 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 Heritage Heights Academy (the "Academy"), component unit of the Cherry Creek School District No. 5 of Arapahoe County, Colorado, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Academy, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Heritage Heights Academy, as of June 30, 2017, 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 28-30 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

September 14, 2017

Heritage Heights Academy

Management's Discussion and Analysis

As of and for the Year Ended June 30, 2017

As management of Heritage Heights Academy (the School), we offer readers of the School's basic financial statements this narrative and analysis of the financial activities of the School as of and for the year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information provided in the basic financial statements.

Financial Highlights

The year ended June 30, 2017, was the first year of operations for the School. As of June 30, 2017, the net position was (\$773,604). The operations of the School are funded primarily by tax revenue received under the State School Finance Act (the Act). State categorical revenue for the year was \$1,037,816. The General Fund ending fund balance was \$40,044 at June 30, 2017.

Overview of Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The basic 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 School's finances in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the School's net position changed during the 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 the related cash flows. Thus, revenue 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 year end).

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other local governments, uses fund accounting 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. The School maintains one governmental fund, its General Fund.

The School adopts annual budgets for its fund. Budgetary comparisons have been provided for the General Fund in the basic financial statements to demonstrate compliance with the budget.

Heritage Heights Academy
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2017

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes are disclosed on pages 6 through 27.

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the School's financial condition. As of June 30, 2017, the School's liabilities and deferred inflows exceeded assets and deferred outflows by \$773,604. \$47,000 of this total is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. Accordingly, these funds are not available to satisfy general operating expenses of the School. The unrestricted net position balance was a negative (\$820,604).

Net position as of June 30, 2017 is as follows:

	June 30, 2017
Assets	
Cash and Investments	\$ 26,372
Accounts Receivable	1,435
Deposits	47,333
Total Assets	75,140
Deferred Outflows – Pensions	3,089,394
Liabilities	
Accounts Payable	17,998
Accrued Expenses	3,137
Unearned Revenue	13,961
Noncurrent Liability – Net Pension Liability	3,885,486
Total Liabilities	3,920,582
Deferred Inflows – Pensions	17,556
Net Position	
Restricted for Emergencies	47,000
Unrestricted	(820,604)
Total Net Position	\$ (773,604)

Heritage Heights Academy
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2017

Change in net position for the year ended June 30, 2017 is as follows:

	June 30,2017
Revenues	
Program Revenues	
Operating Grants and Contributions	\$ 307,649
Charges for Services	68,433
Total Program Revenues	376,082
General Revenues	
State Categorical Revenue	1,037,816
Mill Levy Override	146,901
Unrestricted Grants and Contributions	38,872
Other	737
Total General Revenues	1,224,326
Total Revenues	1,600,408
Expenditures/Expenses	
Current	
Instruction	1,347,675
Support Services	1,026,337
Total Expenses	2,374,012
Increase in Net Position	(773,604)
Net Position, Beginning of Year	-
Net Position, End of Year	\$ (773,604)

Financial Analysis of the School's Funds

The School has one governmental fund, the General Fund. The General Fund is considered a major fund and is used to account for the School's general operations. The General Fund began the year with no fund balance. As a result of operating within its budget, the General Fund ending fund balance increased to \$40,044 at year-end.

Heritage Heights Academy

Management's Discussion and Analysis

As of and for the Year Ended June 30, 2017

General Fund Budgetary Highlights

The School's final General Fund budgeted expenditures were \$1,717,167 for the year ended June 30, 2017. Actual expenditures were \$1,560,364. The positive variance of \$156,803 was planned and partly due to the lower than projected student enrollment.

A budget amendment was approved for the year as the School needed to reduce its overall appropriation level.

Capital Assets and Debt Administration

The School leased its school facility and land under an operating lease with The Edge Church that expired June 30, 2017. The School has signed a new two year lease for facilities with The Smoky Hill Vineyard Church. The School has a four year equipment lease with Zions Credit Corporation. Monthly payments are \$4,782.32 and continue through December, 2020.

The School had no outstanding debt at June 30, 2017.

Economic Factors, Next Year's Budget, Student Counts

The primary factor driving the budget for the School is student enrollment. Funded Pupil Count (FPC) was 140.5 for FY17. The FPC used to create the FY18 budget was 243.5. Currently the School is projecting 255 enrolled students.

The State of Colorado continues to chip away at the large negative factor (shortfall in the School Finance Act). The Per Pupil Revenue (PPR) for FY18 will grow an approximately 3.3%. Additional support in the form of capital construction funding, mil levy revenue, grants and private contributions will continue and allow the School to drive more resources into the classroom.

Requests for Information

The financial report is designed to provide a general overview of the School's finances for those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Heritage Heights Academy, 20050 E. Smoky Hill Road, Centennial, Colorado 80015.

BASIC FINANCIAL STATEMENTS

HERITAGE HEIGHTS ACADEMY

STATEMENT OF NET POSITION

June 30, 2017

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash and Investments	\$ 26,372
Accounts Receivable	1,435
Deposits	<u>47,333</u>
TOTAL ASSETS	<u>75,140</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to Pensions	<u>3,089,394</u>
LIABILITIES	
Accounts Payable	17,998
Accrued Expenses	3,137
Unearned Revenue	13,961
Noncurrent Liabilities	
Pension Liability	<u>3,885,486</u>
TOTAL LIABILITIES	<u>3,920,582</u>
DEFERRED INFLOWS OF RESOURCES	
Related to Pensions	<u>17,556</u>
NET POSITION	
Restricted for Emergencies	47,000
Unrestricted	<u>(820,604)</u>
TOTAL NET POSITION	<u>\$ (773,604)</u>

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

HERITAGE HEIGHTS ACADEMY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			Net Expense (Revenue) and Change in Net Position Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Instruction	\$ 1,347,675	\$ -	\$ -	\$ -
Supporting Services	1,026,337	68,433	307,649	38,872
Total Governmental Activities	<u>\$ 2,374,012</u>	<u>\$ 68,433</u>	<u>\$ 307,649</u>	<u>\$ 38,872</u>
		GENERAL REVENUES		
			Per Pupil Revenue	1,037,816
			Mill Levy Override	146,901
			Other Revenues	737
			TOTAL GENERAL REVENUES	<u>1,185,454</u>
			CHANGE IN NET POSITION	(773,604)
			NET POSITION Beginning	<u>-</u>
			NET POSITION Ending	<u>\$ (773,604)</u>

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

HERITAGE HEIGHTS ACADEMY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	<u>GENERAL FUND</u>
ASSETS	
Cash and Investments	\$ 26,372
Accounts Receivable	1,435
Deposits	<u>47,333</u>
TOTAL ASSETS	<u>\$ 75,140</u>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts Payable	\$ 17,998
Accrued Expenses	3,137
Unearned Revenue	<u>13,961</u>
TOTAL LIABILITIES	<u>35,096</u>
FUND BALANCES	
Nonspendable	47,333
Restricted for Emergencies	47,000
Unassigned	<u>(54,289)</u>
TOTAL FUND BALANCES	40,044
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 (\$3,885,486), deferred outflows related to pensions \$3,089,394, and deferred inflows related to pensions (\$17,556).	<u>(813,648)</u>
Net position of governmental activities	<u>\$ (773,604)</u>

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

HERITAGE HEIGHTS ACADEMY

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

	<u>GENERAL FUND</u>
REVENUES	
Local Sources	\$ 1,545,541
State and Federal Sources	<u>54,867</u>
TOTAL REVENUES	<u>1,600,408</u>
EXPENDITURES	
Current	
Instruction	741,228
Supporting Services	<u>819,136</u>
TOTAL EXPENDITURES	<u>1,560,364</u>
NET CHANGE IN FUND BALANCES	40,044
FUND BALANCES, Beginning	<u>-</u>
FUND BALANCES, Ending	<u><u>\$ 40,044</u></u>

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

HERITAGE HEIGHTS ACADEMY

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

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

Net change in fund balances - total governmental funds	\$ 40,044
Deferred Charges related to pensions are not recognized in the governmental funds. However, in the government-wide statements these amounts are capitalized and amortized.	<u>(813,648)</u>
Change in net position of governmental activities	<u>\$ (773,604)</u>

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

HERITAGE HEIGHTS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Heritage Heights Academy (the “Academy”) was organized in May of 2016 pursuant to the Colorado Charter Schools Act to form and operate a Charter School within the Cherry Creek School District (the “District”) in the State of Colorado.

The 2016-2017 school year was the Academy’s first year of operations.

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 on the application of these criteria, the Academy does not include additional organizations in its reporting entity.

The Academy is a component unit of the Cherry Creek School District.

Government-Wide and Fund Financial Statements

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

HERITAGE HEIGHTS ACADEMY
NOTES TO THE 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 intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

HERITAGE HEIGHTS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 except those required to be accounted for in another fund.

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

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 and Deposits – Certain payments to vendors reflects costs applicable to future periods and are recorded as either prepaid expenses or deposits. As of June 30, 2017, the Academy reports \$47,333 in deposits related to the Academy's facility lease agreements.

HERITAGE HEIGHTS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Assets – Capital assets, which include leasehold improvements, 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 \$5000 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 acquisition value at the date of donation.

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

For the year ended June 30, 2017 the Academy does not report any capital assets.

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 are deferred and amortized over the life of the bonds using the straight-line method. Issuance costs are recognized in the current year. 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.

For the year ended June 30, 2017, the Academy does not report any long-term debt.

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

HERITAGE HEIGHTS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- Nonspendable – This classification includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The Academy reports deposits as nonspendable at June 30, 2017.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Academy has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Academy did not have any committed resources as of June 30, 2017.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

HERITAGE HEIGHTS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

The Academy's policy allows employees to accumulate sick and vacation leave. Employees are not compensated for any unused paid time off. Therefore, no liability for accumulated sick leave is reported in the financial statements.

Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Academy carries commercial coverage for these risks of loss. Settled claims have not exceeded amounts 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. No budget is adopted for the Corporation.

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

HERITAGE HEIGHTS ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 3: CASH AND INVESTMENTS

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2017, State regulatory commissioners have indicated that all financial institutions holding deposits for the Academy are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group.

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

At June 30, 2017, the Academy had deposits with financial institutions with a carrying amount of \$26,372. The bank balances with the financial institutions were \$29,725. All of these balances were covered by federal depository insurance.

Investments

Interest Rate Risk

The Academy has not adopted a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Academy follows State Statute.

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

HERITAGE HEIGHTS ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

It is the Academy's policy to follow Colorado State statutes guidelines for managing credit risk or interest rate risk.

The Academy has no investments as of June 30, 2017.

NOTE 4: DEFINED BENEFIT PENSION PLAN

Defined Benefit Pension Plan

Summary of Significant Accounting Policies

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

General Information about the Pension Plan

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

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

HERITAGE HEIGHTS ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: **DEFINED BENEFIT PENSION PLAN** (Continued)

General Information about the Pension Plan (Continued)

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

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100 percent match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

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

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

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year.

HERITAGE HEIGHTS ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA’s Annual Increase Reserve (AIR) for the SCHDTF.

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

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

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

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2017
Employer contribution rate ¹	10.15%	10.15%
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹	(1.02)%	(1.02)%
Amount apportioned to the SCHDTF ¹	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	4.50%	5.00%
Total employer contribution rate to the SCHDTF¹	18.13%	18.63%

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

HERITAGE HEIGHTS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 4: **DEFINED BENEFIT PENSION PLAN** (Continued)

General Information about the Pension Plan (Continued)

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the Academy were \$108,705 for the year ended June 30, 2017.

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

At June 30, 2017 the Academy reported a liability of \$3,885,486 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll-forward the total pension liability to December 31, 2016. The Academy's proportion of the net pension liability was based on the Academy's contributions to the SCHDTF for the calendar year 2016 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2016, the Academy proportion was 0.01304 percent, which increase of 0.01304 percent from its proportion measured as of December 31, 2015.

HERITAGE HEIGHTS ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)

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

For the year ended June 30, 2017 the Academy recognized pension expense of \$813,648. 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>
Difference between expected and actual experience	\$ 48,575	\$ 34
Changes of assumptions or other inputs	\$1,597,519	\$17,522
Net difference between projected and actual earnings on pension plan investments	\$ 129,923	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$1,260,759	N/A
Contributions subsequent to the measurement date	\$ 52,618	N/A
Total	\$3,089,394	\$17,556

\$52,618 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2018	\$ 967,380
2019	\$ 967,667
2020	\$ 680,510
2021	\$ 399,680
2022	\$ 3,983

HERITAGE HEIGHTS ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.70 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	5.26 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

HERITAGE HEIGHTS ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)

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

Mortality rates used in the December 31, 2015 valuation were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back 2 years for males and set back 2 years for females) was assumed.

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

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

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

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

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

HERITAGE HEIGHTS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 4: **DEFINED BENEFIT PENSION PLAN** (Continued)

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

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

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

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

Several factors were considered in evaluating the long-term rate of return assumption for the SCHDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

HERITAGE HEIGHTS ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

HERITAGE HEIGHTS ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)

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

Discount rate. The discount rate used to measure the total pension liability was 5.26 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

Updated economic and demographic actuarial assumptions adopted by PERA's Board on November 18, 2016.

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the Actuarial Value Funding Ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

HERITAGE HEIGHTS ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

HERITAGE HEIGHTS ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 4: DEFINED BENEFIT PENSION PLAN (Continued)

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

Sensitivity of the Academy's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 5.26 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.26 percent) or 1-percentage-point higher (6.26 percent) than the current rate:

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	\$4,885,874	\$3,885,486	\$3,070,706

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

Other Post-Employment Benefits

Health Care Trust Fund

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

HERITAGE HEIGHTS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 4: **DEFINED BENEFIT PENSION PLAN** (Continued)

Other Post-Employment Benefits (Continued)

Funding Policy – The Academy is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Academy are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the year ending June 30, 2017 contributions to the HCTF was \$5,716, equal to their required contributions for each year.

NOTE 5: **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, 2017, significant amounts of grant expenditures have not been audited, but the Academy believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Academy.

Academica Colorado LLC Service Agreement

In August 2016, the Academy entered into a charter school services and support agreement with Academica Colorado, LLC (“Academica”). Under the terms of the agreement, Academica would provide professional services and support to the Academy, including record keeping, payroll services, purchasing, financial and other administration services. The base fee for this support was \$450 per student to be paid in monthly installments. The Academy was also responsible for reimbursing Academica for costs incurred by Academica on behalf of the Academy. The initial term of the agreement was to expire on July 31, 2017.

During the year ended June 30, 2017, the Academy did not make any payments to Academica for administrative services.

In November 2016, the Academy and Academica agreed to terminate the service agreement. At that time, the Academy showed an amount owed to Academica of \$276,686 which was subsequently forgiven by Academica. This amount is recorded as donation revenue on the Academy’s General Fund budgetary schedule for the year ended June 30, 2017.

HERITAGE HEIGHTS ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 5: **COMMITMENTS AND CONTINGENCIES** (Continued)

Building Lease Agreements

The Edge Church

In May 2016, the Academy entered into a lease agreement with The Edge Church for its educational facilities. The initial lease term commenced on July 1, 2016 through June 30, 2016. The total amount of the lease was \$170,000, payable in monthly installments. In addition to the monthly lease payment, the Academy also agreed to pay common operational expenses of \$41,000, also payable in monthly installments.

The Academy did not renew the lease agreement with The Edge Church. For the year ended June 30, 2017, the Academy paid \$272,674 to The Edge Church in rent, rent deposit, operational expenses, and other fees under the terms of the lease agreement.

Smoky Hill Vineyard Church

In February 2017, the Academy entered into a lease agreement with Smoky Hill Vineyard Church for its educational facilities. The initial lease commenced on June 15, 2017 and will end on June 30, 2018. The Academy has the option to extend the lease term for up to two consecutive one year periods. Under the terms of the lease agreement, the Academy will pay \$231,000, payable in 11 installments of \$21,000 beginning in July 2017.

For the year ended June 30, 2017, the Academy paid \$21,000 in rent deposits under the terms of the lease agreement.

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The Academy believes it has complied with the Amendment.

As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2017, the reserve of \$47,000 was recorded as a reservation of fund balance in the General Fund.

HERITAGE HEIGHTS ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: DEFICIT NET POSITION

The net position of the governmental activities is in a deficit position of \$773,604 due to the Academy including its Net Pension Liability per the requirements of GASB Statement No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

HERITAGE HEIGHTS 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	\$ 1,549,266	\$ 1,037,312	\$ 1,037,816	\$ 504
Mill Levy Revenue	170,624	146,901	146,901	-
Tuition and Fees	59,620	94,223	68,433	(25,790)
Grants and Donations	-	399,808	291,654	(108,154)
Other	-	149	737	588
State and Federal Sources				
State and Federal Grants	75,314	38,774	54,867	16,093
TOTAL REVENUES	<u>1,854,824</u>	<u>1,717,167</u>	<u>1,600,408</u>	<u>(116,759)</u>
EXPENDITURES				
General Government				
Instruction				
Salaries	577,200	442,837	445,080	(2,243)
Employee Benefits	195,501	128,934	114,532	14,402
Purchased Services	209,746	118,775	157,722	(38,947)
Supplies and Materials	30,450	6,750	21,568	(14,818)
Property	-	26,103	2,326	23,777
Other	-	-	-	-
Total Instruction	<u>1,012,897</u>	<u>723,399</u>	<u>741,228</u>	<u>(17,829)</u>
Supporting Services				
Salaries	167,000	173,832	152,068	21,764
Employee Benefits	56,564	55,248	38,984	16,264
Purchased Services	387,123	526,411	545,424	(19,013)
Supplies and Materials	42,500	105,382	14,264	91,118
Property	13,050	70,500	66,264	4,236
Other	175,690	62,395	2,132	60,263
Total Supporting Services	<u>841,927</u>	<u>993,768</u>	<u>819,136</u>	<u>174,632</u>
TOTAL EXPENDITURES	<u>1,854,824</u>	<u>1,717,167</u>	<u>1,560,364</u>	<u>156,803</u>
NET CHANGE IN FUND BALANCE	-	-	40,044	40,044
FUND BALANCE, Beginning	-	-	-	-
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,044</u>	<u>\$ 40,044</u>

See the accompanying independent auditors' report.

HERITAGE HEIGHTS ACADEMY

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

Years Ended December 31,

	<u>2016</u>
School's proportionate share of the Net Pension Liability	0.0013%
School's proportionate share of the Net Pension Liability	\$ 3,885,486
School's covered-employee payroll	\$ 292,892
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	7.5%
Plan fiduciary net position as a percentage of the total pension liability	43.1%

Notes:

This schedule is reported as of December 31, as that is the plan year end.

This schedule will report ten years of data when it is available.

See the accompanying independent auditors' report.

HERITAGE HEIGHTS ACADEMY
SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DIVISION TRUST FUND

Years Ended June 30,

	<u>2017</u>
Statutorily required contributions	\$ 108,705
Contributions in relation to the Statutorily required contributions	<u>108,705</u>
Contribution deficiency (excess)	<u>\$ -</u>
School's covered-employee payroll	\$ 560,367
Contributions as a percentage of covered-employee payroll	19.40%

Notes:

This schedule will report ten years of data when it is available.

See the accompanying independent auditors' report.