

FRONTIER ACADEMY
Greeley, Colorado

FINANCIAL STATEMENTS
June 30, 2016

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	i
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet – Governmental Funds	3
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	4
Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds to the Statement of Activities	6
Statement of Fiduciary Net Position	7
Notes to Basic Financial Statements	8
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – General Fund	24
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – Frontier Academy Facilities Corporation	25
Schedule of the School's Proportionate Share of the Net Pension Liability	26
Schedule of Contributions and Related Ratios	27
Notes to Required Supplementary Information	28
SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual – Frontier Academy Foundation	29



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Frontier Academy
Greeley, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Frontier Academy, a component unit of Weld County School District 6, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Frontier Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and aggregate remaining fund information of Frontier Academy as of June 30, 2016, and the respective changes in financial position 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 on pages iii - vii, the budgetary comparison information on pages 24 - 25, and the pension schedules on pages 26 - 27 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Frontier Academy's basic financial statements. The budgetary comparison information for the Frontier Academy Foundation is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



CliftonLarsonAllen LLP

Broomfield, Colorado
September 30, 2016

Frontier Academy
An authorized charter school of Weld County School District 6
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016

This section of the financial report is a required component of the annual audit for governmental organizations and is intended to help explain the financial activity for the fiscal year ended June 30, 2016 through a brief narrative overview and analysis of financial statements. All interested persons are encouraged to read this report and to review the financial statements in conjunction with the descriptions of activity as highlighted below.

Financial Highlights

- For fiscal year 2016, Frontier Academy (the School) experienced a decrease of \$65,260 in net position.
- Total unrestricted cash and investments were \$2,502,376 at June 30, 2016, as compared to \$1,852,160 at June 30, 2015.

The School did not exceed its operating budget for the General Fund realizing over 100% of budgeted revenues while spending 99% of budgeted expenditures.

Overview of Financial Statements

This report generally follows the guidelines as set forth by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This rule was intended to help make reports easier to understand for oversight bodies, in particular the Weld County School District 6 Board of Education and the general public. The report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements which provide additional and more detailed information. Included as Required Supplementary Information is budget-to-actual information related to the School's General Fund and the Frontier Academy Facilities Corporation, a blended component unit, and pension schedules as required under GASB Statement No. 68.

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 of the School's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the four reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

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

The government-wide financial statements include not only the School itself (known as the *primary government*), but also the component unit of the School. The Frontier Academy Facilities Corporation (the Facility Corporation), although also legally separate, functions, for all practical purposes, as a department of the School, and therefore has been included as an integral part of the primary government.

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 School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The School reports three funds, the general fund and two special revenue funds (the Facility Corporation and the Foundation Fund), all governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the School's near-term financing requirements.

Because the focus of the 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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The School adopts an annual appropriated budget for its general fund, its Facility Corporation fund, and its Frontier Academy Foundation fund. A budgetary comparison statement has been provided for these funds.

The basic governmental fund financial statements can be found on pages 3-7 of this report.

Notes to financial statements. The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 8 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position.

Table A-1
Comparative Summary of Statement of Net Position

	<u>2016</u>	<u>2015</u>
Assets:		
Current Assets	\$ 2,588,925	\$ 1,921,861
Noncurrent Assets	12,154,061	12,394,326
Total assets	<u>14,742,986</u>	<u>14,316,187</u>
Deferred outflows of resources	<u>3,490,298</u>	<u>1,816,353</u>
Liabilities:		
Current Liabilities	1,175,342	1,152,267
Noncurrent Liabilities	11,975,000	12,590,000
Net pension liability	16,564,229	14,040,133
Total liabilities	<u>29,714,571</u>	<u>27,782,400</u>
Deferred inflows of resources	234,742	1,048
Net position:		
Net investment in capital assets	(1,169,105)	(2,306,614)
Restricted	1,835,976	1,845,185
Unrestricted	(12,382,900)	(11,189,340)
Total net position	<u>\$ (11,716,029)</u>	<u>\$ (11,650,769)</u>

Table A-2
Comparative Schedule of Revenues, Expenses,
and Changes in Net Position

	<u>2016</u>	<u>2015</u>
Program revenues:		
Charges for services	\$ 285,216	\$ 329,011
Operating grants	661,699	589,887
Capital grants	414,971	244,018
General revenues:		
Per pupil funding	10,447,459	9,739,522
Interest income	1,414	1,669
Other revenue	370,735	124,316
Total revenues	<u>12,181,494</u>	<u>11,028,423</u>
Expenses:		
Instruction	7,805,039	7,420,263
Support services	3,852,621	2,729,218
Interest on long-term debt	589,094	623,272
Total expenses	<u>12,246,754</u>	<u>10,772,753</u>
Change in net position	(65,260)	255,670
Net position - beginning	<u>(11,650,769)</u>	<u>(11,906,439)</u>
Net position - ending	<u>\$ (11,716,029)</u>	<u>\$ (11,650,769)</u>

The 2016 Comparative Schedule of Revenues, Expenses and Changes in Net Position reflects some growth due addition of a 5th track of fifth grade and a larger Senior class. Instruction and support services primarily increased because staff received an increase in pay for the year. There were not any abnormal expenses.

General Fund

The general fund is used to capture all operating activities of the School. As of the end of the current fiscal year, the School's general fund reported an ending fund balance of \$2,071,110, an increase of \$672,535. Of this balance, approximately 17% is *restricted* to indicate that it is not available for spending primarily because it is required to be maintained to comply with the TABOR amendment. An additional 4% is *nonspendable* as it represents amounts which have already been spent to benefit future periods.

General Fund Budgetary Highlights

The 2016 final fiscal year budget was adopted in June 2016. Actual revenue exceeded budgeted revenue. Expenditures were less than budgeted.

Capital Asset and Debt Administration

Capital assets. The School's capital assets as of June 30, 2016, amount to \$10,627,920. The capital assets include land, buildings and building improvements, furniture and equipment. The total net decrease in School capital assets was \$240,466 (2.2%) as a result of depreciation charges in excess of acquiring additional equipment and additional building improvements.

Additional information on the School's capital assets can be found in note 3 on page 14 of this report.

Long-term debt. The Facility Corporation carries total bonded debt outstanding of \$12,590,000. The \$12,590,000 represents Series 2006 Charter School Revenue Refunding Bonds. Additional information on long-term debt can be found in note 4 on page 14 of this report.

Economic Factors and Next Year's Budgets

State funding is again expected to increase for the 2017 school year. The school is anticipating stable enrollment, increased salary and benefit costs and expects increased materials and utility costs. All will impact 2017 fiscal plans and operations. The initial budget projects a surplus for the 2017 year.

Requests for Information

This financial report is designed to provide a general overview of the School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the School Administration or Executive Committee Officers.

BASIC FINANCIAL STATEMENTS

FRONTIER ACADEMY
STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities
ASSETS	
Cash	\$ 2,502,376
Restricted cash and investments	1,526,141
Prepaid items	71,120
Inventory	15,429
Capital assets, not being depreciated	1,398,334
Capital assets, depreciated, net of accumulated depreciation	9,229,586
TOTAL ASSETS	14,742,986
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charges on bond refunding	792,975
Contributions subsequent to measurement date	457,666
Change in investment earnings	1,397,410
Change in experience	218,733
Change in proportionate share	623,514
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,490,298
LIABILITIES	
Accounts payable and accrued expenses	54,732
Accrued salaries and benefits	449,005
Accrued interest	46,755
Unearned revenue	9,850
Noncurrent liabilities	
Due within one year	615,000
Due in more than one year	11,975,000
Net pension liability	16,564,229
TOTAL LIABILITIES	29,714,571
DEFERRED INFLOWS OF RESOURCES	
Change in assumptions	234,082
Change in experience	660
TOTAL DEFERRED INFLOWS OF RESOURCES	234,742
NET POSITION	
Net investment in capital assets	(1,169,105)
Restricted for:	
Emergencies	356,590
Debt service	1,229,363
Repair and Maintenance	250,023
Unrestricted	(12,382,900)
TOTAL NET POSITION	\$ (11,716,029)

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

FRONTIER ACADEMY
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2016

	General	Facility Corporation	(Nonmajor) Foundation Fund	Total
ASSETS				
Cash	\$ 2,498,148	\$ -	\$ 4,228	\$ 2,502,376
Restricted cash and investments	-	1,526,141	-	1,526,141
Prepaid expense	71,120	-	-	71,120
Inventory	15,429	-	-	15,429
TOTAL ASSETS	\$ 2,584,697	\$ 1,526,141	\$ 4,228	\$ 4,115,066
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ 54,732	\$ -	\$ -	\$ 54,732
Accrued salaries and benefits	449,005	-	-	449,005
Unearned revenue	9,850	-	-	9,850
TOTAL LIABILITIES	513,587	-	-	513,587
FUND BALANCES				
Nonspendable	86,549	-	-	86,549
Restricted	356,590	1,526,141	-	1,882,731
Assigned	-	-	4,228	4,228
Unassigned	1,627,971	-	-	1,627,971
TOTAL FUND BALANCES	2,071,110	1,526,141	4,228	3,601,479
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,584,697	\$ 1,526,141	\$ 4,228	\$ 4,115,066

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

**FRONTIER ACADEMY
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2016**

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balance - governmental funds	\$	3,601,479
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$15,945,515 and accumulated depreciation is \$5,317,595.		10,627,920
Deferred loss on refunding, net of accumulated amortization		792,975
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds payable	(12,590,000)	
Accrued interest on bonds payable	(46,755)	
Net pension liability	(16,564,229)	(29,200,984)
Deferred outflows of resources used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Contributions subsequent to measurement date	457,666	
Change in investment earnings	1,397,410	
Change in experience	218,733	
Change in proportionate share	623,514	2,697,323
Deferred inflows of resources used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Change in assumptions	(234,082)	
Change in experience	(660)	(234,742)
 Total net position	 \$	 <u><u>(11,716,029)</u></u>

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

FRONTIER ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2016

	General Fund	Facility Corporation	(Nonmajor) Foundation Fund	Total
REVENUES				
Per pupil funding	\$ 10,447,459	\$ -	\$ -	\$ 10,447,459
Local sources	919,122	-	59,314	978,436
Rental income	-	1,176,825	-	1,176,825
State and federal sources	752,394	-	-	752,394
Other income	1,791	-	-	1,791
Interest income	1,230	184	-	1,414
TOTAL REVENUES	<u>12,121,996</u>	<u>1,177,009</u>	<u>59,314</u>	<u>13,358,319</u>
EXPENDITURES				
Current:				
Instruction	6,774,059	-	-	6,774,059
Support services	4,528,379	44,561	20,951	4,593,891
Capital outlay	142,224	-	-	142,224
Debt service				
Principal	-	585,000	-	585,000
Interest	-	590,313	-	590,313
TOTAL EXPENDITURES	<u>11,444,662</u>	<u>1,219,874</u>	<u>20,951</u>	<u>12,685,487</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>677,334</u>	<u>(42,865)</u>	<u>38,363</u>	<u>672,832</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	38,312	43,111	-	81,423
Transfers out	(43,111)	(184)	(38,128)	(81,423)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(4,799)</u>	<u>42,927</u>	<u>(38,128)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	672,535	62	235	672,832
FUND BALANCE, Beginning	<u>1,398,575</u>	<u>1,526,079</u>	<u>3,993</u>	<u>2,928,647</u>
FUND BALANCE, Ending	<u>\$ 2,071,110</u>	<u>\$ 1,526,141</u>	<u>\$ 4,228</u>	<u>\$ 3,601,479</u>

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

FRONTIER 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, 2016

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

Net change in fund balance - governmental funds	\$	672,832
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$382,690) exceeded capital outlay \$142,224.</p>		
		(240,466)
<p>Governmental funds report the effect of deferred outflows of resources from debt refundings when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>		
Loss on refunding		(52,865)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>		
Bond principal		585,000
<p>Interest is paid when due in the governmental funds but recorded when payable in the statement of activities</p>		
		1,219
<p>Some items reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. The (increases) decreases in these activities consist of:</p>		
Change in contributions subsequent to measurement date	64,702	
Pension expense	(1,095,682)	(1,030,980)
Change in net position	\$	(65,260)

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

FRONTIER ACADEMY
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2016

	<u>Student Activity</u>
Assets	
Cash and investments	\$ 116,752
Total assets	<u>\$ 116,752</u>
Liabilities	
Accounts payable	\$ 8,233
Due to student groups	108,519
Total liabilities	<u>\$ 116,752</u>

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

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Frontier Academy (the School) conform to accounting principles generally accepted in the United States of America as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles. The following is a summary of the Schools' significant accounting policies:

Reporting Entity

GASB has specified the criteria to be used in defining a governmental entity for financial reporting purposes:

The basic, but not the only, criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's reporting entity for general purpose financial reports is the exercise of financial accountability over such agencies by the governmental unit's elected officials. Financial accountability is derived from the governmental unit's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. Financial accountability implies that a governmental unit is dependent on another and the dependent unit should be reported as part of the other.

The School is a charter school organized under the Colorado Charter Schools Act (Colorado Revised Statutes §22-30.5-101). This Act permits school districts to contract with individuals and organizations for the operation of schools within Weld County School District 6 (the District). The statutes define these contracted schools as "charter schools." Charter schools are financed from a portion of the school district's School Finance Act revenues and from revenues generated by the charter school within limits established by the Charter School Act. Charter schools have separate governing boards; however, the school district's board of education must approve all charter school applications and budgets.

The school operates under a charter granted by the District Board of Education. The School is funded based on the level of per pupil operating revenue (PPR) as defined by the State of Colorado Legislature and the number of full-time equivalent (FTE) students. As of the designated count day (October 1, 2015), there were 1,453 FTE students. The PPR rate for the fiscal year ended June 30, 2016, was approximately \$7,190.

The accompanying financial statements present the School and its component units, entities for which the School is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the School's operations. The Frontier Academy Facilities Corporation (the Facility Corporation) and the Frontier Academy Foundation (the Foundation) meet the requirements for blending. The Facility Corporation was established for the purpose of holding title to the School facilities and to accumulate resources from the collection of rents from the School to make payments for the Facility Corporation's capital and debt service costs. The Facility Corporation is included in the School's financial statements as a special revenue fund. The Facility Corporation does not issue separate financial statements. The Foundation was formed in 2001 for the purpose of receiving, maintaining, and administering funds received as gifts for the benefit of the School. The Foundation does not have separate financial statements.

The School is a component unit of the District and is included in the District's Comprehensive Annual Financial Report.

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The statement of activities demonstrates the degree to which the direct expenses of a 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 individuals 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. Other items not included among program revenues are reported instead as general revenues.

Major individual 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 the related cash flows. Revenue from per pupil operating revenue is recognized in the fiscal year for which the funding is provided. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenues from donations are recognized when the funds are pledged to the School.

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. Measurable means that the amount of the transaction can be determined. Available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Charges for services are considered revenue once the service is rendered, and as such are considered susceptible to accrual.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

The accounts of the School are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The major funds presented in the accompanying basic financial statements are as follows:

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Major Government Funds

General Fund: The General Fund is the School's primary operating fund. It accounts for all financial resources of the School, except those required legally or by sound financial management to be accounted for in another fund.

Special Revenue – Facility Corporation: Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School reports a special revenue fund for the Facilities Corporation.

The School reports the following nonmajor funds:

Non-Major Government Funds

Special Revenue – Frontier Academy Foundation Fund: Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School reports a special revenue fund for the Foundation.

Fiduciary Fund

Agency Fund – Student Activity Fund: Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School has one agency fund, the student activity fund, which holds assets used by students for specific school activities.

Interfund Transfers

Transfers between the General Fund, Facilities Corporation, and Foundation are made for discretionary spending.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from these estimates.

Cash and Investments

Cash and investments may include cash on hand, demand deposits, certificates of deposit, savings accounts, money markets, and pooled investment funds.

For the year ended June 30, 2016, the School adopted the provisions of GASB Statement No. 72, Fair Value Measurement and Application, which is effective for financial statements periods beginning after June 15, 2015. GASB Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. All investments at the school are in money market funds, which are measured at amortized cost. See Note 2 for additional information.

Inventory

The School holds inventory in gift cards that are purchased at a discount and sold at a profit for fundraising purposes. The gross revenue is shown as other revenue and the cost of sales is shown in supporting services expenses under the consumption method. Inventory amounts are shown at cost using the specific identification method.

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets purchased by the Facility Corporation, which include land, buildings and building improvements, furniture and equipment are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

An annual capital asset inventory is performed in accordance with state law (Colorado Revised Statute §29-1-506).

All reported capital assets, except for land, are depreciated once placed in service. Depreciation on all assets is provided using the straight-line method over estimated useful lives of 3 to 39 years.

Deferred Outflows of Resources

The School's governmental activities report a separate section for deferred outflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period. The School has four types of items classified as deferred outflows of resources related to the net pension liability: 1) contributions subsequent to measurement date; and 2) change in investment earnings, and 3) change in experience, and 4) change in proportionate share of the net pension liability. See Note 8 for additional information.

The School also has another type of item classified as a deferred outflow of resources: deferred charges on bond refunding. For current refundings and advance refundings resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow (or inflow) or resources. These amounts are amortized over the life of the old debt or the new debt, whichever is shorter.

Accrued Salaries and Benefits

Salaries of teachers and certain other employees are paid over a 12-month period ending July 31. However, most salaries are earned over the traditional school year of August through May. The difference between salary and related benefit amounts earned from July 1 through June 30 and the corresponding amounts paid during this period is shown as a liability for accrued salaries and benefits in the amount of \$449,005.

The School's policy allows employees to accumulate paid time off. A portion of this leave may be carried forward to the succeeding year. Upon termination of employment, employees are compensated at rates ranging from \$80 to \$100 per day for unused days.

Long-Term Debt

Long-term debt is reported as liabilities in the statement of net position. Deferred charges related to the bonds payable are amortized over the life of the bonds using the straight-line method.

Net Pension Liability

The School's governmental activities report a net pension liability as of June 30, 2016. The School is required to report their proportionate share of PERA's unfunded pension liability. See Note 8 for additional information.

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Inflows of Resources

The School's governmental activities report a separate section for deferred inflows of resources. This separate financial statement element reflects a decrease in net position that applies to a future period. The School had two items, which are classified as deferred inflows of resources related to the net pension liability: 1) change in assumptions, and 2) change in experience. See Note 8 for additional information.

Net Position/Fund Balance

In the government-wide financial statements, net position is restricted when constraints placed on the net position are externally imposed. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvements of those assets.

In the fund financial statements, fund equity of the School's governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable fund balances indicate amounts that cannot be spent either due to a) form; for example, inventories and prepaid amounts or b) legal or contractual requirements to be maintained intact. The School has \$86,549 of nonspendable resources as of June 30, 2016.

Restricted fund balances in the School's general fund indicate amounts constrained for specific purpose by external parties, constitutional provision or enabling legislation. Restrictions on the School's General fund balance and Facilities Corporation fund are described in Note 7.

Committed fund balances indicate amounts constrained for a specific purpose by a government using its highest level of decision-making authority. It would require an ordinance by the School's board to remove or change the constraints placed on the resources. This action must occur prior to year-end; however, the amount can be determined in the subsequent period.

Assigned fund balances indicate amounts for governmental funds, other than the general fund, any remaining positive amounts not classified in the above categories. For the general fund, amounts constrained for the intent to be used for a specific purpose has been delegated to the Business Manager. The School has \$4,228 of assigned balance in the Foundation fund to be used operations of the fund and future contributions to the School.

Unassigned fund balances indicate amounts in the general fund that are not classified as nonspendable, restricted, committed, or assigned. The general fund is the only fund that would report a positive amount in unassigned fund balance. When both unassigned and committed or assigned resources are available for use, it is the School's policy to use committed, then assigned resources first, then unassigned resources as needed.

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – CASH AND INVESTMENTS

Colorado statutes govern the School's deposits of cash and investments. The Colorado Public Deposit Protection Act (PDPA) requires that all units of a local government deposit cash in eligible public depositories; eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. 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 percent of the uninsured deposits. At June 30, 2016, the School's carrying amount of deposits was \$2,619,128 and the bank balance was \$2,667,661. These amounts include the fiduciary fund cash of \$116,752 with a bank balance of \$122,685.

The terms of the bonds require the Facility Corporation to maintain certain cash and investment reserve accounts. These accounts are held by a trustee. Monthly payments from the School (Note 5) are deposited in the accounts and the semi-annual bond payments are made from the accounts.

At June 30, 2016, \$1,526,141 is held in reserved accounts required by the bond agreements which is to be used for payment of principal and interest on the bond in the event that sufficient funds are not available to make such payments when due. The reserve accounts are invested in money market accounts, which are shown at amortized cost. Included in the total of \$1,526,141 is \$98,005 held in a reserve account required by the bond agreement, which is to be used for current principal and interest payments on the bond. Also included in the total is \$250,023 is held in a repair and replacement fund. Withdrawals from the fund are allowed for maintenance and repair of the school facility.

Credit Risk – The School does not hold investments. The cash and investment reserve accounts owned by the Facilities Corporation are in the custody of the Trustee, these funds are used primarily to make bond principal and interest payments. These funds are invested by the Trustee as directed by the Facility Corporation; investments are limited to investments as allowed by the State of Colorado. The statutes define the permissible rating, maturity, custodial and concentration risk criteria in which local governments may invest to 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' acceptance of certain banks
- Corporate securities
- Local government investment pools
- Written repurchase agreements collateralized by certain authorized securities
- Certain money market funds
- Guaranteed investment contracts

At June 30, 2016, the Facilities Corporation's investments consisted of money market funds, which do not have a credit rating.

Interest rate risk – The Trustee is required to maintain liquidity of the investment funds held so as to meet cash requirements of the principal and interest requirements of the bonds on a semiannual basis. The money market accounts held in investments have maturities of less than one year.

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital assets, not depreciated				
Land	\$ 1,398,334	\$ -	\$ -	\$ 1,398,334
Capital assets, being depreciated				
Buildings and building improvements	13,874,728	69,580	-	13,944,308
Furniture and equipment	530,229	72,644	-	602,873
Total capital assets, being depreciated	<u>14,404,957</u>	<u>142,224</u>	<u>-</u>	<u>14,547,181</u>
Accumulated depreciation:				
Buildings and building improvements	(4,450,876)	(368,472)	-	(4,819,348)
Furniture and equipment	(484,029)	(14,218)	-	(498,247)
Total accumulated depreciation	<u>(4,934,905)</u>	<u>(382,690)</u>	<u>-</u>	<u>(5,317,595)</u>
Total capital assets, being depreciated, net	<u>9,470,052</u>	<u>(240,466)</u>	<u>-</u>	<u>9,229,586</u>
Total capital assets	<u>\$ 10,868,386</u>	<u>\$ (240,466)</u>	<u>\$ -</u>	<u>\$ 10,627,920</u>

Depreciation expense of \$382,690 was charged to instructional activities for the year ended June 30, 2016.

NOTE 4 – BONDS PAYABLE

The Colorado Educational and Cultural Facilities Authority (the Authority) has issued its Charter School Revenue Bonds as the Frontier Academy Project. The bonds were issued for the Frontier Academy Facilities Corporation's use in acquiring the land and building that are the school facility. The Authority and Facility Corporation have entered into a loan agreement wherein the proceeds of the Authority bonds have been loaned to the Facility Corporation. The bonds are payable solely from the loan rights pledged to the Authority under the loan agreement, pledges of funds and revenue by the Trustee to the Authority, and the assignment of the Authority's mortgage on the facility and the security interest in the pledged revenues of the Facility Corporation. The bonds do not constitute a debt of the Authority and are considered the obligation of the Facility Corporation.

The Facility Corporation has granted the Authority a mortgage lien on the real estate and a security interest in the lease revenues from the School. The Authority's rights under the agreement have been assigned to the Trustee.

The lease revenues which are the basis of the pledged revenues are described in Note 5. The lease revenue over the term of the agreement is equal to the expected principal and interest payments to be made over the life of the bonds, approximately \$20,000,000. One hundred percent of lease revenues have been pledged under the agreement. Lease revenue was approximately equal to the debt service requirements of the bond for the year ended June 30, 2016, approximately \$1,177,000.

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 – BONDS PAYABLE (CONTINUED)

Bonds payable consisted of the following at June 30, 2016:

Charter School Revenue Bonds dated October 4, 2006, due in annual installments ranging from \$430,000 to \$1,115,000 through June 2031; interest rates from 3.5% to 5.125% payable semi-annually on December 1 and June 1. Revenue from the rental of the building (Note 5) has been pledged to pay bond principal and interest.

Principal and interest	\$ 12,590,000
Less current portion	(615,000)
Total	\$ 11,975,000

The following schedule represents the School's debt service requirements to maturity for outstanding revenue bonds at June 30, 2016:

Year Ending	Principal	Interest	Total
June 30, 2017	\$ 615,000	\$ 561,063	\$ 1,176,063
June 30, 2018	635,000	530,313	1,165,313
June 30, 2019	665,000	502,531	1,167,531
June 30, 2020	695,000	473,438	1,168,438
June 30, 2021	725,000	443,031	1,168,031
June 30, 2022-2026	4,130,000	1,710,938	5,840,938
June 30, 2027-2031	5,125,000	712,125	5,837,125
	\$ 12,590,000	\$ 4,933,439	\$ 17,523,439

Changes in bonds payable for the year ended June 30, 2016 were as follows:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
Bonds payable	\$ 13,175,000	\$ -	\$ 585,000	\$ 12,590,000	\$ 615,000

NOTE 5 – LEASES

The School leases its building from the Facilities Corporation. The lease requires monthly payments, which approximate the Facilities Corporation's required payments on the bonds (Note 4) and may be terminated in any year by non-appropriation of funds. The Facilities Corporation has pledged the lease payments to pay bond principal and interest. Rent expense was \$1,176,825 for the year ended June 30, 2016, and is included in support services expenditures in the general fund.

The School also has an operating lease agreement to share certain facilities, including an auditorium, track and baseball field with University Schools. The lease commenced December 2002 with automatic renewal each year unless terminated through June 2031. The two schools equally share the cost, management and profits of the shared facilities. Rent expense was \$83,397 for the year ended June 30, 2016 and is included in support services expenditures in the general fund.

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 – LEASES (CONTINUED)

Future payments on the operating lease are as follows:

<u>Year Ending</u>		
June 30, 2017	\$	83,277
June 30, 2018		83,273
June 30, 2019		83,417
June 30, 2020		83,186
June 30, 2021		83,419
June 30, 2022-2026		417,181
June 30, 2027-2031		494,498

NOTE 6 – RISK MANAGEMENT

The school is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for these and other risks of loss. Settled claims have not exceeded this coverage in the past three years.

NOTE 7 – RESTRICTION OF NET POSITION/DESIGNATIONS OF FUND BALANCE

On November 3, 1992, the voters of the State approved an amendment to the Colorado Constitution, commonly known as the Taxpayer’s Bill of Rights (TABOR). TABOR limits the ability of the state and local governments such as the School to increase revenues, debt and spending and restricts property, income and other taxes. In addition, the amendment requires government entities to create an emergency “reserve” of 3% of annual spending excluding bonded debt service. In November 1998, voter approval was given to Weld County School District 6 to remove the restriction on growth in revenue. The 3% emergency reserve is still required both at the District and the School level. At June 30, 2016, management believes the School has complied with the requirements to include emergency reserves in its budgetary basis fund balance.

The Facilities Corporation is required to hold funds in escrow accounts related to its bond obligations as identified in Note 2, net position/fund balance are restricted attributable to the restrictions on its cash and investments. This amounts to \$1,479,386 and \$1,525,957, respectively, for the year ended June 30, 2016.

NOTE 8 – DEFINED BENEFIT PENSION PLAN

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/deletions 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.

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 are 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. Retirements are determined by the amount of service credit earned and/or purchases, 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.

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

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

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

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 of 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:

	For the Year Ended December 31,2015	For the Year Ended December 31,2016
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	4.20%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	4.00%	4.50%
Total Employer Contribution Rate to the SCHDTF ¹	17.33%	18.13%

¹Rates 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 for the School for the years ended June 30, 2016 was approximately \$875,855.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2016, the School reported a liability of \$16,564,229 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014.

Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The School's proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2015, the School's proportion was 0.1083033241%, which was an increase of 0.0047117896% from its proportion measured as of December 31, 2014.

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

For the year ended June 30, 2016, the School recognized pension expense of \$1,095,682. At June 30, 2016, 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	\$ 218,733	\$ 660
Changes of assumptions or other inputs	-	234,082
Net difference between projected and actual earnings on pension plan investments	1,397,410	-
Changes in proportion and differences between contributions recognized and proportionate share of contributions	623,514	-
Contributions subsequent to the measurement date	457,666	-
Total	\$ 2,697,322	\$ 234,742

\$457,666 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2017	\$ 633,094
2018	604,913
2019	478,094
2020	288,813
2021	-
Thereafter	-

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions, and other inputs:

<u>Actuarial Cost Method</u>	<u>Entry Age</u>
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 (AIR)

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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, 2014 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.

Changes to assumptions or other inputs since the December 31, 2013 actuarial valuation are as follows:

- The following programming changes were made:
 - Valuation of the full survivor benefit without any reduction for possible remarriage.
 - Reflection of the employer match on separation benefits for all eligible years.
 - Reflection of one year of service eligibility for survivor annuity benefit.
 - Refinement of the 18 month annual increase timing.
 - Refinements to directly value certain and life, modified cash refund and pop-up benefit forms.

- The following methodology changes were made:
 - Recognition of merit salary increases in the first projection year.
 - Elimination of the assumption that 35% of future disabled members elect to receive a refund
 - Removal of the negative value adjustment for liabilities associates with refunds of future terminating members.
 - Adjustments to the timing of the normal cost and unfunded actuarial accrued liability payment calculations to reflect contributions throughout the year.

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.

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

As of November 15, 2013 adoption of the 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Geometric Real Rate of Return</u>
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	<u>100.00%</u>	

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 applied the actuarial cost method and assumptions shown above. In addition, the methods and assumptions were used in the projection of cash flows:

- 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 3.90%.
- 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, 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.

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 8 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

- 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.
- 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 actuarial cost method and 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.

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	21,472,082	16,564,229	12,481,811

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.

FRONTIER ACADEMY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 – POSTEMPLOYMENT HEALTHCARE 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.

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, 2016, 2015 and 2014, the School's contributions to the HCTF were \$50,608, \$46,454 and \$38,713, respectively, equal to their required contributions for each year.

NOTE 10 – SUBSEQUENT EVENT

On July 1, 2016, the Colorado Educational and Cultural Facilities Authority (the Authority) refunded the Charter School Revenue Bonds dated October 4, 2006. The loan agreement between the Authority and the Facilities Corporation is amended to equal the refunded Charter School Revenue Bonds.

NOTE 11 – LEGAL COMPLIANCE

The School may be in violation of state statutes as the expenditures for the Facilities Corporation exceeded appropriations by \$3,046.

REQUIRED SUPPLEMENTARY INFORMATION

FRONTIER ACADEMY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Per pupil funding	\$ 10,282,620	\$ 10,446,000	\$ 10,447,459	\$ 1,459
Local sources	605,500	709,006	919,122	210,116
State and federal sources	625,025	751,025	752,394	1,369
Other income	-	-	1,791	1,791
Interest income	2,000	1,645	1,230	(415)
TOTAL REVENUES	11,515,145	11,907,676	12,121,996	214,320
EXPENDITURES				
Current				
Instruction	6,732,962	7,055,437	6,774,059	281,378
Support services	4,670,371	4,536,850	4,528,379	8,471
Capital outlay	-	-	142,224	(142,224)
TOTAL EXPENDITURES	11,403,333	11,592,287	11,444,662	147,625
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	111,812	315,389	677,334	361,945
OTHER FINANCING SOURCES (USES)				
Transfers in	1,000	38,000	38,312	312
Transfers out	-	-	(43,111)	(43,111)
TOTAL OTHER FINANCING SOURCES (USES)	1,000	38,000	(4,799)	(42,799)
NET CHANGE IN FUND BALANCE	112,812	353,389	672,535	319,146
FUND BALANCE, Beginning	1,397,719	1,398,575	1,398,575	-
FUND BALANCE, Ending	\$ 1,510,531	\$ 1,751,964	\$ 2,071,110	\$ 319,146

See accompanying Notes to the Required Supplementary Information.

FRONTIER ACADEMY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – FRONTIER ACADEMY FACILITIES CORPORATION
Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Interest income	\$ 145	\$ 175	\$ 184	\$ 9
Rental income	1,195,650	1,216,837	1,176,825	(40,012)
TOTAL REVENUES	<u>1,195,795</u>	<u>1,217,012</u>	<u>1,177,009</u>	<u>(40,003)</u>
EXPENDITURES				
Current:				
Support services	20,332	41,514	44,561	(3,047)
Debt service				
Principal	585,000	585,000	585,000	-
Interest	590,313	590,313	590,313	-
TOTAL EXPENDITURES	<u>1,195,645</u>	<u>1,216,827</u>	<u>1,219,874</u>	<u>(3,047)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>150</u>	<u>185</u>	<u>(42,865)</u>	<u>(43,050)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(150)	(185)	(184)	1
TOTAL OTHER FINANCING SOURCES (USES)	<u>(150)</u>	<u>(185)</u>	<u>42,927</u>	<u>43,112</u>
NET CHANGE IN FUND BALANCE	-	-	62	62
FUND BALANCE, Beginning	-	-	1,526,079	1,526,079
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,526,141</u>	<u>\$ 1,526,141</u>

See accompanying Notes to the Required Supplementary Information.

FRONTIER ACADEMY
SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Last 10 Fiscal Years *

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School's proportion (percentage) of the collective net pension liability (asset)	0.1083033241%	0.1035915346%	0.1008553875%
School's proportionate share of the collective pension liability (asset)	\$ 16,564,229	\$ 14,040,133	\$ 12,864,077
Covered-employee payroll	4,656,927	4,289,138	4,027,208
School's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	355.69%	327.34%	319.43%
Plan fiduciary net position as a percentage of the total pension liability	59.20%	62.80%	64.06%

* The amounts presented for each fiscal year were determined as of December 31 based on the measurement date of the Plan. Information earlier than 2013 was not available.

FRONTIER ACADEMY
SCHEDULE OF CONTRIBUTIONS AND RELATED RATIOS
Last 10 Fiscal Years *

As of June 30,	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contributions	\$ 875,855	\$ 765,399	\$ 663,784
Contributions in relation to the statutorily required contribution	<u>875,855</u>	<u>765,399</u>	<u>663,784</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 4,961,525	\$ 4,554,299	\$ 4,107,649
Contribution as a percentage of covered-employee payroll	17.65%	16.81%	16.16%

* The amounts presented for each fiscal year were determined as of June 30. Information earlier than 2014 was not available.

FRONTIER ACADEMY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING

The School conducts all necessary budgeting procedures maintaining separate budgets for each fund.

The School adheres to the following procedures in establishing the budgetary data reflected in the financial statements.

- a) Budgets for all funds are required by the District. During June, the proposed budget is submitted to the Board for consideration and approval at a public hearing. The budget includes proposed expenditures and the means of financing them.
- b) The Public hearings are conducted by the School's Board of Directors to obtain parents and other members of the public comment and recommendations.
- c) Prior to June 30, the budget is adopted by formal resolution.
- d) The School's contract with the District requires submission of the approval and amended budgets to the District.
- e) Expenditures may not legally exceed appropriations at the fund level. Authorization to transfer budgeted amounts between funds, reallocation of budget line items and revisions that alter the total appropriations of any fund must be approved by the School's Board of Directors. Appropriations are based on total funds expected to be available in each budget year, which may include beginning fund balances and reserves as established by the Board of Directors.
- f) Budgets for all fund types are adopted on a basis consistent with GAAP.
- g) Budgeted amounts reported in the accompanying supplemental information are as originally adopted and as amended by the Board of Directors throughout the year. Budgeted amounts included in the financial statements are based on the final budget for the general fund as adopted by the School's Board of Directors on June 16, 2016, and the final facilities corporation's budget approved by the Board on June 16, 2016. The Frontier Academy Foundation's final budget was also adopted by the Board on June 16, 2016 and is shown as Supplementary Information.
- h) All appropriations lapse at the end of each fiscal year.

SUPPLEMENTARY INFORMATION

FRONTIER ACADEMY
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – FRONTIER ACADEMY FOUNDATION
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Local Sources	\$ 2,500	\$ 65,000	\$ 59,314	\$ (5,686)
TOTAL REVENUES	<u>2,500</u>	<u>65,000</u>	<u>59,314</u>	<u>(5,686)</u>
EXPENDITURES				
Current:				
Support services	2,200	17,825	20,951	(3,126)
TOTAL EXPENDITURES	<u>2,200</u>	<u>17,825</u>	<u>20,951</u>	<u>(3,126)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>300</u>	<u>47,175</u>	<u>38,363</u>	<u>(8,812)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(300)	(44,128)	(38,128)	6,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>(300)</u>	<u>(44,128)</u>	<u>(38,128)</u>	<u>6,000</u>
NET CHANGE IN FUND BALANCE	-	3,047	235	(2,812)
FUND BALANCE, Beginning	-	-	3,993	-
FUND BALANCE, Ending	<u>\$ -</u>	<u>\$ 3,047</u>	<u>\$ 4,228</u>	<u>\$ (2,812)</u>