

**Third Future Schools
aka Academy of Advanced Learning**

(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)

Financial Statements and Independent Auditor's Reports

June 30, 2018



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November 27, 2018

**Third Future Schools
aka Academy of Advanced Learning
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
June 30, 2018**

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Independent Auditor's Report

Board of Directors
Third Future Schools aka Academy of Advanced Learning
Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado
Aurora, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of Third Future Schools aka Academy of Advanced Learning (TFS/AAL), a component unit of the Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise TFS/AAL's 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 expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Board of Directors
Third Future Schools aka Academy of Advanced Learning
Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado

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 major fund of TFS/AAL as of June 30, 2018, and the respective changes in financial position and, where applicable, budgetary comparison thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the financial statements, for the year ending June 30, 2018, TFS/AAL adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension information and postemployment benefits other than pension information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2018 on our consideration of TFS/AAL's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering TFS/AAL's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
September 25, 2018

**Third Future Schools
aka Academy of Advanced Learning
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2018**

As management of Third Future Schools aka Academy of Advanced Learning (TFS/AAL), we offer readers of TFS/AAL's financial statements this narrative and analysis of the financial activities of TFS/AAL as of and for the year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information provided in the financial statements.

Financial Highlights

The year ended June 30, 2018 represented the first year of school operations bringing with it per pupil revenue of \$3,630,869. Net position amounted to (\$4,193,199) as of June 30, 2017. Activities for the year ended June 30, 2017 were limited to start-up activities.

The financial results of TFS/AAL under a government-wide accounting presentation are materially impacted by GASB 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, and GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Under GASB 68 and 75, TFS/AAL must report liabilities for its proportionate share of the entire underfunded status of these respective plans.

Excluding the impact of GASB 68 and GASB 75, the assets of TFS/AAL exceeded its liabilities at the close of the most recent fiscal year by \$858,657. However, due to GASB 68 and GASB 75, the liabilities and deferred inflows of resources of TFS/AAL exceeded the assets and deferred outflows of resources resulting in a deficit net position of \$4,193,199.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to TFS/AAL's financial statements. These financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements

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

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

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

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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. TFS/AAL, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. TFS/AAL maintains one governmental fund – its General Fund – which reports all activity, including that of the Building Corporation.

TFS/AAL adopts an annual budget for its general fund. A budgetary comparison has been provided for the general fund in the financial statements to demonstrate compliance with the budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

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Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2018**

Government-wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of TFS/AAL's financial position. As of June 30, 2018, TFS/AAL's net position deficit was \$(4,193,199). Net investment in capital assets was \$1,164,866 as of June 30, 2018. TFS/AAL had an unrestricted net position deficit of \$(5,511,058) as of June 30, 2018 which was significantly impacted by GASBs 68 and 75 as previously discussed. Following is a condensed statement of net position as of June 30, 2018:

Condensed Statement of Net Position

	2018	2017
Assets		
Current assets	\$ 169,315	\$ 83,851
Noncurrent assets - other	61,500	61,500
Noncurrent assets - capital	2,246,196	1,359,224
Total assets	2,477,011	1,504,575
Deferred Outflows of Resources	10,209,721	-
Liabilities		
Current liabilities	537,024	395,965
Long-term liabilities		
Due within one year	85,156	276,517
Due more than one year		
Notes payable	996,174	514,966
Net pension and OPEB liabilities	14,669,630	-
Total liabilities	16,287,984	1,187,448
Deferred Inflows of Resources	591,946	-
Net Position		
Net investment in capital assets	1,164,866	210,215
Restricted for TABOR	152,994	25,650
Unrestricted	(5,511,058)	81,262
Total net position (deficit)	\$ (4,193,198)	\$ 317,127

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Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2018**

The first year of operations brought about major changes to the comparative condensed financial statements, including an increase in current assets and capital assets as construction was completed on school facilities. In addition, as teachers and staff came on board, the application of GASBs 68 and 75 was required, resulting in the increased deferred outflows of resources, pension and OPEB liabilities and deferred inflows or resources. Additionally, the accrual of salaries for staff at year-end and borrowings undertaken to fund construction projects resulted in increased current and long-term liabilities.

TFS/AAL's primary source of revenue during the year was per pupil revenue. TFS/AAL incurred expenses related to instruction, support services, and long term debt during the fiscal year-end June 30, 2018:

Condensed Statement of Activities

	2018	2017
Revenues		
Per pupil revenue	\$ 3,630,869	\$ -
District mill levy	279,808	-
Grants	1,407,452	931,073
Contributions	31,984	-
Total revenues	5,350,113	931,073
Expenses		
Functions/programs		
Instruction - General	3,119,433	85,052
Instruction - GASBs 68 and 75	3,990,967	-
Support services - General	1,646,878	525,391
Support services - GASBs 68 and 75	1,060,889	-
Interest on long-term debt	42,271	3,503
Total expenses	9,860,438	613,946
Change in Net Position	(4,510,325)	317,127
Net Position - Beginning	317,127	-
Net Position (Deficit) - Ending	\$ (4,193,198)	\$ 317,127

Again, the first year of operations brought about a change and increases in funding sources, with per pupil and mill levy revenue being added to grants and contributions in order to fund the increased expense for instruction and support.

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Management's Discussion and Analysis (Unaudited)
As of and for the Year Ended June 30, 2018**

Financial Analysis of Governmental Funds

As previously mentioned, TFS/AAL has one governmental fund, the General Fund. The General Fund is considered a major fund and is used to account for TFS/AAL's general operations. During fiscal year 2018, the first year of operations, TFS/AAL's General Fund ended with a fund balance deficit of (\$287,144).

General Fund Budgetary Highlights

TFS/AAL budgeted General Fund expenditures of \$5,872,279 for the year ended June 30, 2018. Actual expenditures for the year ended June 30, 2018 were \$5,953,663. There was one budget amendment during the fiscal year.

Capital Assets and Debt Administration

Capital asset activity is described in Note 3 to the financial statements and involved leasehold improvements.

As described in Note 5 to the financial statements, TFS/AAL, through the Building Corporation, leases the facility from an unrelated party and financed leasehold improvements as described in Note 4.

Economic Factors and Next Year's Budget

The primary factor driving the budget will be student enrollment. The Funded Pupil Count (FPC) projected for the 2018-2019 school year is 636, which is an increase of 24.7 in FPC from the 2017-2018 school year. This is a major factor used in preparing TFS/AAL's budget for the fiscal year 2018-2019.

Request for Information

This financial report is designed to provide a general overview of finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Cheryl Serrano, Finance Director at 441 Sable Boulevard, Aurora, Colorado 80011.

**Third Future Schools
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Counties of Adams and Arapahoe, Colorado)
Statement of Net Position
June 30, 2018**

	<u>Primary Government Governmental Activities</u>
Assets	
Cash	\$ 72,798
Restricted cash - fiscal agent APS	25,000
Grants receivable	14,711
Accounts receivable - APS	33,831
Prepaid expenses	22,975
Lease deposit	61,500
Construction in progress	410,386
Leasehold improvements, net	<u>1,835,810</u>
Total assets	<u>2,477,011</u>
Deferred Outflows of Resources	
Related to pensions	9,932,003
Related to other post-retirement items	<u>277,718</u>
Total deferred outflows of resources	<u>10,209,721</u>
Liabilities	
Accounts payable	51,941
Accrued salaries and benefits	466,018
Interest payable	19,065
Long-term liabilities	
Due within one year	
Notes payable	85,156
Due more than one year	
Notes payable	996,174
Net pension liability	14,342,116
Net OPEB liability	<u>327,514</u>
Total liabilities	<u>16,287,984</u>
Deferred Inflows of Resources	
Related to pensions	586,467
Related to other post-retirement items	<u>5,479</u>
Total deferred inflows of resources	<u>591,946</u>
Net Position	
Net investment in capital assets	1,164,866
Restricted for TABOR	152,994
Unrestricted	<u>(5,511,058)</u>
Total net position (deficit)	<u>\$ (4,193,198)</u>

**Third Future Schools
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Counties of Adams and Arapahoe, Colorado)
Statement of Activities
Year Ended June 30, 2018**

Functions/Programs	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Position
				Governmental Activities
Governmental activities				
Instruction				
General	\$ 3,119,433	\$ -	\$ 371,735	\$ (2,747,698)
Allocation of GASB 68 pension expense	3,947,299	-	-	(3,947,299)
Allocation of GASB 75 OPEB expense	43,667	-	-	(43,667)
Support services				
General	1,646,878	-	-	(1,646,878)
Allocation of GASB 68 pension expense	1,049,282	-	-	(1,049,282)
Allocation of GASB 75 OPEB expense	11,608	-	-	(11,608)
Interest on long-term debt	42,271	-	-	(42,271)
	<u>42,271</u>	<u>-</u>	<u>-</u>	<u>(42,271)</u>
Total governmental activities	<u>\$ 9,860,438</u>	<u>\$ -</u>	<u>\$ 371,735</u>	<u>(9,488,703)</u>
General Revenues				
Per pupil revenue				3,630,869
District mill levy				279,808
Grants and contributions not restricted to specific programs				1,035,717
Contributions				<u>31,984</u>
Total general revenues				<u>4,978,378</u>
Change in Net Position				(4,510,325)
Net Position - Beginning				<u>317,127</u>
Net Position (Deficit) - Ending				<u>\$ (4,193,198)</u>

**Third Future Schools
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(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Balance Sheet – Governmental Fund – General Fund
June 30, 2018**

Assets

Cash	\$	72,798
Restricted cash - Fiscal agent APS		25,000
Grants receivable		14,711
Accounts receivable - APS		33,831
Prepaid expenses		22,975
Lease deposit		61,500
		<u>61,500</u>
Total assets	\$	<u>230,815</u>

Liabilities

Accounts payable	\$	51,941
Accrued salaries and benefits		466,018
		<u>466,018</u>
Total liabilities		<u>517,959</u>

Fund Balance

Nonspendable

Prepays and deposits		109,475
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Restricted

TABOR		152,994
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Unassigned (Deficit)

		(549,613)
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Total fund balance (deficit)		<u>(287,144)</u>
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Total liabilities and fund balance	\$	<u>230,815</u>
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Total fund balance (deficit) for governmental fund	\$	(287,144)
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Deferred inflows of resources are not available in the current period and, therefore, are not recorded in the fund		(591,946)
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Deferred outflows of resources are not financial resources and, therefore, are not reported in governmental funds		10,209,721
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Long-term debt is not included in the governmental fund statements but is included in the statement of net position		(1,081,330)
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The net pension and OPEB liabilities are not due and payable in the current period and, therefore, are not reported in the fund		(14,669,630)
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Accrued interest is not included in the governmental fund statements but is included in the statement of net position		(19,065)
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Capital assets are not included in the governmental fund statements but are included in the statement of net position		2,246,196
		<u>2,246,196</u>

Net position (deficit) of governmental activities	\$	<u>(4,193,198)</u>
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**Third Future Schools
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(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Statement of Revenues, Expenditures and Changes in
Fund Balance – Governmental Fund – General Fund
Year Ended June 30, 2018**

Revenues	
Grant revenue	\$ 1,157,452
Local sources	3,910,677
Contributions	<u>281,984</u>
Total revenues	<u>5,350,113</u>
Expenditures	
Current	
Instruction	3,119,433
Support services	1,510,719
Long-term debt	
Debt issuance costs	5,030
Debt service payments	273,670
Interest expense	26,710
Capital outlay	<u>1,018,101</u>
Total expenditures	<u>5,953,663</u>
Deficiency of Revenues Over Expenditures	(603,550)
Other Financing Sources	
Proceeds from loan	<u>563,517</u>
Net Change in Fund Balance	<u>(40,033)</u>
Fund Balance (Deficit) - Beginning	<u>(247,111)</u>
Fund Balance (Deficit) - Ending	<u><u>\$ (287,144)</u></u>

**Third Future Schools
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Statement of Revenues, Expenditures and Changes in
Fund Balance – Governmental Fund – General Fund (continued)
Year Ended June 30, 2018**

Net change in fund balance - governmental fund	\$ (40,033)
Debt proceeds provide current financial resources to the governmental funds but increase long-term liabilities in the statement of net position	(563,517)
Payments on long term debt are not included in the statement of activities, but are included in the governmental fund	273,670
The change in accrued interest expense is not included in the governmental fund but is included in the statement of activities	(15,561)
Some expenses recorded in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the fund Pension expense (Instruction: \$3,947,299, Support Services: \$1,049,282) OPEB expense (Instruction: \$43,667, Support Services: \$11,608)	(5,051,856)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of assets capitalized is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period	
Depreciation expense	(131,129)
Capital outlay	<u>1,018,101</u>
Excess of capital outlay over depreciation	<u>886,972</u>
Change in net position (deficit) of governmental activities	<u><u>\$ (4,510,325)</u></u>

**Third Future Schools
aka Academy of Advanced Learning
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Statement of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – General Fund
Year Ended June 30, 2018**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Local Sources				
Miscellaneous	\$ 69,962	\$ 33,380	\$ 31,984	\$ (1,396)
Grants and contributions	700,000	1,070,000	980,000	(90,000)
Loan proceeds	300,000	563,517	563,517	-
Property taxes	206,358	279,808	279,808	-
	<u>1,276,320</u>	<u>1,946,705</u>	<u>1,855,309</u>	<u>(91,396)</u>
State Sources				
Per-pupil funding	3,576,320	3,727,246	3,630,869	(96,377)
Grants	122,145	121,735	121,735	-
	<u>3,698,465</u>	<u>3,848,981</u>	<u>3,752,604</u>	<u>(96,377)</u>
Federal Sources				
Grants	334,091	327,208	305,717	(21,491)
Total revenues	<u>5,308,876</u>	<u>6,122,894</u>	<u>5,913,630</u>	<u>(209,264)</u>
Expenditures				
Instruction				
Salaries	1,512,000	1,735,200	1,712,807	22,393
Benefits	456,844	516,837	512,120	4,717
Purchased services	40,000	62,800	51,046	11,754
Supplies	73,000	165,000	164,708	292
Furniture and equipment	244,743	393,360	389,667	3,693
	<u>2,326,587</u>	<u>2,873,197</u>	<u>2,830,348</u>	<u>42,849</u>
Instruction - Special Education				
Salaries	130,000	132,000	130,159	1,841
Benefits	37,756	38,156	38,147	9
Purchased services	147,610	168,773	112,835	55,938
	<u>315,366</u>	<u>338,929</u>	<u>281,141</u>	<u>57,788</u>
Instruction Support				
Purchased services	10,781	13,781	8,002	5,779
BOE, Legal, Audit and CEO				
Salaries	125,000	144,000	143,542	458
Benefits	37,500	40,681	40,533	148
Purchased services	133,459	165,921	162,535	3,386
Supplies	-	3,000	1,993	1,007
	<u>295,959</u>	<u>353,602</u>	<u>348,603</u>	<u>4,999</u>

**Third Future Schools
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Statement of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – General Fund (continued)
Year Ended June 30, 2018**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
School Administration				
Salaries	295,000	318,800	322,549	(3,749)
Benefits	88,500	83,745	84,420	(675)
Purchased services	28,403	60,861	60,385	476
Supplies	5,000	8,600	8,979	(379)
Furniture and equipment	5,000	6,000	5,925	75
Dues and fees	10,000	4,500	4,904	(404)
	<u>431,903</u>	<u>482,506</u>	<u>487,162</u>	<u>(4,656)</u>
Business Services				
Benefits	-	16,160	14,528	1,632
Purchased services	55,000	81,300	81,880	(580)
Supplies	-	2,900	3,682	(782)
	<u>55,000</u>	<u>100,360</u>	<u>100,090</u>	<u>270</u>
Operations and Maintenance				
Salaries	25,000	-	-	-
Benefits	7,500	-	-	-
Purchased services	421,115	428,019	432,174	(4,155)
Supplies	53,000	54,300	48,895	5,405
	<u>506,615</u>	<u>482,319</u>	<u>481,069</u>	<u>1,250</u>
Transportation				
Purchased services	29,000	25,000	22,600	2,400
Insurance and Information Systems				
Purchased services	43,000	63,000	63,258	(258)
Nutrition Services				
Purchased services	2,000	4,725	4,375	350
Building and Finance Costs				
Capital outlay	749,260	808,668	1,018,101	(209,433)
Other	308,906	326,192	308,914	17,278
	<u>1,058,166</u>	<u>1,134,860</u>	<u>1,327,015</u>	<u>(192,155)</u>
Total expenditures	<u>5,074,377</u>	<u>5,872,279</u>	<u>5,953,663</u>	<u>(81,384)</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>\$ 234,499</u>	<u>\$ 250,615</u>	<u>\$ (40,033)</u>	<u>\$ (290,648)</u>

**Third Future Schools
aka Academy of Advanced Learning
(A Component Unit of the Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado)
Notes to Financial Statements
June 30, 2018**

Note 1: Summary of Significant Accounting Policies

The accounting policies of Third Future Schools aka Academy of Advanced Learning (TFS/AAL) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The year ended June 30, 2018, was TFS/AAL's first year of operations. Following is a summary of the more significant accounting policies.

Reporting Entity

Third Future Schools (TFS) was organized as a Colorado Nonprofit Corporation, for the purpose of entering into one or more charter school contracts with Colorado school districts. TFS is a public charter school network that includes the Academy of Advanced Learning (AAL). TFS/AAL is a component unit of the Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado (Aurora Public Schools or APS). It is the administrative position of the Colorado Department of Education that a charter school has the same relationship to a public school district as does any other school program or school building within a district. A charter school is part of a local school district that is a political subdivision of the State of Colorado. In accordance with Colorado state statute, Aurora Public Schools approved the original charter of AAL on July 1, 2016 for its first year of student enrollment in fiscal year 2017/2018. TFS/AAL is currently operating under a five-year charter contract which runs through June 30, 2022.

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of TFS/AAL and its component units. A component unit is a legally separate organization for which TFS/AAL is financially accountable or that provide services to TFS/AAL. TFS/AAL follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining the governmental activities, organizations, and functions that should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

Third Future Schools Building Corporation (TFSBC), a blended component unit, leases a building that houses the school (Note 5) and has financed leasehold improvements (Note 4). TFSBC has no financial balances or transactions outside of those reported by TFS/AAL and is not reported separately in the financial statements. TFSBC does not issue separate financial statements.

Under current GASB pronouncements, TFS/AAL has been determined to be a component unit of Aurora Public Schools – the primary government. As such, TFS/AAL's financial results are included in Aurora Public Schools' Comprehensive Annual Financial Report.

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Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements (*i.e.*, the statement of net position and the statement of activities) report information on all of TFS/AAL's financial activities. Governmental activities are normally supported by taxes and intergovernmental revenue. Business-type activities rely to a significant extent on fees and charges for support. TFS/AAL has no business-type activities. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, the operating statement presents increases and decreases in net current assets, and unassigned fund balance is a measure of available spendable resources. This means that only current liabilities are generally included on the governmental fund balance sheet.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Measurable means the amount of the transaction can be determined; available means collectible within the current period, or soon enough thereafter, to pay liabilities of the current period. Revenues are considered to be available if collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred and expected to be paid with current available resources.

Program revenues are those that are derived directly from the program itself. Program revenues are divided into three groups: charges for services, program-specific operating grants and contributions, and program-specific capital grants and contributions. Charges for services are exchange or exchange-like transactions including fees. Program-specific grants and contributions include revenues arising from mandatory and voluntary nonexchange transactions with other governments, private organizations or individuals where monies are required by the grantor/contributor to be used for a particular program or activity. Program-specific grants and contributions that are required to be used to purchase or construct capital assets are shown in the capital grants and contributions column.

General revenues include state per pupil funding under the School Finance Act reported as state categorical revenue, revenues received from local sources and unrestricted investment earnings.

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

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Fund Accounting

The accounts of TFS/AAL are organized on the basis of funds. The operations of the General Fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures. Resources are allocated to and accounted for in the General Fund based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The major fund presented in the accompanying financial statements is the General Fund. The General Fund is used to account for TFS/AAL's general operational governmental activities.

Compliance

Budget

An annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America.

TFS/AAL prepares the annual budget and presents it to its Board and to the Board of Education of Aurora Public Schools for approval. During the year ended June 30, 2018, one budget amendment was presented to and approved by the Board. Budgets are required by state statutes for all governmental funds. Total expenditures for each fund may not legally exceed the amount appropriated.

For the year ended June 30, 2018, actual expenditures exceeded appropriated amounts by \$81,384 primarily due to capital outlays above expectations.

Deficit Fund Balance/Net Position

As of June 30, 2018, the TFS/AAL had a deficit fund balance due primarily to the capital outlay for the expansion of 7th and 8th grade classrooms and a deficit net position due primarily to GASB 68 and 75.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balance/Net Position

Cash

The definition of cash for purposes of the statement of cash flows is restricted and/or unrestricted cash held in checking accounts and money market accounts.

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Cash with Fiscal Agent

In accordance with the charter school contract with Aurora Public Schools, the School and Aurora Public Schools are required to maintain a segregated account in the amount of \$100,000 that is funded 50-50 to be used to respond to special education due process and Section 504 hearing requests. The School's balance at June 30, 2018 was \$25,000, with the remaining amount to be contributed in fiscal year 2019.

Capital Assets

Capital assets are utilized for general operations and are capitalized at cost if purchased or fair market value if donated, at the time of purchase or donation. Capital assets are reported in the government-wide financial statements.

The monetary threshold for capitalization of assets is \$5,000. Leasehold improvements financed by the Building Corporation will be depreciated over the life of the lease, which is 15 years.

Deferred Outflows/Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period. Both are reported in the statement of net position but are not recognized in the financial statements as revenues and expenses until the periods(s) to which they relate. Refer to Note 6 for information on deferred outflow/inflows or resources related to pensions. Refer to Note 8 for information on deferred outflow/inflows or resources related to other post employment benefits (OPEB).

Revenue and Expenditures

Revenue for the governmental funds are recorded when they are determined to be both measurable and available. Generally, State of Colorado per pupil funding, donations and other income are recognized when received. Grants are recognized when qualifying expenditures are incurred. Expenditures for the governmental funds are recorded when the related fund liability is incurred and expected to be paid with current available resources. TFS/AAL does not utilize encumbrance accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, and liabilities and deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net position during the reporting period. Actual results could differ from those estimates.

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Note 2: Cash

Investment Policy and Compliance

TFS/AAL’s investment policy conforms to state statute for governmental entities. All accounts established at financial institutions should, in the aggregate, total less than \$250,000 so as to provide maximum insurance coverage provided by the FDIC. If, however, deposits exceed the \$250,000 insurance coverage level, the excess must be (1) fully collateralized at face value with government securities, (2) separately segregated in TFS/AAL’s name, and (3) held at a Federal Reserve Bank or another depository.

Colorado State statutes govern TFS/AAL’s deposit of cash. The Colorado Public Deposit Protection Act (PDPA) requires TFS/AAL to make deposits only in eligible public depositories as defined by the regulators. Amounts on deposits in excess of federal insurance levels must be collateralized. The PDPA requires the eligible depository with public deposits in excess of the federal insurance levels to create single institution collateral pools for all public funds. The pool is to be maintained by another institution or held in trust for all uninsured public deposits as a group. Up to \$250,000 of daily deposit balances on hand at banking institutions is covered by federal depository insurance. Under the provision of GASB 40, *Deposit and Investment Risk Disclosure – an Amendment of GASB Statement No. 3*, deposits are not deemed exposed to custodial credit risk if they are collateralized with securities held by the pledging financial institutions under PDPA, as discussed above. Custodial credit risk is the risk that in the event of bank failure, TFS/AAL’s deposits may not be returned. As of June 30, 2018, TFS/AAL had no deposits deemed to be exposed to custodial credit risk.

	Carrying Value	Bank Balance
Checking - general fund	\$ 72,798	\$ 110,232

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Note 3: Capital Assets

As of June 30, 2018, capital assets of TFS/AAL consisted of the following:

	July 1, 2017	Additions	Deletions	June 30, 2018
Governmental Activities				
Capital assets not being depreciated				
Construction in progress	\$ 1,359,224	\$ 410,386	\$ (1,359,224)	\$ 410,386
Capital assets being depreciated				
Leasehold improvements	-	1,966,939	-	1,966,939
Accumulated depreciation				
Leasehold improvements	-	(131,129)	-	(131,129)
Capital assets, net	<u>\$ 1,359,224</u>	<u>\$ 2,246,196</u>	<u>\$ (1,359,224)</u>	<u>\$ 2,246,196</u>

Note 4: Notes Payable

Long-term debt activity for the fiscal year was as follows:

	July 1, 2017	Additions	Deletions	June 30, 2018	Amounts Due Within One Year
Notes payable - related parties	\$ 405,000	\$ -	\$ -	\$ 405,000	\$ 50,000
Note payable - CSDC	386,483	313,517	273,670	426,330	35,156
Note payable - CFS	-	250,000	-	250,000	-
Total	<u>\$ 791,483</u>	<u>\$ 563,517</u>	<u>\$ 273,670</u>	<u>\$ 1,081,330</u>	<u>\$ 85,156</u>

One note payable is with the CEO for \$205,000 with an interest rate of 3%. Principal and interest payments are due periodically beginning July 31, 2018 through May 5, 2022.

One note payable is with a relative of the CEO for \$200,000 with an interest rate of 3.75%. Principal and interest payments are due periodically beginning July 31, 2018 with a final payment due on December 31, 2020.

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TFSBC has entered into a loan agreement with Charter School Development Corporation (CSDC) for \$700,000 of which only \$426,330 had been drawn as of June 30, 2018. The interest rate on this note payable is 6.25%. Interest payments are due monthly beginning June 30, 2018. Principal payments are due monthly beginning September 30, 2017. Final payment is due on August 31, 2023.

TFSBC has entered into a loan agreement with Charter Facility Solutions (CFS) in the amount of \$250,000. The loan accrues interest at a rate of 3.50%. Payments of principal of \$125,000 plus accrued interest are due annually beginning in August 2019.

Future maturities, are as follows:

Fiscal Year	Principal Due	Interest	Total Payment
2019	\$ 85,156	\$ 25,650	\$ 110,806
2020	362,417	53,519	415,936
2021	264,824	25,357	290,181
2022	97,386	41,670	139,056
2023	271,547	4,186	275,733
	<u>\$ 1,081,330</u>	<u>\$ 150,382</u>	<u>\$ 1,231,712</u>

Note 5: Leases

TFSBC entered into a lease agreement with an unrelated party which commenced on July 1, 2017 and expires on June 30, 2032. The lease agreement allows for expansion as TFS/AAL expands. The total lease payments for fiscal year 2018 were \$385,989. Future commitments under the lease are as follows:

Fiscal Year	Total Payment
2019	\$ 386,208
2020	475,195
2021	576,695
2022	668,007
2023	721,257
2024 - 2028	3,913,884
2029 - 2032	3,257,725
	<u>\$ 9,998,971</u>

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Note 6: Defined Benefit Pension Plan

Summary of Significant Accounting Policies

TFS/AAL participates in the School Division Health Care Trust Fund (HDTF), 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 HCTF 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 HCTF for financial reporting purposes be measured using the plan provisions in effect as of the HCTF'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 *Changes Between the Measurement Date of the Net Pension Liability and June 30, 2018*.

General Information about the Pension Plan

Plan Description

Eligible employees of are provided with pensions through the School Division Trust Fund (HCTF) — a cost-sharing multiple-employer defined TFS/AAL 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.

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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% and then multiplied by years of service credit
- The value of the retiring employee's member contribution account plus a 100% 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% 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% or 100% 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%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% 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% or the average CPI-W for the prior calendar year, not to exceed 10% of PERA's Annual Increase Reserve (AIR) for the HCTF.

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.

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Contribution Provision as of June 30, 2018

Eligible employees and TFS/AAL are required to contribute to the HCTF 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% of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2018	For the Year Ended December 31, 2017
Employer Contribution Rate	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)	<u>-1.02%</u>	<u>-1.02%</u>
Amount apportioned to the SCHDTF	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	<u>5.50%</u>	<u>5.00%</u>
Total Employer Contribution Rate to the SCHDTF	<u>19.13%</u>	<u>18.63%</u>

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and TFS/AAL is statutorily committed to pay the contributions to the HCTF. Employer contributions recognized by the HCTF from TFS/AAL were \$412,973 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, TFS/AAL Prep reported a liability of \$14,342,116 for its proportionate share of the net pension liability. The net pension liability 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. TFS/AAL's proportion of the net pension liability was based on TFS/AAL's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

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At December 31, 2017, TFS/AAL's proportion was .04%, which was an increase of .04% from its proportionate share as of December 31, 2016, as there were no employees of TFS/AAL participating in PERA as of December 31, 2016.

For the year ended June 30, 2018, TFS/AAL's recognized pension expense was \$5,409,554. At June 30, 2018, TFS/AAL's 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	\$ 263,691	\$ -
Changes of assumptions or other inputs	3,662,075	23,238
Net difference between projected and actual earnings on pension plan investments	-	563,229
Changes in proportion and differences between contributions recognized and proportionate share of contributions	5,783,843	-
Contributions subsequent to the measurement date	222,394	-
Total	\$ 9,932,003	\$ 586,467

\$222,394 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 Ending June 30,
2019	\$ 4,657,622
2020	3,681,666
2021	995,742
2022	(211,888)
2023	-
Thereafter	-
	\$ 9,123,142

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Actuarial Assumptions

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40%
Real wage growth	1.10%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50 – 9.7%
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25%
Discount rate	5.26%
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

A discount rate of 4.78% 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% factor applied to male rates and a 55% 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% factor applied to rates for ages less than 80, a 113% 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% factor applied to rates for ages less than 80, a 106% factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90% 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.

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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 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%.

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Discount Rate

The discount rate used to measure the total pension liability was 4.78%. 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.
- 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.

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Based on the above assumptions and methods, the projection test indicates the HCTF'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% 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%, resulting in a discount rate of 4.78%.

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

Sensitivity of TFS/AAL'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%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (3.78%) or one percentage-point higher (5.78%) than the current rate:

	1% Decrease (3.78%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Proportionate share of net pension liability	\$ 18,116,532	\$ 14,342,116	\$ 11,266,398

Pension 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.

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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% 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% on July 1, 2019.
- Increases employee contribution rates by a total of 2% (to be phased in over a period of three 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 HCTF based on the proportionate amount of annual payroll of the HCTF 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.

At June 30, 2018, TFS/AAL reported a liability of \$14,342,116 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 TFS/AAL'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 HCTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the HCTF 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.

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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%	\$6,479,644

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 \$7,862,472 of the estimated reduction is attributable to the use of a 7.25% discount rate.

Note 7: Defined Benefit Other Postemployment Healthcare Benefit (OPEB) Plan

Summary of Significant Accounting Policies

TFS/AAL participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB plan 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.

General Information about the OPEB Plan

Plan Description

Eligible employees of TFS/AAL 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.

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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.

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% 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.

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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% 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 TFS/AAL is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from TFS/AAL were \$22,292 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, TFS/AAL reported a liability of \$327,514 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. TFS/AAL's proportion of the net OPEB liability was based on TFS/AAL'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, TFS/AAL's proportion was .03%, which was an increase of .03% from its proportionate share as of December 31, 2016 as TFS/AAL had no employees participating in PERA as of December 31, 2016.

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For the year ended June 30, 2018 TFS/AAL recognized OPEB expense of \$77,567. At June 30, 2018, TFS/AAL reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,549	\$ -
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	5,479
Changes in proportion and differences between contributions recognized and proportionate share of contributions	264,311	-
Contributions subsequent to the measurement date	11,858	-
Total	<u>\$ 277,718</u>	<u>\$ 5,479</u>

\$11,858 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:

2019	\$ 50,862
2020	50,862
2021	50,862
2022	50,863
2023	52,232
Thereafter	4,700
	<u>\$ 260,381</u>

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%
Real wage growth	1.10%
Wage inflation	3.50%
Salary increases, including wage inflation	3.50%

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

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%

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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% factor applied to male rates and a 55% factor applied to female rates.

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% factor applied to rates for ages less than 80, a 108% 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% factor applied to rates for ages less than 80, a 109% 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% factor applied to rates for ages less than 80, a 113% 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% factor applied to rates for ages less than 80, a 106% factor applied to rates for ages 80 and above, and further adjustments for credibility.

For disabled retirees, the mortality assumption was based on 90% 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.

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- 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, valuation 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.

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.

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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%.

Sensitivity of TFS/AAL'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	\$326,343	\$327,514	\$327,273

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Discount Rate

The discount rate used to measure the total OPEB liability was 7.25%. 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.
- 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% 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%.

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Sensitivity of TFS/AAL’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%, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower (6.25%) or one percentage-point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of net OPEB liability	\$ 368,228	\$ 327,514	\$ 292,762

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 8: Risk Management

TFS/AAL is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. TFS/AAL carries commercial insurance for risks of loss, including liability, property, errors and omissions, workers’ compensation, fidelity (employee dishonesty), fiduciary, and abuse or molestation.

Note 9: Contingencies and Compliance

Tabor Amendment

Article X, Section 20 of the Colorado Constitution (TABOR Amendment) requires state and local governments to establish an emergency reserve, limits spending to a predefined benchmark and places restrictions on multiple fiscal year debt. The TABOR Amendment is complex and subject to judicial interpretation. While the amount required to be restricted under TABOR is presented as such in the financial statements, the result is deficit unrestricted fund balance/unassigned net position and therefore TFS/AAL may not be in compliance with this requirement.

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Claims and Judgments

TFS/AAL is subject to other claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a materially adverse effect on the financial statements. In addition, federal and state grants are subject to audit which could result in disallowed costs, the amount of which is undeterminable at June 30, 2018. If any costs are disallowed in the future, management expects them to be insignificant.

Note 10: Net Investment in Capital Assets

Net investment in capital assets is comprised of the following as of June 30, 2018:

	Governmental Activities
Total capital assets, net of accumulated depreciation	\$ 2,246,196
Less: Notes payable	1,081,330
	<u>\$ 1,164,866</u>

Note 11: Implementation of New Accounting Standard

Effective July 1, 2017, TFS/AAL implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with other postemployment benefits. TFS/AAL provides its employees with OPEB through the Health Care Trust Fund described in Note 6. Statement No. 75 requires employers participating in such plans, to record their proportionate share, as defined in Statement No. 75, of PERA's unfunded OPEB liability. TFS/AAL has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA. The implementation of GASB 75 had no impact on beginning net position as fiscal year 2018 was TFS/AAL's first year of participation in PERA. Information regarding PERA's current funding status can be found in their Comprehensive Annual Financial Report.

Required Supplementary Information

**Third Future Schools
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Schedule of Third Future Schools aka Academy of Advance Learning's
Proportionate Share of the Net Pension Liability
Year Ended December 31,**

	2017
AAL's proportion of the net pension liability	0.04%
AAL's proportionate share of the net pension liability	\$ 14,342,116
AAL's covered payroll	\$ 1,022,971
AAL's proportionate share of the net pension liability as a percentage of its covered payroll	1402.01%
Plan fiduciary net position as a percentage of the total pension liability	43.96%

Note: TFS/AAL did not have any employees participating in the plan prior to 2017. In future reports, additional years will be added until 10 years of historical data are presented.

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Schedule of Third Future Schools aka
Academy of Advance Learning’s Pension Contributions
Year Ended June 30,**

	2018
Statorily required contribution	\$ 412,973
Contributions in relation to the statorily required contribution	<u>412,973</u>
Contribution deficiency (excess)	<u>\$ -</u>
AAL's covered payroll	<u>\$ 2,185,510</u>
Contributions as a percentage of covered payroll	18.90%

Note: TFS/AAL did not have any employees participating in the plan prior to 2018. In future reports, additional years will be added until 10 years of historical data are presented.

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Schedule of TFS/AAL's Proportionate Share of the Net OPEB Liability
Year Ended December 31,**

	<u>2017</u>
AAL's proportion of the net OPEB liability	0.03%
AAL's proportionate share of the net OPEB liability	\$ 327,514
AAL's covered payroll	\$ 1,022,971
AAL's proportionate share of the net OPEB liability as a percentage of its covered payroll	32.02%
Plan fiduciary net position as a percentage of the total OPEB liability	17.53%

Note: TFS/AAL did not have any employees participating in the plan prior to 2017. In future reports, additional years will be added until 10 years of historical data are presented.

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Schedule of TFS/AAL's OPEB Contributions
Year Ended June 30,**

	2018
Statorily required contribution	\$ 22,292
Contributions in relation to the statorily required contribution	<u>22,292</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
AAL's covered payroll	<u><u>\$ 2,185,510</u></u>
Contributions as a percentage of covered payroll	1.02%

Note: TFS/AAL did not have any employees participating in the plan prior to 2018. In future reports, additional years will be added until 10 years of historical data are presented.

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Note 1: Significant Changes Affecting Trends in Actuarial Information

2017 Changes in Assumption or Other Inputs Since 2016

Defined Benefit Pension Plan

- The single equivalent interest rate (SIER) for the School Division was lowered from 5.26% to 4.78% to reflect the changes to the projection's valuation basis, a projected year of depletion of the fiduciary net position (FNP), and the resulting application of the municipal bond rate.
- The municipal bond index rate used in the determination of the SIER for the State, School, and Judicial Divisions changed from 3.86% to 3.43% on the measurement date

Defined Benefit Other Post Employment Pension Plan

- There were no changes made to the actuarial methods of assumptions

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Directors
Third Future Schools aka Academy of Advanced Learning
Joint School District No. 28-J of the
Counties of Adams and Arapahoe, Colorado
Aurora, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Third Future Schools aka Academy of Advanced Learning (TFS/AAL), a component unit of the Joint School District No. 28-J of the Counties of Adams and Arapahoe, Colorado, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which, collectively comprise TFS/AAL's financial statements, and have issued our report thereon dated September 25, 2018, which contained an emphasis of matter paragraph for a change in accounting principle.

Internal Control Over Financial Reporting

Management of TFS/AAL is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered TFS/AAL's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TFS/AAL's internal control. Accordingly, we do not express an opinion on the effectiveness of TFS/AAL's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of TFS/AAL's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TFS/AAL's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including the Colorado Department of Education's *Financial Policies and Procedures Handbook*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TFS/AAL's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
September 25, 2018