

CAPROCK ACADEMY
BASIC FINANCIAL STATEMENTS
June 30, 2016



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FINANCIAL SECTION



JOHN CUTLER & ASSOCIATES

Board of Directors
Caprock Academy
Grand Junction, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Caprock Academy, as of and for the year ended June 30, 2016, 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 respective financial position of the governmental activities and each major fund of Caprock Academy, as of June 30, 2016, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedule of the school's proportionate share, and schedule of the school's contributions on pages 28-30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

John Luttrell & Associates, LLC

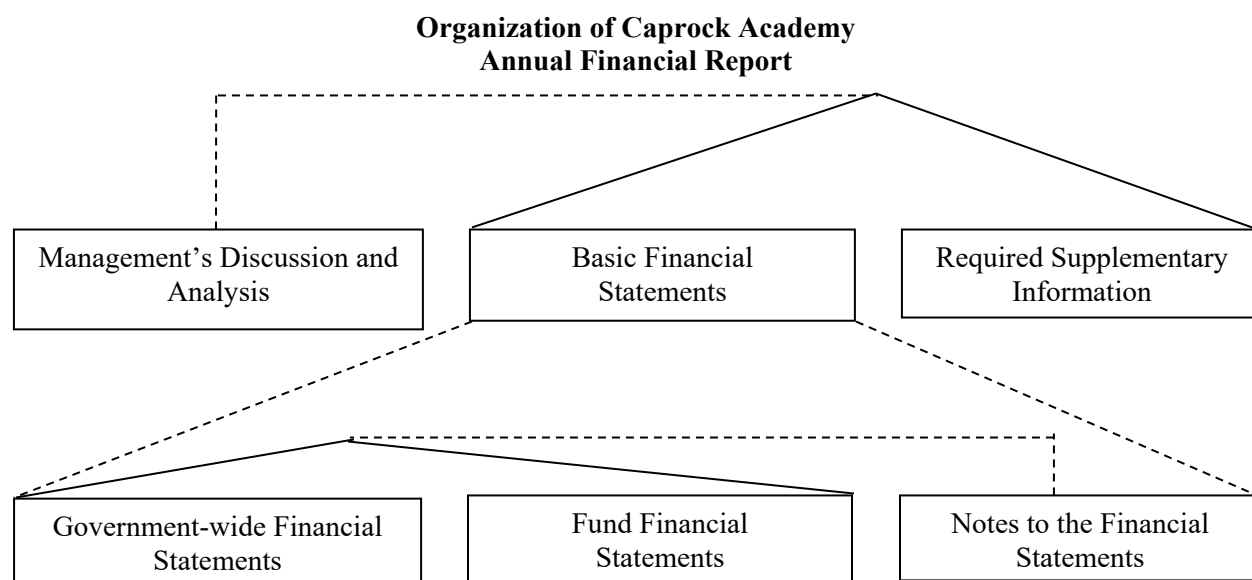
October 10, 2016

Financial Highlights

- The assets of Caprock Academy were less than its liabilities at the close of the most recent fiscal year by \$8,004,674 (*net position*). The deficit in net position is attributable to capital-related debt exceeding capital assets by \$2,021,777 as well as the pension liability related to Caprock Academy's proportionate share of the net pension liability of the School Division Trust Fund (SCHDTF) of \$8,650,112. Unrestricted net position and restricted net position were (\$7,131,547) and \$1,148,650 at June 30, 2016.
- Caprock Academy's total net position decreased by \$340,731.
- As of the close of the current fiscal year, Caprock Academy's governmental/General fund reported an ending fund balance of \$2,212,988, an increase of \$189,674 in comparison with the prior year. Approximately 48 percent of this total amount, (\$1,064,338), is available for spending at the Charter School's discretion (*unassigned fund balance*).

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Caprock Academy's basic financial statements. Caprock Academy's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves. The following chart shows how the various parts of this annual report are arranged and related to one another:



Summary ←————→ Detail

The following chart summarizes the major features of the Charter School's financial statements, including the portion of Caprock Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure of each of the statements:

	Government-wide Statements	Fund Financial Statements Government Funds
Required financial statements	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances
Accounting basis and focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of in flow/out flow information	All revenues and expenditures during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable

Government-wide Financial Statements

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

The *statement of net position* presents information on all of Caprock Academy's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Caprock Academy is improving or deteriorating.

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

The government-wide financial statements display functions of Caprock Academy that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of Caprock Academy include administration, elementary and secondary regular instruction, special education instruction, instructional support services and sites and buildings.

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

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Caprock Academy, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

Caprock Academy maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, which is the one governmental fund.

Caprock Academy adopts an annual appropriated budget for its General fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3 - 5 of this report.

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 are found on pages 6 - 27 of this report.

Other Information

A budgetary comparison schedule for the General fund can be found on page 28 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Caprock Academy, assets were less than liabilities by \$8,004,674 at the close of the most recent fiscal year.

A portion of Caprock Academy's net position reflects its investment in capital assets net of any related debt. Caprock Academy uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending.

Net position

	Governmental Activities		
	2016	2015	Increase (Decrease)
Assets			
Current and other assets	\$ 2,301,440	\$ 2,284,571	\$ 16,869
Capital assets	<u>7,481,619</u>	<u>6,675,279</u>	<u>806,340</u>
Total assets	<u>9,783,059</u>	<u>8,959,850</u>	<u>823,209</u>
Deferred outflow of resources			
Related to pensions	<u>1,504,478</u>	<u>797,440</u>	<u>707,038</u>
Total deferred outflow of resources	<u>1,504,478</u>	<u>797,440</u>	<u>707,038</u>
Liabilities			
Current	88,452	261,257	(172,805)
Non-current	<u>19,081,158</u>	<u>17,159,555</u>	<u>1,921,603</u>
Total liabilities	<u>19,169,610</u>	<u>17,420,812</u>	<u>1,748,798</u>
Deferred inflow of resources			
Related to pensions	<u>122,601</u>	<u>421</u>	<u>122,180</u>
Total deferred inflow of resources	<u>122,601</u>	<u>421</u>	<u>122,180</u>
Net position			
Investment in capital assets	(2,021,777)	(2,044,432)	22,655
Restricted	1,148,650	1,049,415	99,235
Unrestricted	<u>(7,131,547)</u>	<u>(6,668,926)</u>	<u>(462,621)</u>
Total net position	<u>\$ (8,004,674)</u>	<u>\$ (7,663,943)</u>	<u>\$ (340,731)</u>

An additional portion of Caprock Academy's net position (\$221,000) represents amounts restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

At the end of the current fiscal year, Caprock Academy is able to report a positive balance in the restricted category of net position. The negative \$2,021,777 amount reported under investment in capital assets represents the amount of Caprock Academy's investment in capital assets, net of accumulated depreciation less the amount of debt used to acquire those capital assets. The negative \$7,131,547 amount reported under unrestricted net position represents Caprock Academy's proportionate share of the net pension liability of the School Division Trust Fund (SCHDTF) of \$8,650,112.

Caprock Academy refinanced its bond debt obligations in December 2015 for more favorable terms through December 2017, namely an interest rate decrease of 0.5%, but long term liabilities increased due to additional debt being incurred to purchase land.

Caprock Academy's net position decreased \$340,731 during the current fiscal year. The following summarizes the changes in net position.

Changes in Net position

	Governmental Activities		
	2016	2015	Increase (Decrease)
Revenues			
Program revenues			
Charges for services	\$363,088	\$323,107	\$39,981
Operating grants and contributions	369,759	289,444	80,315
Capital grants and contributions	68,102	68,102	-
General revenues			
Per pupil revenue	5,124,561	4,372,888	751,673
Other	42,695	42,427	268
Total revenues	<u>5,968,205</u>	<u>5,095,968</u>	<u>872,237</u>
Expenses			
Instructional	3,155,404	2,279,287	876,117
Supporting services	2,395,242	2,228,521	166,721
Interest on long-term debt	<u>758,290</u>	<u>712,043</u>	<u>46,247</u>
Total expenses	<u>6,308,936</u>	<u>5,219,851</u>	<u>1,089,085</u>
Change in net position	(340,731)	(123,883)	(216,848)
Net position, July 1	<u>(7,663,943)</u>	<u>(7,540,060)</u>	<u>(123,883)</u>
Net position, June 30	<u>\$(8,004,674)</u>	<u>\$(7,663,943)</u>	<u>\$(340,731)</u>

Revenue increased due to an increase in student enrollment from approximately 656 FTE (full-time equivalent) in 2014/2015 to approximately 738 FTE in 2015/2016 and an increased per pupil rate (PPR). Caprock Academy's fee-based after school care program also continued to see revenue growth. The relatively steep growth in student population necessitated additional spending on instructional programs. Approximately ten new staff positions were added to accommodate the additional students, and additional instructional supplies were needed as well. The Academy also purchased new textbook sets to replace aging books and added a kiln for art class. The growth in instructional expenses was mainly due to these factors.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, Caprock Academy's governmental/General fund reported a combined ending fund balance of \$2,212,988, an increase of \$189,674 in comparison with the prior year. Approximately 48 percent of this total amount (\$1,064,338) constitutes *unassigned fund balance*, which is available for spending at Caprock Academy's discretion.

The remainder of fund balance is *restricted* to indicate that it is not available for new spending because it has already been reserved for emergencies (\$221,000) and debt service (\$927,650). As a measure of the General fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 16 percent of total General fund expenditures, while total fund balance represents approximately 33 percent of that same amount.

General Fund Budgetary Highlights

Caprock Academy budgeted for expenditures and transfers of \$7,410,369 for the year ended June 30, 2016. Actual expenditures and transfers were \$6,690,977. There was one budget amended (midyear) made during the year.

Capital Asset and Debt Administration

Capital Assets

Caprock Academy's investment in capital assets for its governmental activities as of June 30, 2016, amounts to \$7,481,619 (net of accumulated depreciation). This investment in capital assets includes buildings, leasehold improvements, equipment, and land. The total depreciation for the year was \$333,279. The following is a schedule of capital assets as of June 30, 2016. Caprock Academy exercised its purchase option on the 11 acres adjacent to the school's existing location that it had been leasing for several years. The purchase was completed in July 2015. The Academy intends to use the land for future facility expansion. The long term growth in student population and program components since 2011 means that expansion space continues to be a primary strategic element. Additional information can be found on page 14 of this report.

	Capital Assets (Net of Depreciation)		
	Governmental Activities		Increase (Decrease)
	2016	2015	
Land	\$1,827,275	\$761,083	\$1,066,192
Buildings and leasehold improvements, net	5,647,152	5,914,196	(267,044)
Machinery and equipment, net	7,192	-	7,192
Total	<u>7,481,619</u>	<u>6,675,279</u>	<u>806,340</u>

Factors Bearing on Caprock Academy's Future

The primary factor driving the budget for Caprock Academy is student enrollment. The 2016/2017 preliminary budget is based on approximately 790 students or approximately 750 FTE and will be revised in December 2016/January 2017 to reflect an increased student population of 808 students or approximately 772 FTE.

The outlook for state funding via Per Pupil Revenue (PPR) remains relatively unknown but is expected to be flat or slightly increasing in terms of what can be depended on for budget purposes.

Requests for Information

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

Business Manager
Caprock Academy
714 24 ½ Road
Grand Junction, CO 81505

BASIC FINANCIAL STATEMENTS

CAPROCK ACADEMY

STATEMENT OF NET POSITION

As of June 30, 2016

	GOVERNMENTAL ACTIVITIES	
	2016	2015
ASSETS		
Cash and Investments	\$ 1,290,775	\$ 1,303,121
Restricted Cash and Investments	927,650	907,415
Accounts Receivable	83,015	57,035
Deposits	-	5,000
Debt Issuance Costs	-	12,000
Capital Assets, Not Depreciated	1,849,203	761,083
Capital Assets, Depreciated, Net of Accumulated Depreciation	5,632,416	5,914,196
TOTAL ASSETS	9,783,059	8,959,850
DEFERRED OUTFLOW OF RESOURCES		
Related to Pensions	1,504,478	797,440
LIABILITIES		
Retainage Payable	30,244	203,050
Accrued Expenses	5,000	5,000
Accrued Interest Payable	53,208	53,207
Noncurrent Liabilities		
Due in One Year	136,321	105,000
Due in More than One Year	10,294,725	9,522,126
Pension Liability	8,650,112	7,532,429
TOTAL LIABILITIES	19,169,610	17,420,812
DEFERRED INFLOW OF RESOURCES		
Related to Pensions	122,601	421
NET POSITION		
Investment in Capital Assets	(2,021,777)	(2,044,432)
Restricted for Emergencies	221,000	142,000
Restricted for Debt Service	927,650	907,415
Unrestricted	(7,131,547)	(6,668,926)
TOTAL NET POSITION	\$ (8,004,674)	\$ (7,663,943)

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

CAPROCK ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

					NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION	
FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			Governmental Activities	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2016	2015
PRIMARY GOVERNMENT						
Governmental Activities						
Instructional	\$ 3,155,404	\$ 124,905	\$ 323,192	\$ -	\$ (2,707,307)	\$ (1,945,867)
Supporting Services	2,395,242	238,183	46,567	68,102	(2,042,390)	(1,881,288)
Interest on Long-Term Debt	758,290	-	-	-	(758,290)	(712,043)
Total Governmental Activities	<u>\$ 6,308,936</u>	<u>\$ 363,088</u>	<u>\$ 369,759</u>	<u>\$ 68,102</u>	(5,507,987)	(4,539,198)
GENERAL REVENUES						
Per Pupil Revenue					5,124,561	4,372,888
Other					42,695	42,427
TOTAL GENERAL REVENUES					5,167,256	4,415,315
CHANGE IN NET POSITION					(340,731)	(123,883)
NET POSITION, Beginning					(7,663,943)	(7,540,060)
NET POSITION, Ending					\$ (8,004,674)	\$ (7,663,943)

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

CAPROCK ACADEMY

BALANCE SHEET
ALL GOVERNMENTAL FUNDS
June 30, 2016

	GENERAL FUND	
	2016	2015
ASSETS		
Cash and Investments	\$ 1,290,775	\$ 1,303,121
Restricted Cash and Investments	927,650	907,415
Accounts Receivable	83,015	57,035
Prepaid Expenses	-	12,000
Deposits	-	5,000
TOTAL ASSETS	<u>\$ 2,301,440</u>	<u>\$ 2,284,571</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accrued Expenses	\$ 30,244	\$ 203,050
Bond Interest Payable	53,208	53,207
Deposits	5,000	5,000
TOTAL LIABILITIES	<u>88,452</u>	<u>261,257</u>
FUND BALANCES		
Nonspendable	-	17,000
Restricted for Emergencies	221,000	142,000
Restricted for Debt Service	927,650	907,415
Unassigned	1,064,338	956,899
TOTAL FUND BALANCES	2,212,988	2,023,314
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	7,481,619	6,675,279
Long-term liabilities are not due and payable in the current period and are not reported in the funds. This included bonds payable (\$9,630,000), and bond discount \$104,334, and loan payable of (\$905,380).	(10,431,046)	(9,627,126)
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 includes net pension liability (\$8,650,112), deferred outflows related to pensions \$1,504,478, and deferred inflows related to pensions (\$122,601).	<u>(7,268,235)</u>	<u>(6,735,410)</u>
Net position of governmental activities	<u>\$ (8,004,674)</u>	<u>\$ (7,663,943)</u>

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

CAPROCK ACADEMY

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

	GENERAL FUND	
	2016	2015
REVENUES		
Local Sources	\$ 5,576,911	\$ 4,819,172
State Sources and Federal Sources	391,294	276,796
TOTAL REVENUES	5,968,205	5,095,968
EXPENDITURES		
Instruction	2,730,752	2,273,927
Supporting Services	1,914,724	1,817,720
Capital Outlay	1,175,145	108,973
Debt Service		
Principal	112,066	95,000
Interest	758,290	708,503
TOTAL EXPENDITURES	6,690,977	5,004,123
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(722,772)	91,845
OTHER FINANCING SOURCES (USES)		
Proceeds from Issuance of Debt	912,446	-
NET CHANGE IN FUND BALANCES	189,674	91,845
FUND BALANCES, Beginning	2,023,314	1,931,469
FUND BALANCES, Ending	\$ 2,212,988	\$ 2,023,314

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

CAPROCK ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

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

Net change in fund balances - total governmental funds	\$ 189,674
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 (\$333,279), exceeded capital outlay \$1,139,619.	806,340
Repayment of long-term debt and related costs are reported as an expenditure in the governmental funds and decrease fund balance. For the Academy as a whole, however, these costs and payments reduce the liabilities or are capitalized in the statement of net position and do not result in an expense in the statement of activities. This amount includes bond principal payment \$112,066 and amortization of bond discount (\$3,540), and loan proceeds of (\$912,446).	(803,920)
Deferred Charges related to pensions are not recognized in the governmental funds. However, in the government-wide statements these amounts are capitalized and amortized.	<u>(532,825)</u>
Change in net position of governmental activities	<u>\$ (340,731)</u>

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

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

Caprock Academy (the “Academy”) was organized in 2007, pursuant to the Colorado Charter Schools Act to form and operate a charter school in of the State of Colorado. The Academy receives their primary funding from the Charter School Institute (the “Institute”).

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

Reporting Entity

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

Caprock Academy Building Corporation

The Caprock 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. As the Academy made payments directly to the bond trustee, there are no transactions to report for the Building Corporation. Separate financial statements are not available for the Building Corporation. The Academy paid \$112,066 and \$758,290 for principal and interest on behalf of the Building Corporation. Cash in the amount of \$927,650 has been restricted in the General Fund for payment of the Building Corporation debt service expenses.

Caprock Academy Building Corporation 2

The Caprock Academy Building Corporation 2 (the “Building Corporation 2”) is considered to be financially accountable to the Academy. The Building Corporation 2 was formed in June 2014 to support and assist the Academy to perform its function and to carry out its purpose, specifically to enter into an operating lease agreement for one of the Academy’s modular buildings. As the Academy will make payments directly to the lessor, there are no transactions to report for the Building Corporation 2. Separate financial statements are not available for the Building Corporation 2. The Academy will make monthly lease payments to the lessor on behalf of the Building Corporation 2 beginning in July 2014.

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

The Academy reports the following major governmental fund:

General Fund – This fund is the general operating fund of the Academy. It is used to account for all financial resources except those required to be accounted for in another fund.

Deferred Outflows/Inflows of Resources

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

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

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Fund Balance/Net Position

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

Capital Assets – Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net assets in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: buildings and improvements 15 – 35 years; equipment 5 years.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Depreciation has been provided over the estimated useful life of 15 years using the straight-line method.

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. Bond 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.

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

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

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

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

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

- Nonspendable – This classification includes amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The Academy reports prepaid expenses and deposits as nonspendable as of June 30, 2016.
- 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 also reports funds as restricted for debt service as required by bond covenants.
- 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, 2016.
- 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.

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 resources.

Compensated Absences

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

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, comparative data has not been presented in all statements because such inclusion would make certain statements unduly complex and difficult to understand. Also, certain amounts presented in the prior year data have been reclassified to be consistent with current year's presentation.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

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

Legal Compliance

The actual expenditures of the General Fund exceeded the budgeted amount by \$830,608. This may be a violation of State statute.

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 3: **CASH AND INVESTMENTS**

Cash and Investments at June 30, 2016 consisted of the following:

Petty Cash	\$ 508
Deposits	1,290,267
Investments	<u>927,650</u>
Total	<u>\$ 2,218,425</u>

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, 2016 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, 2016, the Academy had deposits with financial institutions with a carrying amount of \$1,290,267. The bank balances with the financial institutions were \$1,341,337. Of these balances, \$250,000 was covered by federal depository insurance and \$1,091,337 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

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.

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

Credit Risk

Colorado statutes specify in which instruments units of local government may invest, which include:

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

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

State statutes limit the investments in money market funds to the highest rating issued by nationally recognized statistical rating organizations (NRSRO's), with a constant share price, and that invest only in securities allowed by State statutes. At June 30, 2016 the Academy had \$927,650 invested in a money market fund. The fund invests only in U.S. Treasury obligations and is rated Aaa by Moody's.

Restricted Cash and Investments

Investments in money market funds totaling \$927,650 are restricted in the General Fund for the payment of the Academy's debt. This amount is held on behalf of the Building Corporation.

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 4: CAPITAL ASSETS

Capital Assets activity for the year ended June 30, 2016 is summarized below.

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2016</u>
Governmental Activities				
Capital Assets, Not Depreciated				
Land	\$ 761,083	\$ 1,066,192	\$ -	\$ 1,827,275
Construction in Progress	<u>-</u>	<u>21,928</u>	<u>-</u>	<u>21,928</u>
Total Capital Assets, Not Depreciated	<u>\$ 761,083</u>	<u>\$ 1,088,120</u>	<u>\$ -</u>	<u>\$ 1,849,203</u>
Capital Assets, Depreciated				
Buildings and Improvements	7,486,770	35,517	-	7,522,287
Machinery and Equipment	<u>8,262</u>	<u>15,982</u>	<u>-</u>	<u>24,244</u>
Total Capital Assets, Depreciated	<u>7,495,032</u>	<u>51,499</u>	<u>-</u>	<u>7,546,531</u>
Accumulated Depreciation				
Buildings and Improvements	1,572,574	324,489	-	1,897,063
Machinery and Equipment	<u>8,262</u>	<u>8,790</u>	<u>-</u>	<u>17,052</u>
Total Accumulated Depreciation	<u>1,580,836</u>	<u>333,279</u>	<u>-</u>	<u>1,914,115</u>
Total Capital Assets, Depreciated, Net	<u>5,914,196</u>	<u>(281,780)</u>	<u>-</u>	<u>5,632,416</u>
Net Capital Assets	<u>\$ 6,675,279</u>	<u>\$ 806,340</u>	<u>\$ -</u>	<u>\$ 7,481,619</u>

Depreciation was charged to the Supporting Services activity of the Academy.

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 5: **LONG-TERM DEBT**

Following is a summary of the Academy's long-term debt transactions for the year ended June 30, 2016

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2016</u>	Due In <u>One Year</u>
Bond Payable	\$ 9,735,000	\$ -	\$ 105,000	\$ 9,630,000	\$ 110,000
Bond Discount	(107,874)	-	(3,540)	(104,334)	-
Loan Payable	<u>-</u>	<u>912,446</u>	<u>7,066</u>	<u>905,380</u>	<u>26,321</u>
Total	<u>\$ 9,627,126</u>	<u>\$ 912,446</u>	<u>\$ 108,526</u>	<u>\$10,431,046</u>	<u>\$ 136,321</u>

Loan Payable

In January, 2011, the Academy entered into a land lease agreement that included an option to purchase the land. In July 2015, the Academy exercised the option and purchased the land for a purchase price of \$1,156,000. The land purchase was partially financed with a loan in the amount of \$924,800. The original loan carried an interest rate of 5.75% and requires monthly principal and interest payments in the amount of \$6,538 through December 2015. A balloon payment for all outstanding principal and interest is due in January 2016. In February 2016, the Academy performed a change in terms for the loan, changing the loan balance of \$912,446 to a single 5-year term at an interest rate of 5.75% maturing in February 2021.

Bonds Payable

In November 2010, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$9,650,000 Charter School Revenue Bonds Series 2010A and \$215,000 Charter School Revenue Bonds Taxable Series 2010B. Proceeds of these bonds were loaned to the Corporation to construct educational facilities for the Academy and to pay off the existing loans related to the Academy's modular buildings. The Academy is obligated under a lease agreement to make monthly lease payments to the Corporation for the use of educational facilities. The Corporation is required to make equal loan payments to the Trustee, for payment of the bonds. The bonds accrue interest ranging from 7.00% to 7.25% per annum. Interest payments are due semi-annually on June 1 and December 1. Principal payments are due annually on June 1, through 2045. In December 2015, Caprock completed an amendment to their bond to extend the call date one year and reduce the interest rate ½ point from 7.5% to 7% from December 2015 through December 2017.

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 5: **LONG-TERM DEBT**

Future debt service requirements for the bond are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 110,000	\$ 674,100	\$ 784,100
2018	120,000	666,400	786,400
2019	125,000	658,000	783,000
2020	135,000	649,250	784,250
2021	145,000	639,800	784,800
2022-2026	890,000	3,032,400	3,922,400
2027-2031	1,245,000	2,674,700	3,919,700
2032-2036	1,750,000	2,172,450	3,922,450
2037-2041	2,450,000	1,468,950	3,918,950
2042-2045	<u>2,660,000</u>	<u>481,250</u>	<u>3,141,250</u>
Total	<u>\$ 9,630,000</u>	<u>\$ 13,117,300</u>	<u>\$ 22,747,300</u>

NOTE 6: **RISK OF LOSS**

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 participates in the Colorado School District Self Insurance Pool. The Pool insures property and liability exposures through contributions made by member entities. The Academy does not maintain an equity interest in the self-insurance pool. The Academy funds its pool contributions, outside insurance purchases, deductibles, and uninsured losses through the General Fund. The Academy has a \$1,000 deductible for any property claims. Settled claims resulting from these risks have not exceeded coverage's in any of the past three years.

NOTE 7: **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.

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: 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. 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.

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

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

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN(Continued)

General Information about the Pension Plan (Continued)

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

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

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

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: **DEFINED BENEFIT PENSION PLAN** (Continued)

General Information about the Pension Plan (Continued)

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

	For the Year Ended December 31, 2014	For the Year Ended December 31, 2015
Employer Contribution Rate ¹	10.15%	10.15%
Amount of Employer Contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹	(1.02)%	(1.02)%
Amount Apportioned to the SCHDTF ¹	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	4.20%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	4.00%	4.50%
Total Employer Contribution Rate to the SCHDTF ¹	17.33%	18.13%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF Academy were \$494,423 for the year ended June 30, 2016.

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN(Continued)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016 the Academy reported a liability of \$8,650,112 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. Standard update procedures were used to roll forward the total pension liability to December 31, 2015. The Academy's proportion of the net pension liability was based on the Academy's contributions to the SCHDTF for the calendar year 2015 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2015, the Academy's proportion was 0.05655%, which was an increase of 0.000010% from its proportion measured as of December 31, 2014.

For the year ended June 30, 2016 the Academy recognized pension expense of \$1,027,248. At June 30, 2016, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$114,226	\$361
Changes in assumptions or other inputs	N/A	\$122,240
Net difference between projected and actual earnings on pension plan investments	\$735,502	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$399,290	N/A
Contributions subsequent to the measurement date	\$255,460	N/A
TOTAL	\$1,504,478	\$122,601

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN(Continued)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** (Continued)

\$255,460 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	
2017	\$379,593
2018	\$379,656
2019	\$216,343
2020	\$150,825

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

Price inflation	2.80%
Real wage growth	1.10%
Wage inflation	3.90%
Salary increases, including wage inflation	3.90%-10.10%
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.50%
Future post-retirement benefit increases:	
PERA Benefit Structure hired prior to 1/1/07; and DPS Benefit Structure (automatic)	2.00%
PERA Benefit Structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN(Continued)

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

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

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

The following programming changes were made:

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

The following methodology changes were made:

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

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

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: DEFINED BENEFIT PENSION PLAN(Continued)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** (Continued)

As of the November 15, 2013 adoption of the long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	10 Year Expected Geometric Real Rate of Return
U.S. Equity – Large Cap	26.76%	5.00%
U.S. Equity – Small Cap	4.40%	5.19%
Non U.S. Equity – Developed	22.06%	5.29%
Non U.S. Equity – Emerging	6.24%	6.76%
Core Fixed Income	24.05%	0.98%
High Yield	1.53%	2.64%
Long Duration Gov't/Credit	0.53%	1.57%
Emerging Market Bonds	0.43%	3.04%
Real Estate	7.00%	5.09%
Private Equity	7.00%	7.15%
Total	100.00%	

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

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate 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 3.90%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: 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, 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.

Based on the above actuarial cost method and assumptions, the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the Municipal Bond Index Rate. There was no change in the discount rate from the prior measurement date.

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 7: **DEFINED BENEFIT PENSION PLAN** (Continued)

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	\$11,213,073	\$8,650,112	\$6,518,206

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.

Health Care Trust Fund

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

Funding Policy – The Academy is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Academy are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2016, 2015, and 2014 the Academy's contributions to the HCTF were \$26,890, \$23,919 and \$23,378, respectively, equal to their required contributions for each year.

CAPROCK ACADEMY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 8: COMMITMENTS AND CONTINGENCIES

Modular Lease

In May 2014, the Academy entered into a non-cancelable operating lease agreement for one of its modular buildings. Monthly lease payments in the amount of \$2,710 are due beginning on July 1, 2014 through June 30, 2021. In addition, the lease includes an option to purchase the building at a cost of 10% of the original purchase price.

Future minimum lease payments are as follows:

Year Ended <u>June 30</u>	
2017	\$ 32,520
2018	32,520
2019	32,520
2020	32,520
2021	<u>32,520</u>
Total	<u>\$ 162,600</u>

The Academy made lease payments under the terms of this agreement totaling \$32,517 during the year ended June 30, 2016.

Sub-Lease Agreement

On June 30, 2013, the Academy entered into a sublease agreement with Juniper Ridge Community School for the Academy's former school site. This lease agreement commences on August 1, 2013 and expires on June 30, 2017. Annual lease payments ranging from \$25,000 to \$32,000 are due to the Academy under the terms of the agreement.

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, 2016, 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.

CAPROCK ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2016

NOTE 8: COMMITMENTS AND CONTINGENCIES (Continued)

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The Academy believes it has complied with the Amendment. As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2016, the reserve of \$221,000 was recorded as a restriction of fund balance in the General Fund.

NOTE 9: DEFICIT NET POSITION

The net position of the governmental activities is in a deficit position of \$8,004,674 due to the Academy including its Net Pension Liability per the requirements of GASB Statement No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

CAPROCK ACADEMY

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2016

	2016			VARIANCE Positive (Negative)	2015 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
REVENUES					
Local Sources					
Per Pupil Operating Revenue	\$ 4,760,272	\$ 5,085,465	\$ 5,124,561	\$ 39,096	\$ 4,372,888
Charges for Services	99,833	99,833	238,183	138,350	198,381
Tuition	121,220	121,220	124,905	3,685	124,726
Grants and Donations	10,000	10,000	46,567	36,567	80,750
Other Revenue	21,000	21,000	42,695	21,695	42,427
State and Federal Sources					
Grants and Donations	330,060	352,100	391,294	39,194	276,796
 TOTAL REVENUES	 5,342,385	 5,689,618	 5,968,205	 278,587	 5,095,968
EXPENDITURES					
Salaries	2,577,580	2,728,840	2,714,029	14,811	2,384,509
Employee Benefits	820,085	841,002	800,163	40,839	709,638
Purchased Services	685,466	759,260	614,381	144,879	597,663
Supplies and Materials	351,000	375,800	509,608	(133,808)	392,160
Property	34,250	363,931	1,175,145	(811,214)	108,973
Other	1,850	1,850	7,295	(5,445)	7,677
Debt Service					
Principal	-	-	112,066	(112,066)	95,000
Interest	785,007	760,886	758,290	2,596	708,503
Contingency	17,000	1,578,800	-	1,578,800	-
 TOTAL EXPENDITURES	 5,272,238	 7,410,369	 6,690,977	 719,392	 5,004,123
 EXCESS OF REVENUES OVER EXPENDITURES	 70,147	 (1,720,751)	 (722,772)	 997,979	 91,845
OTHER FINANCING SOURCES (USES)					
Proceeds from Issuance of Debt	-	-	912,446	912,446	-
 NET CHANGE IN FUND BALANCES	 70,147	 (1,720,751)	 189,674	 1,910,425	 91,845
FUND BALANCE, Beginning	-	1,912,303	2,023,314	111,011	1,931,469
FUND BALANCE, Ending	\$ 70,147	\$ 191,552	\$ 2,212,988	\$ 2,021,436	\$ 2,023,314

See the accompanying independent auditors' report.

CAPROCK ACADEMY

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

Years Ended December 31,

	<u>2013</u>	<u>2014</u>	<u>2015</u>
School's proportionate share of the Net Pension Liability	0.054%	0.056%	0.057%
School's proportionate share of the Net Pension Liability	\$ 6,926,841	\$ 7,532,429	\$ 8,650,112
School's covered-employee payroll	\$ 2,188,082	\$ 2,328,240	\$ 2,464,791
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	316.6%	323.5%	350.9%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%

See the accompanying independent auditors' report.

CAPROCK ACADEMY

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DISTRICT TRUST FUND

Years Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Statutorily required contributions	\$ 389,625	\$ 419,671	\$ 494,423
Contributions in relation to the Statutorily required contributions	<u>389,625</u>	<u>419,671</u>	<u>494,423</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,291,924	\$ 2,344,988	\$ 2,636,243
Contributions as a percentage of covered-employee payroll	17.00%	17.90%	18.75%

See the accompanying independent auditors' report.