# INDEPENDENCE ACADEMY

# FINANCIAL STATEMENTS

**June 30, 2018**

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# FINANCIAL SECTION

JOHN CUTLER
& ASSOCIATES

Board of Directors
Independence Academy
Grand Junction, Colorado

## INDEPENDENT AUDITORS' REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independence Academy (the "Academy"), component unit of Mesa County Valley School District 51, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of 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.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independence Academy, as of June 30, 2018 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 the schedule of the Academy's proportionate share, and the schedule of the Academy's contributions on pages 41-45 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 Academy's financial statements. The individual fund financial schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of 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 individual fund schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

John Cutler & Associates, LLC

October 19, 2018

# Management's Discussion and Analysis
# Independence Academy Charter School
# June 30, 2018

As management of Independence Academy Charter School (IACS or Academy), we offer readers of Independence Academy Charter School's financial statements, this narrative overview and analysis of the financial activities of IACS for the fiscal year ended June 30, 2018. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the School's financial statements, which follow this narrative.

## Financial Highlights

- Total assets of IACS at the close of the fiscal year was $10,212,777 *(total assets 2018)*.

- The IACS total net position for June 30, 2018 was ($1,184,144).

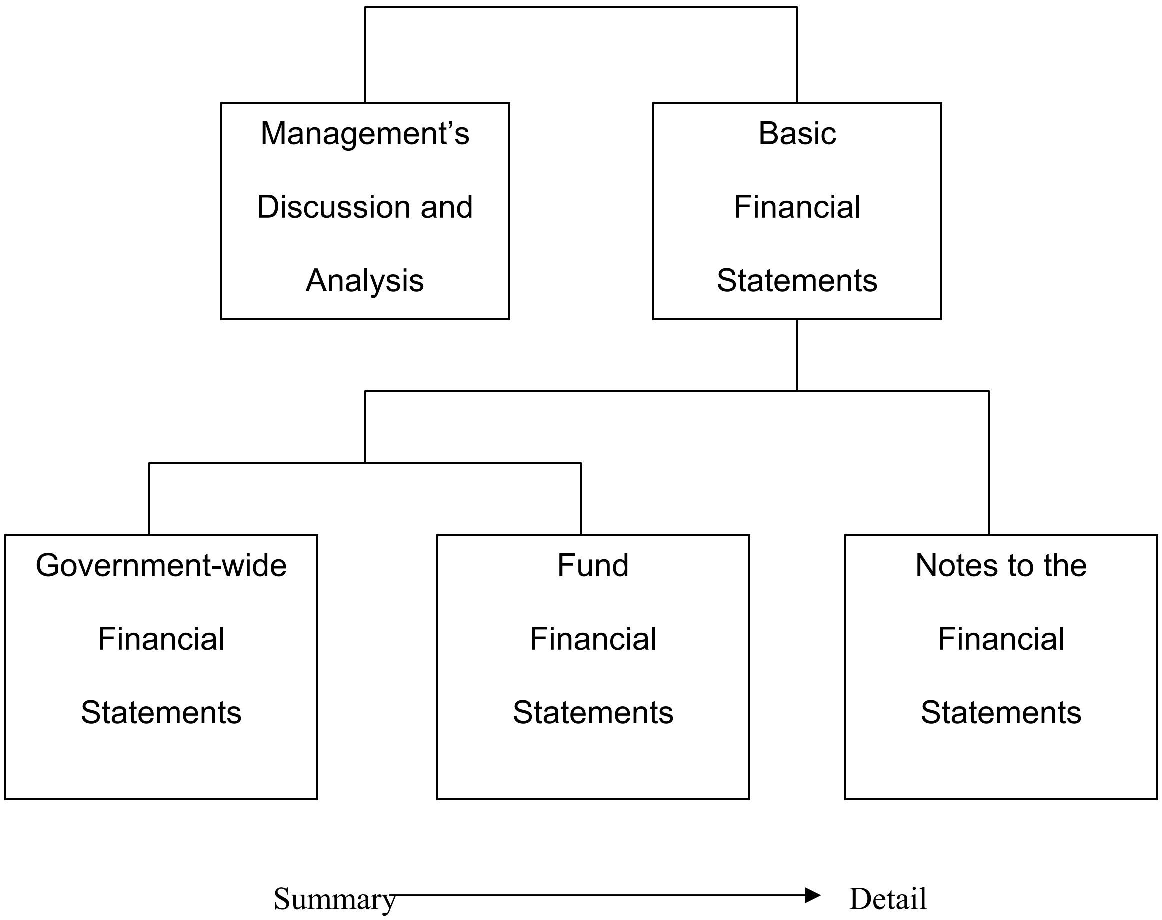
- As of the close of the current fiscal year IACS' governmental funds reported combined ending fund balances of $3,766,350, an increase of $674,412.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to IACS's basic financial statements. The Academy's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements present two different views of the Academy through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of IACS.

**Required Components of Annual Financial Report**

**Figure 1**




**Basic Financial Statements**

The first two statements (Pages 1 and 2) in the basic financial statements are the government-wide financial statements. They provide both short and long-term information about the Academy's financial status.

The next statements (Pages 3 and 4) are fund financial statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the budgetary information for the school.

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the Academy's finances, similar in format to a financial statement of a private sector business. The government-wide statements provide short and long-term information about the Academy's financial status as a whole.

The two government-wide statements report the Academy's net position and how they have changed. Net Position is the difference between the Academy's total assets and total liabilities. Measuring net position is one way to gauge the Academy's financial condition.

The government-wide financial statements are on pages 1 and 2 of this report.

**Fund Financial Statements**

The fund financial statements provide a more detailed look at the Academy's most significant activities on a fund accounting basis. 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. IACS uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements.

**Governmental Funds** – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. The Academy's basic services are accounted for in a governmental fund. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Academy's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Academy reports two major governmental funds, the general fund and the building corporation.

IACS adopts an annual budget on a fund basis. The budgetary comparison statements are not included in the basic financial statements but are part of the supplemental statements and schedules that follow the notes. The budget is a legally adopted document that incorporates input from the faculty, management, and the Board of Directors of the Academy in determining what activities will be pursued and what services will be provided by the School during the year. It also authorizes the Academy to obtain funds from identified sources to finance these current period activities. The budgetary statement provided demonstrates how well the Academy has complied with the budget ordinance and whether or not the Academy has succeeded in providing the services as planned when the budget was adopted.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 7 of this report.

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as one useful indicator of the Academy's financial condition. The Academy's decrease in net position for fiscal year ended June 30, 2018 is $835,461.

| | | |
|---|---|---|
| **STATEMENT OF NET POSITION** | | |
| **GOVERNMENTAL ACTIVITIES** | | |
| | **June 30, 2018** | **June 30, 2017** |
| Assets | | |
| Cash and Investments | $ 3,554,806 | $ 2,601,014 |
| Restricted Cash and Investments | 631,756 | 605,328 |
| Accounts Receivable | 15,418 | 16,021 |
| Due to Agency Fund | - | 3,502 |
| Due From District | 20,305 | 28,897 |
| Capital Assets, Not Depreciated | 650,620 | 650,620 |
| Capital Assets, Net of Accum Depreciation | 5,339,872 | 5,396,461 |
| Total Assets | 10,212,777 | 9,301,843 |
| | | |
| Deferred Outflows of Resources | | |
| Related to Pensions | 2,941,820 | 3,033,775 |
| Related to OPEB | 18,718 | - |
| Total Outflow of Resources | 2,960,538 | 3,033,775 |
| | | |
| Liabilities | | |
| Accounts Payable and Other Current | 27,875 | 48,007 |
| Due to Agency Fund | 12,250 | - |
| Due to District | 294,843 | |
| Accrued Expenses | - | 38,712 |
| Unearned Revenue | 6,150 | - |
| Accrued Salaries and Benefits | 114,817 | 114,817 |
| Accrued Interest Payable | 74,509 | 75,659 |
| Noncurrent Liability - Due in One Year | 120,000 | 115,000 |
| Noncurrent Liability - More than One Year | 5,354,367 | 5,472,804 |
| Noncurrent Liability - Net Pension Liability | 7,849,434 | 6,668,309 |
| Noncurrent Liability - Net Pension Liability | 179,242 | - |
| Total Liabilities | 14,033,487 | 12,533,308 |
| | | |
| Deferred Inflows of Resources | | |
| Related to Pensions | 320,973 | 30,130 |
| Related to OPEB | 2,999 | - |
| Total Inflow of Resources | 323,972 | 30,130 |
| | | |
| Net Position | | |
| Net Investment in Capital Assets | 1,147,881 | 1,064,605 |
| Restricted for Emergencies/Debt Service | 734,756 | 705,328 |
| Unrestricted | (3,066,781) | (1,959,041) |
| Total Net Position | (1,184,144) | (189,108) |

Statement of Activities
For the Years Ended June 30, 2018 and June 30, 2017
Governmental Activities

| | June 30, 2018 | June 30, 2017 |
|---|---|---|
| Revenues | | |
| Program Revenues | | |
| Grants and Contributions | $ 320,511 | $ 305,244 |
| General Revenues | | |
| Per Pupil Revenue | 2,777,028 | 2,726,692 |
| Other Local Revenue | 45,864 | 83,597 |
| Mill Levy | 111,644 | - |
| Capital Contribution from District | 154,950 | - |
| Interest | 4,855 | 2,134 |
| Total revenues | 3,414,852 | 3,117,667 |
| Expenditures/expenses | | |
| Current | | |
| Instruction | 2,878,223 | 2,673,688 |
| Support Services | 1,146,427 | 916,366 |
| Interest and Other Fiscal Charges | 225,663 | 228,905 |
| Total Expenses | 4,250,313 | 3,818,959 |
| Increase (Decrease) in Net Position | (835,461) | (701,292) |
| Net Position, Beginning, Restated | (348,683) | 512,184 |
| Net Position, End of Year | $ (1,184,144) | $ (189,108) |

The Academy's beginning net position of the governmental activities was decreased by $159,575 as the Academy implemented Governmental Accounting Standards Board (GASB) Statement 75.

The net position of the governmental activities is in a deficit position due to the Academy including its Net Pension Liability and Net OPEB Liability per requirements of GASB Statement Nos. 68 and 75.

**Financial Analysis of the Academy's Funds**

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

**Governmental Funds**. The focus of the IACS's general fund is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing IACS's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2018 fiscal year, unassigned fund balance of the General Fund was $3,134,594 while total fund balance for all governmental funds reached $3,766,350. The Academy is required by statute to keep an emergency reserve, which was $103,000 as of June 30, 2018.

## General Fund Budgetary Highlights

IACS budgeted for General Fund expenditures of $3,159,265 for the year ended June 30, 2018. Actual expenditures were $2,571,959, showing $587,306 below budgeted expenditures.

## Capital Asset and Debt Administration

**Capital assets.** Total capital assets net of accumulated depreciation was $6,047,081 in at June 30, 2017, and $5,990,492 at June 30, 2018.

In the November 2017 election, voters passed the School District 51 bond which provided funding for the Academy's HVAC replacement project scheduled to be completed in the summer of 2018. The Academy received $154,950 in funding from the District to complete the project.

**Long-term Debt**. In August 2014, the Colorado Educational and Facilities Authority (CECFA) issued $5,740,000 Charter School Revenue Bonds, Series 2014. Proceeds from the bonds were used to construct the Academy's educational facility. The Academy entered into a lease agreement with the Building Corporation and is required to make lease payments to the Building Corporation for the use of the building. Monthly lease payments that are due to the Building Corporation range from $28,265 to $28,641 through September 2044. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds.

## Economic Factors/Future Trends

With the passage of HB 1375 in 2017, School District 51 will begin passing through revenue from a mill levy over-ride that was passed by voters in November 2017 to the Academy. Based on estimates, the projected increase in revenue is $300 per student. For the year ended June 30, 2018, the Academy received $111,644 in mill levy funding from the District.

The following key economic indicators were considered in the Academy's budget:

- Continued uncertainty in the economy and State Budget process
- The issues related to projected enrollment and classroom space available
- A conservative projection of enrollment for 2018-2019

**Requests for Information**

This report is designed to provide an overview of the School's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Executive Director, Independence Academy, 675 29 Road, Grand Junction, CO 81504, ph. 970-254-6850.

# BASIC FINANCIAL STATEMENTS

INDEPENDENCE ACADEMY

STATEMENT OF NET POSITION
As of June 30, 2018

| | GOVERNMENTAL ACTIVITIES | |
|---|---|---|
| | 2018 | 2017 |
| ASSETS | | |
| Cash and Investments | $ 3,554,806 | $ 2,601,014 |
| Restricted Cash and Investments | 631,756 | 605,328 |
| Due from Agency Fund | - | 3,502 |
| Due from District | 20,305 | 28,897 |
| Accounts Receivable | 15,418 | 16,021 |
| Capital Assets, Not Depreciated | 650,620 | 650,620 |
| Capital Assets, Depreciated, Net of Accumulated Depreciation | 5,339,872 | 5,396,461 |
| TOTAL ASSETS | 10,212,777 | 9,301,843 |
| DEFERRED OUTFLOW OF RESOURCES | | |
| Related to Pensions | 2,941,820 | 3,033,775 |
| Related to OPEB | 18,718 | - |
| TOTAL OUTFLOW OF RESOURCES | 2,960,538 | 3,033,775 |
| LIABILITIES | | |
| Accounts Payable | 27,875 | 9,295 |
| Due to Agency Fund | 12,250 | - |
| Due to District | 294,843 | - |
| Accrued Expenses | - | 38,712 |
| Unearned Revenue | 6,150 | - |
| Accrued Salaries and Benefits | 114,817 | 114,817 |
| Accrued Interest Payable | 74,509 | 75,659 |
| Noncurrent Liabilities | | |
| Due in One Year | 120,000 | 115,000 |
| Due in More Than One Year | 5,354,367 | 5,472,804 |
| Pension Liability | 7,849,434 | 6,668,309 |
| OPEB Liability | 179,242 | - |
| TOTAL LIABILITIES | 14,033,487 | 12,494,596 |
| DEFERRED INFLOW OF RESOURCES | | |
| Related to Pensions | 320,973 | 30,130 |
| Related to OPEB | 2,999 | - |
| TOTAL INFLOW OF RESOURCES | 323,972 | 30,130 |
| NET POSITION | | |
| Net Investment in Capital Assets | 1,147,881 | 1,064,605 |
| Restricted for Emergencies | 103,000 | 100,000 |
| Restricted for Debt Service | 631,756 | 605,328 |
| Unrestricted, Unreserved | (3,066,781) | (1,959,041) |
| TOTAL NET POSITION | $ (1,184,144) | $ (189,108) |

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

INDEPENDENCE ACADEMY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

| FUNCTIONS/PROGRAMS | Expenses | PROGRAM REVENUES Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Net (Expense) Revenue and Change in Net Position — Governmental Activities 2018 | 2017 |
|---|---|---|---|---|---|---|
| PRIMARY GOVERNMENT | | | | | | |
| **Governmental Activities** | | | | | | |
| Instructional | $ 2,878,223 | $ 146,738 | $ 73,250 | $ - | $ (2,658,235) | $ (2,475,842) |
| Supporting Services | 1,146,427 | - | - | 100,523 | (1,045,904) | (808,968) |
| Interest and Other Fiscal Charges | 225,663 | - | - | - | (225,663) | (228,905) |
| Total Governmental Activities | $ 4,250,313 | $ 146,738 | $ 73,250 | $ 100,523 | (3,929,802) | (3,513,715) |
| GENERAL REVENUES | | | | | | |
| Per Pupil Revenue | | | | | 2,777,028 | 2,726,692 |
| Mill Levy | | | | | 111,644 | - |
| Interest | | | | | 4,855 | 2,134 |
| Other | | | | | 45,864 | 83,597 |
| SPECIAL ITEM | | | | | | |
| Capital Contribution from District | | | | | 154,950 | - |
| TOTAL GENERAL REVENUES | | | | | 3,094,341 | 2,812,423 |
| CHANGE IN NET POSITION | | | | | (835,461) | (701,292) |
| NET POSITION, Beginning, Restated | | | | | (348,683) | 512,184 |
| NET POSITION, Ending | | | | | $ (1,184,144) | $ (189,108) |

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

# INDEPENDENCE ACADEMY

## BALANCE SHEET
## GOVERNMENTAL FUNDS
## June 30, 2018

| | GENERAL FUND | BUILDING CORPORATION | TOTALS 2018 | TOTALS 2017 |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and Investments | $ 3,554,806 | $ - | $ 3,554,806 | $ 2,601,014 |
| Restricted Cash and Investments | - | 631,756 | 631,756 | 605,328 |
| Due from Agency Fund | - | - | - | 3,502 |
| Due from District | 20,305 | - | 20,305 | 28,897 |
| Accounts Receivable | 15,418 | - | 15,418 | 16,021 |
| TOTAL ASSETS | $ 3,590,529 | $ 631,756 | $ 4,222,285 | $ 3,254,762 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Accounts Payable | $ 27,875 | $ - | $ 27,875 | $ 9,295 |
| Due to Agency Fund | 12,250 | - | 12,250 | - |
| Due to District | 294,843 | - | 294,843 | - |
| Accrued Expenses | - | - | - | 38,712 |
| Unearned Revenues | 6,150 | - | 6,150 | - |
| Accrued Salaries and Benefits | 114,817 | - | 114,817 | 114,817 |
| TOTAL LIABILITIES | 455,935 | - | 455,935 | 162,824 |
| FUND BALANCES | | | | |
| Restricted for Emergencies | 103,000 | - | 103,000 | 100,000 |
| Restricted for Debt Service | - | 631,756 | 631,756 | 605,328 |
| Unassigned | 3,031,594 | - | 3,031,594 | 2,386,610 |
| TOTAL FUND BALANCES | 3,134,594 | 631,756 | 3,766,350 | 3,091,938 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 3,590,529 | $ 631,756 | | |

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

| | 2018 | 2017 |
|---|---|---|
| Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. | 5,990,492 | 6,047,081 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds. These include bonds payable ($5,515,000), bond discount $40,633, and accrued interest payable ($74,509) | (5,548,876) | (5,663,463) |
| Long-term liabilities and related assets related to pensions are not due and payable in the current period and therefore, are not reported in the funds. This liability includes net pension liability ($7,849,434) deferred outflows related to pensions $2,941,820, deferred inflows related to pensions ($320,973), net OPEB liability ($179,242), deferred outflows related to OPEB $18,718, and deferred inflows related to OPEB ($2,999). | (5,392,110) | (3,664,664) |
| Net position of governmental activities | $ (1,184,144) | $ (189,108) |

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

INDEPENDENCE ACADEMY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2018

| | GENERAL FUND | BUILDING CORPORATION | TOTALS 2018 | TOTALS 2017 |
|---|---|---|---|---|
| REVENUES | | | | |
| Local Sources | $ 3,065,858 | $ 346,990 | $ 3,412,848 | $ 3,305,930 |
| State Sources | 173,773 | - | 173,773 | 152,662 |
| TOTAL REVENUES | 3,239,631 | 346,990 | 3,586,621 | 3,458,592 |
| EXPENDITURES | | | | |
| Current | | | | |
| Instruction | 1,575,663 | - | 1,575,663 | 1,549,453 |
| Supporting Services | 935,246 | - | 935,246 | 900,862 |
| Debt Service | | | | |
| Principal | - | 115,000 | 115,000 | 110,000 |
| Interest | - | 225,250 | 225,250 | 228,075 |
| Capital Outlay | 61,050 | - | 61,050 | 152,470 |
| TOTAL EXPENDITURES | 2,571,959 | 340,250 | 2,912,209 | 2,940,860 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 667,672 | 6,740 | 674,412 | 517,732 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfer In | 312 | 20,000 | 20,312 | 20,000 |
| Transfer Out | (20,000) | (312) | (20,312) | (20,000) |
| TOTAL OTHER FINANCING SOURCES (USES) | (19,688) | 19,688 | - | - |
| NET CHANGE IN FUND BALANCES | 647,984 | 26,428 | 674,412 | 517,732 |
| FUND BALANCES, Beginning | 2,486,610 | 605,328 | 3,091,938 | 2,574,206 |
| FUND BALANCES, Ending | $ 3,134,594 | $ 631,756 | $ 3,766,350 | $ 3,091,938 |

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

INDEPENDENCE 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, 2018

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

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds | $ | 674,412 |
| Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation expense ($255,312) exceeded capital outlay $198,723 in the current period. | | (56,589) |
| Repayment of long-term is an expenditure in the governmental funds, but repayment of principal reduces long-term liabilities in the statement of net position. This is the bond principal paymment $115,000, amortization of the bond discount ($1,563) and the change in accrued interest payable $1,150 for the year. | | 114,587 |
| Deferred Charges related to pensions are not recognized in the governmental funds. However, for the government-wide funds that amounts are capitalized and amortized. | | (1,567,871) |
| Change in net position of governmental activities | $ | (835,461) |

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

INDEPENDENCE ACADEMY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2018

| | Agency Fund |
|---|---|
| ASSETS | |
| Cash and Investments | $ 265,416 |
| Due from General Fund | 12,250 |
| Due from Others | 10,586 |
| TOTAL LIABILITIES | $ 288,252 |
| LIABILITIES | |
| Due to Student Groups | $ 288,252 |
| TOTAL LIABILITIES | $ 288,252 |

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

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

The Independence Academy (the "Academy") was formed in 2002 under the Charter Schools Act. The Academy is governed by a five-member Board of Directors. The accounting policies of Independence 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 School appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if the organization provided benefits to, or imposes financial burdens on the Academy.

Based upon the application of these criteria, the following organizations is included within the Academy's reporting entity.

Independence Academy Building Corporation

The Independence Academy Building Corporation (the "Building Corporation") is considered to be financially accountable to the Academy. The Building Corporation was formed to support and assist the Academy to perform its function and to carry out its purpose, specifically to assist in the financing and construction of the Academy's facilities. The Building Corporation is blended into the Academy's financial statements as a Debt Service Fund. Separate financial statements are not available for the Building Corporation.

The Academy is a component unit of the Mesa County Valley School District 51.

### Government-Wide and Fund Financial Statements

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

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The statement of activities demonstrates the degree to which the direct expenses of the given function or segments 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.

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

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

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

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

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

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

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

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.

*Debt Service Fund* - This fund is used to account for all financial activity of the School's Building Corporation.

Additionally, the Academy reports the following fund type:

The *Agency Fund* is used to account for resources used to support the school's student and fundraising activities. The Academy holds all resources in a purely custodial capacity.

**Deferred Outflows/Inflows of Resources**

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

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

**Assets, Liabilities and Fund Balance/Net Position**

*Investments* – Investments are reported at fair value.

*Receivables* – All receivables are reported at their gross value and, when appropriate, are reduced by the estimated portion that are expected to be uncollectible.

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

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

*Capital Assets* – Capital assets, which include property and equipment, are reported in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated 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 assets lives are not capitalized.

Property and equipment of the Academy is depreciated using the straight line method over the following estimated useful lives.

| | |
|---|---|
| Buildings | 20- 30 years |
| Equipment | 5 - 15 years |
| Leasehold Improvements | 10 years |

*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 period. 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.

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

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

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

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

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

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

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

- 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. The Academy has also classified the fund balance of the Debt Service Fund as restricted for debt service payments.

- 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, 2018.

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

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

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

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

**Risk Management**

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

**Comparative Data**

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

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

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

**Budgets and Budgetary Accounting**

A Budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles. The Director submits to the Board a proposed budget for the fiscal year commencing the following July1. The budget is adopted by the Board prior to June 30. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year-end.

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

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

| | |
|---|---|
| Governmental Activities- Unrestricted | $ 3,554,806 |
| Governmental Activities- Restricted | 631,756 |
| Fiduciary Funds | 265,416 |
| Total | **$ 4,451,978** |

**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, 2018, 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, 2018, the Academy had deposits with financial institutions with a carrying amount of $4,451,978. The bank balances with the financial institutions were $4,464,091. Of these balances, $750,000 was covered by federal depository insurance and $3,714,091 was covered by collateral held by the authorized agents in the financial institutions name (PDPA).

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

**Investments**

Interest Rate Risk

The Academy does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which includes:

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

The above investments are authorized for all funds and fund types used by Colorado governments.

At June 30, 2018, the Academy does not hold any investments.

**Restricted Cash**

Cash in the amount of $631,756 is restricted for debt service in the Debt Service Fund.

## NOTE 4: ***CAPITAL ASSETS***

Capital Assets activity for the year ended June 30, 2018, is summarized below.

| | Balance June 30, 2017 | Additions | Deletions | Balance June 30, 2018 |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Capital Assets, Not Depreciated | | | | |
| Land | $ 650,620 | $ - | - | $ 650,620 |
| Capital Assets, depreciated | | | | |
| Building | 5,770,004 | 198,723 | - | 5,968,727 |
| Equipment | 161,529 | - | - | 161,529 |
| Total Capital Assets, depreciated | 5,931,533 | 198,723 | - | 6,130,256 |
| Accumulated Depreciation | | | | |
| Buildings | 454,618 | 237,274 | - | 691,892 |
| Equipment | 80,454 | 18,038 | - | 98,492 |
| Total Accumulated Depreciation | 535,072 | 255,312 | - | 790,384 |
| Total Capital Assets, Depreciated, Net | $ 5,396,461 | $ (56,589) | $ - | $ 5,339,872 |
| Net Capital Assets | **$ 6,047,081** | **$ (56,589)** | **$ -** | **$ 5,990,492** |

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

During the fiscal year ended December 31, 2018, the Mesa County Valley School District 51 contributed capital funding to the Academy in the amount of $154,950. The funding was used to upgrade the School's HVAC and security systems.

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

Following is a summary of long-term debt transactions for the governmental activities for the year ended December 31, 2018.

| | Balance 6/30/17 | Additions | Payments | Balance 6/30/18 | Due In One Year |
|---|---|---|---|---|---|
| 2014 Bonds | $ 5,630,000 | $ - | $ 115,000 | $ 5,515,000 | $ 120,000 |
| Bond Discount | (42,196) | - | (1,563) | (40,633) | - |
| Total | **$ 5,587,804** | **$ -** | **$ 113,437** | **$ 5,474,367** | **$ 120,000** |

**2014 Bonds Payable**

In August 2014, the Colorado Educational and Facilities Authority (CECFA) issued $5,740,000 Charter School Revenue Bonds, Series 2014. Proceeds from the bonds were used to construct the Academy's educational facility. The Academy is required to make lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at a rate ranging from 2% to 4.15% per year. Interest payments are due semi-annually on March 1 and September 1 and principal payments are due annually on September 1 starting in 2016.

Bonds maturing on September 1, 2034 and thereafter are subject to mandatory sinking fund redemption beginning September 1, 2024. The bonds matures in September, 2044.

Future debt service requirements are as follows:

| Year Ended June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2019 | $ 120,000 | $ 221,726 | $ 341,726 |
| 2020 | 120,000 | 217,525 | 337,525 |
| 2021 | 125,000 | 212,624 | 337,624 |
| 2022 | 130,000 | 207,525 | 337,525 |
| 2023 | 135,000 | 202,225 | 337,225 |
| 2024-2028 | 770,000 | 923,024 | 1,693,024 |
| 2029-2033 | 935,000 | 752,722 | 1,687,722 |
| 2034-2038 | 1,140,000 | 544,450 | 1,684,450 |
| 2039-2043 | 1,395,000 | 283,134 | 1,678,134 |
| 2044-2045 | 645,000 | 27,080 | 672,080 |
| Total | **$ 5,515,000** | **$ 3,592,035** | **$ 9,107,035** |

## NOTE 6: ***ACCRUED SALARIES AND BENEFITS***

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve month period from September to August, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, as of June 30, 2018, were $114,817. Accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of the General Fund.

## NOTE 7: ***INTERFUND BALANCES AND TRANSFERS***

During the year ended June 30, 2018 the General Fund transferred $20,000 to the Debt Service Fund to fund the repair and replacement reserve required by bond covenants. The Debt Service Fund transferred $312 to the General Fund related to excess funding.

At June 30, 2018, the amount of $12,250 is due to the Activity Fund from the General Fund for payments received by the General Fund that had not been transferred to the Activity Fund by year end.

## NOTE 8: ***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.

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years.* Governmental accounting standards require the net pension liability and related amounts of the SCHDTF for financial reporting purposes be measured using the plan provisions in effect as of the SCHDTF's measurement date of December 31, 2017. As such, the following disclosures do not include the changes to plan provisions required by SB 18-200 with the exception of the section titled C*hanges between the measurement date of the net pension liability and June 30, 2018*

**NOTE 8:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

**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 as of December 31, 2017.* PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

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

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

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

The lifetime retirement benefit for all eligible retiring employees under the Denver Public Schools (DPS) benefit structure is the greater of the:

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

- $15 times the first 10 years of service credit plus $20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance 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.

**NOTE 8:** ***<u>DEFINED BENEFIT PENSION PLAN</u>*** (Continued)

**General Information about the Pension Plan** (Continued)

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.

As of December 31, 2017, 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.

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 provisions as of June 30, 2018:* 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:

**NOTE 8:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

**General Information about the Pension Plan** (Continued)

| | For the Year Ended December 31, 2017 | For the Year Ended December 31, 2018 |
|---|---|---|
| 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] | 5.00% | 5.50% |
| **Total employer contribution rate to the SCHDTF[1]** | **18.63%** | **19.13%** |

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the Academy were $227,910 for the year ended June 30, 2018.

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

At June 30, 2018, the Academy reported a liability of $7,849,434 for its proportionate share of the net pension liability. The net pension liability for the SCHDTF was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total pension liability to December 31, 2017. The Academy's proportion of the net pension liability was based on the Academy's contributions to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2017, the Academy's proportion was 0.02427%, which was an increase of 0.00188% from its proportion measured as of December 31, 2016.

**NOTE 8:** ***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, 2018, the Academy recognized pension expense of $1,791,833. At June 30, 2018, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $144,318 | N/A |
| Changes of assumptions or other inputs | $2,004,251 | $12,718 |
| Net difference between projected and actual earnings on pension plan investments | N/A | $308,255 |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | $673,857 | N/A |
| Contributions subsequent to the measurement date | $ 119,394 | N/A |
| **Total** | **$2,941,820** | **$320,973** |

$119,394 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, 2019. 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:** | |
|---|---|
| 2019 | $1,513,135 |
| 2020 | $947,621 |
| 2021 | $155,840 |
| 2022 | ($115,143) |

**NOTE 8:** ***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, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

| | |
|---|---|
| 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 |

A discount rate of 4.78 percent was used in the roll-forward calculation of the total pension liability to the measurement date of December 31, 2017.

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.

**NOTE 8:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

- **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.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting.

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.

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 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.

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

**NOTE 8:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

| 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%.

*Discount rate.* The discount rate used to measure the total pension liability was 4.78 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:

- 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.

**NOTE 8:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

- 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.

- 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.

**NOTE 8:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

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 Bond Buyer, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.43 percent, resulting in a discount rate of 4.78 percent.

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.86 percent were used in the discount rate determination resulting in a discount rate of 5.26 percent, 0.48 percent higher compared to the current measurement date.

*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 4.78 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 (3.78 percent) or 1-percentage-point higher (5.78 percent) than the current rate:

| | 1% Decrease (3.78%) | Current Discount Rate (4.78%) | 1% Increase (5.78%) |
|---|---|---|---|
| Proportionate share of the net pension liability | $9,915,164 | $7,849,434 | $6,166,091 |

*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.

**NOTE 8:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

**Changes Between the Measurement Date of the Net Pension Liability and June 30, 2018**

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years.* The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to the plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.
A brief description of some of the major changes to plan provisions required by SB 18-200 are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

- Increases employer contribution rates by 0.25 percent on July 1, 2019.

- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).

- Directs the state to allocate $225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the other divisions eligible for the direct distribution.

- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.

- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.

**NOTE 8:** ***DEFINED BENEFIT PENSION PLAN*** (Continued)

**Changes Between the Measurement Date of the Net Pension Liability and June 30, 2018** (Continued)

At June 30, 2018, the Academy reported a liability of $7,849,434 for its proportionate share of the net pension liability which was measured using the plan provisions in effect as of the pension plan's year-end based on a discount rate of 4.78%. For comparative purposes, the following schedule presents an estimate of what the Academy's proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SCHDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SCHDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

| Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma) | Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma) |
|---|---|
| 7.25% | $ 3,546,304 |

Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately $3,664,162 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

**NOTE 9:** ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN***

**Summary of Significant Accounting Policies**

*OPEB.* The Academy participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the HCTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefits paid on behalf of health care participants are recognized when due and/or payable in accordance with the benefit terms. Investments are reported at fair value.

**NOTE 9:** ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

**General Information about the OPEB Plan**

*Plan description.* Eligible employees of the Academy are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, 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 the premium subsidies. 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.* The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

**NOTE 9:** ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

**General Information about the OPEB Plan** (Continued)

*PERA Benefit Structure*
The maximum service-based premium subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF or the DPS HCTF on behalf of benefit recipients not covered by Medicare Part A.

*DPS Benefit Structure*
The maximum service-based premium subsidy is $230 per month for retirees who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is $115 per month for retirees who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum subsidy, in each case, is for retirees with retirement benefits based on 20 or more years of service credit. There is a 5 percent reduction in the subsidy for each year less than 20. The retiree pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For retirees who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, the HCTF or the DPS HCTF pays an alternate service-based premium subsidy. Each individual retiree meeting these conditions receives the maximum $230 per month subsidy reduced appropriately for service less than 20 years, as described above. Retirees who do not have Medicare Part A pay the difference between the total premium and the monthly subsidy.

**NOTE 9:** ***<u>DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN</u>*** (Continued)

**General Information about the OPEB Plan** (Continued)

*Contributions.* Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers of the State, School, Local Government, and Judicial Divisions are required to contribute at a rate of 1.02 percent of PERA-includable salary into the HCTF.

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the Academy were $12,307 for the year ended June 30, 2018.

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At June 30, 2018, the Academy reported a liability of $179,242 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The Academy's proportion of the net OPEB liability was based on Academy's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the Academy's proportion was 0.01379%, which was an increase of 0.00106% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the Academy recognized OPEB expense of $16,255. At June 30, 2018, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**NOTE 9:** ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** (Continued)

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Difference between expected and actual experience | $848 | N/A |
| Net difference between projected and actual earnings on OPEB plan investments | N/A | $2,999 |
| Changes in proportion and differences between contributions recognized and proportionate share of contributions | $11,504 | N/A |
| Contributions subsequent to the measurement date | $6,366 | N/A |
| **Total** | **$18,718** | **$2,999** |

$6,366 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| **Year ended June 30:** | |
|---|---|
| 2019 | $1,677 |
| 2020 | $1,677 |
| 2021 | $1,677 |
| 2022 | $1,678 |
| 2023 | $2,427 |
| Thereafter | $217 |

**NOTE 9: *DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** (Continued)

*Actuarial assumptions.* The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

| | |
|---|---|
| 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 percent in aggregate |
| Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation | 7.25 percent |
| Discount rate | 7.25 percent |
| Health care cost trend rates | |
| PERA benefit structure: | |
| Service-based premium subsidy | 0.00 percent |
| PERACare Medicare plans | 5.00 percent |
| Medicare Part A premiums | 3.00 percent for 2017, gradually rising to 4.25 percent in 2023 |
| DPS benefit structure: | |
| Service-based premium subsidy | 0.00 percent |
| PERACare Medicare plans | N/A |
| Medicare Part A premiums | N/A |

Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each actuarial valuation and on the pattern of sharing of costs between employers of each fund to that point.

Health care cost trend rates reflect the change in per capita health costs over time due to factors such as medical inflation, utilization, plan design, and technology improvements. For the PERA benefit structure, health care cost trend rates are needed to project the future costs associated with providing benefits to those PERACare enrollees not eligible for premium-free Medicare Part A.

**NOTE 9:** ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** (Continued)

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2016, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

The PERA benefit structure health care cost trend rates that were used to measure the total OPEB liability are summarized in the table below:

| Year | PERACare Medicare Plans | Medicare Part A Premiums |
|---|---|---|
| 2017 | 5.00% | 3.00% |
| 2018 | 5.00% | 3.25% |
| 2019 | 5.00% | 3.50% |
| 2020 | 5.00% | 3.75% |
| 2021 | 5.00% | 4.00% |
| 2022 | 5.00% | 4.00% |
| 2023 | 5.00% | 4.25% |
| 2024+ | 5.00% | 4.25% |

Mortality assumptions for the determination of the total pension liability for each of the Division Trust Funds as shown below are applied, as applicable, in the determination of the total OPEB liability for the HCTF. Affiliated employers of the State, School, Local Government, and Judicial Divisions participate in the HCTF.

Healthy mortality assumptions for active members were based on 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.

**NOTE 9:** ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** (Continued)

Healthy, post-retirement mortality assumptions for the State and Local Government Divisions were based on the RP-2014 Healthy Annuitant Mortality Table, adjusted as follows:

- Males: Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 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 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

Healthy, post-retirement mortality assumptions for the School and Judicial Divisions were based on 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.

For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

The following economic and demographic assumptions were specifically developed for, and used in, the measurement of the obligations for the HCTF:

- The assumed rates of PERACare participation were revised to reflect more closely actual experience.

- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 plan year.

**NOTE 9:** ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** (Continued)

- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.

- The percentage of disabled PERACare enrollees who are assumed to not qualify for premium-free Medicare Part A coverage were revised to reflect more closely actual experience.

- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the "No Part A Subsidy" when they retire were revised to more closely reflect actual experience.

- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees, who qualify for the "No Part A Subsidy" but have not reached age 65, were revised to more closely reflect actual experience.

- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

- The rates of PERAcare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.

- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

The actuarial assumptions used in the December 31, 2016, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as needed.

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.

**NOTE 9:** ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** (Continued)

Several factors were considered in evaluating the long-term rate of return assumption for the HCTF, 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 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.

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

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

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

**NOTE 9: *DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** (Continued)

*Sensitivity of the Academy's proportionate share of the net OPEB liability to changes in the Health Care Cost Trend Rates.* The following presents the net OPEB liability using the current health care cost trend rates applicable to the PERA benefit structure, as well as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

| | 1% Decrease in Trend Rates | Current Trend Rates | 1% Increase in Trend Rates |
|---|---|---|---|
| PERACare Medicare trend rate | 4.00% | 5.00% | 6.00% |
| Initial Medicare Part A trend rate | 2.00% | 3.00% | 4.00% |
| Ultimate Medicare Part A trend rate | 3.25% | 4.25% | 5.25% |
| Net OPEB Liability | $174,310 | $179,242 | $185,182 |

*Discount rate.* The discount rate used to measure the total OPEB liability was 7.25 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 health care cost trend rates for Medicare Part A premiums as of the December 31, 2017, measurement date.

- 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%.

- 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. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.

**NOTE 9:** ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB** (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.

- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits 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 HCTF's fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

*Sensitivity of the* Academy's *proportionate share of the net OPEB liability to changes in the discount rate.* The following presents the proportionate share of the net OPEB liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|---|---|---|---|
| Proportionate share of the net OPEB liability | $201,524 | $179,242 | $160,223 |

*OPEB plan fiduciary net position.* Detailed information about the HCTF'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.

## NOTE 10: ***SIGNIFICANT 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, 2018, significant amounts of grant expenditures have not been audited, but the Academy believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Academy.

**Tabor Amendment**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising spending abilities, and other specific requirements of state and local government. The Amendment is complex and subject to judicial interpretation. The Academy believes it is in compliance with the requirements of the Amendment.

The Amendment requires state and local governments to establish an emergency reserve, representing 3% of qualifying expenditures. At June 30, 2018, the Academy reserved $103,000 to meet this requirement.

## NOTE 11: ***RESTATEMENT OF NET POSITION***

The beginning net position of the governmental activities was decreased by $159,575 as the Academy implemented Governmental Accounting Standards Board (GASB) Statement 75.

## NOTE 12: ***DEFICIT NET POSITION***

The net position of the governmental activities is in a deficit position in the amount of $1,184,144 due to the Academy including its Net Pension Liability and Net OPEB liability per the requirements of GASB Statement Nos. 68 and 75.

# REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENCE ACADEMY

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2018

| | 2018 | | | | |
|---|---|---|---|---|---|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE Positive (Negative) | 2017 ACTUAL |
| REVENUES | | | | | |
| Local Sources | | | | | |
| Per Pupil Revenue | $ 2,815,773 | $ 2,773,265 | $ 2,777,028 | $ 3,763 | $ 2,726,692 |
| Mill Levy | - | 95,000 | 111,644 | 16,644 | - |
| Tuition and Fees | 63,000 | 63,000 | 146,738 | 83,738 | 152,582 |
| Interest | - | - | 609 | 609 | 537 |
| Other | 130,000 | 145,000 | 29,839 | (115,161) | 83,597 |
| State Sources | | | | | |
| Grants and Donations | 91,000 | 83,000 | 173,773 | 90,773 | 152,662 |
| TOTAL REVENUES | 3,099,773 | 3,159,265 | 3,239,631 | 80,366 | 3,116,070 |
| EXPENDITURES | | | | | |
| Salaries | 1,299,350 | 1,431,350 | 1,278,151 | 153,199 | 1,157,444 |
| Employee Benefits | 568,044 | 590,044 | 393,472 | 196,572 | 333,300 |
| Purchased Services | 474,500 | 576,500 | 703,724 | (127,224) | 857,146 |
| Supplies and Materials | 145,000 | 110,000 | 132,864 | (22,864) | 101,933 |
| Property | 420,879 | 350,500 | 61,050 | 289,450 | 152,470 |
| Other | 192,000 | 100,871 | 2,698 | 98,173 | 492 |
| TOTAL EXPENDITURES | 3,099,773 | 3,159,265 | 2,571,959 | 587,306 | 2,602,785 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | - | - | 667,672 | 667,672 | 513,285 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers In | - | - | 312 | 312 | - |
| Transfers Out | - | - | (20,000) | (20,000) | (20,000) |
| TOTAL OTHER FINANCING SOURCES (USES) | - | - | (19,688) | (19,688) | (20,000) |
| NET CHANGE IN FUND BALANCE | - | - | 647,984 | 647,984 | 493,285 |
| FUND BALANCE, Beginning | 2,031,561 | 2,523,846 | 2,486,610 | (37,236) | 1,993,325 |
| FUND BALANCE, Ending | $ 2,031,561 | $ 2,523,846 | $ 3,134,594 | $ 610,748 | $ 2,486,610 |

See the accompanying independent auditors' report.

INDEPENDENCE ACADEMY

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

Years Ended December 31,

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| School's proportionate share of the Net Pension Liability | 0.0180% | 0.0184% | 0.0197% | 0.0224% | 0.0243% |
| School's proportionate share of the Net Pension Liability | $ 2,299,377 | $ 2,492,184 | $ 3,013,670 | $ 6,668,309 | $ 7,849,434 |
| School's covered-employee payroll | $ 726,737 | $ 770,322 | $ 858,719 | $ 1,005,197 | $ 1,119,743 |
| School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll | 316.4% | 323.5% | 350.9% | 663.4% | 701.0% |
| Plan fiduciary net position as a percentage of the total pension liability | 64.1% | 62.8% | 59.2% | 43.1% | 43.96% |

See the accompanying independent auditors' report.

INDEPENDENCE ACADEMY

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DIVISION TRUST FUND

Years Ended June 30,

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Statutorily required contributions | $ 127,245 | $ 141,592 | $ 179,981 | $ 204,163 | $ 227,910 |
| Contributions in relation to the Statutorily required contributions | 127,245 | 141,592 | 179,981 | 204,163 | 227,910 |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - |
| School's covered-employee payroll | $ 748,498 | $ 791,031 | $ 953,990 | $ 1,052,094 | $ 1,206,606 |
| Contributions as a percentage of covered-employee payroll | 17.00% | 17.90% | 18.87% | 19.41% | 18.89% |

See the accompanying independent auditors' report.

INDEPENDENCE ACADEMY

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
HEALTH CARE TRUST FUND

Years Ended December 31,

| | 2016 | 2017 |
|---|---|---|
| School's proportionate share of the Net OPEB Liability | 0.0127% | 0.0138% |
| School's proportionate share of the Net OBEB Liability | $ 165,055 | $ 179,242 |
| School's covered-employee payroll | $ 1,005,197 | $ 1,119,743 |
| School's proportionate share of the Net OPEB Liability as a percentage of its covered-employee payroll | 16.4% | 16.0% |
| Plan fiduciary net position as a percentage of the total pension liability | 16.72% | 17.53% |

See the accompanying independent auditors' report.

INDEPENDENCE ACADEMY

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
HEALTH CARE TRUST FUND

Years Ended June 30,

| | 2017 | 2018 |
|---|---|---|
| Statutorily required contributions | $ 10,731 | $ 12,307 |
| Contributions in relation to the Statutorily required contributions | 10,731 | 12,307 |
| Contribution deficiency (excess) | $ - | $ - |
| School's covered-employee payroll | $ 1,052,094 | $ 1,206,606 |
| Contributions as a percentage of covered-employee payroll | 1.02% | 1.02% |

See the accompanying independent auditors' report.

# INDIVIDUAL FUND FINANCIAL SCHEDULES

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INDEPENDENCE ACADEMY

BUILDING CORPORATION
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2018

| | 2018 | | | | |
|---|---|---|---|---|---|
| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE Positive (Negative) | 2017 ACTUAL |
| REVENUES | | | | | |
| Local Sources | | | | | |
| Investment Income | $ - | $ - | $ 4,246 | $ 4,246 | $ 1,597 |
| Rent Revenue | 355,000 | 370,000 | 342,744 | (27,256) | 340,925 |
| TOTAL REVENUES | - | 370,000 | 346,990 | (23,010) | 342,522 |
| EXPENDITURES | | | | | |
| Debt Service | | | | | |
| Principal | - | 115,000 | 115,000 | - | 110,000 |
| Interest | 355,000 | 255,000 | 225,250 | 29,750 | 228,075 |
| TOTAL EXPENDITURES | 355,000 | 370,000 | 340,250 | 29,750 | 338,075 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (355,000) | - | 6,740 | 6,740 | 4,447 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfer In | - | - | 20,000 | 20,000 | 20,000 |
| Transfer Out | - | - | (312) | (312) | - |
| TOTAL OTHER FINANCING SOURCES (USES) | - | - | 19,688 | 19,688 | 20,000 |
| NET CHANGE IN FUND BALANCE | (355,000) | - | 26,428 | 26,428 | 24,447 |
| FUND BALANCE, Beginning | 580,881 | 605,328 | 605,328 | - | 580,881 |
| FUND BALANCE, Ending | $ 225,881 | $ 605,328 | $ 631,756 | $ 26,428 | $ 605,328 |

See the accompanying independent auditors' report.

INDEPENDENCE ACADEMY

AGENCY FUND - PUPIL ACTIVITY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2018

| | BALANCE JULY 1, 2017 | ADDITIONS | DEDUCTIONS | BALANCE JUNE 30, 2018 |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash | $ 263,380 | $ 153,881 | $ 151,845 | $ 265,416 |
| Due from General Fund | - | 12,250 | - | 12,250 |
| Due from Others | - | 10,586 | - | 10,586 |
| TOTAL ASSETS | $ 263,380 | $ 176,717 | $ 151,845 | $ 288,252 |
| LIABILITIES | | | | |
| Accounts Payable - | | | | |
| Due to Student Groups | $ 259,878 | $ 176,717 | $ 148,343 | $ 288,252 |
| Due to General Fund | 3,502 | - | 3,502 | - |
| TOTAL LIABILITIES | $ 263,380 | $ 176,717 | $ 151,845 | $ 288,252 |

See the accompanying independent auditors' report.