VISION HOME & COMMUNITY, INC. DBA
VISION CHARTER ACADEMY

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2018

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Chadwick, Steinkirchner, Davis & Co., P.C. Consultants and Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

October 26, 2018

Board of Stewards
Vision Home & Community, Inc.
Delta, Colorado

We have audited the accompanying financial statements of the governmental activities and each major fund of Vision Home & Community, Inc. dba Vision Charter Academy, a component unit of Delta County Joint School District No. 50J, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Academy'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 Academy'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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Vision Home & Community, Inc. dba Vision Charter Academy as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Chadwick, Steinkirchner, Davis & Co., P.C.

Vision Charter Academy
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

As management of Vision Charter Academy (VCA), we offer readers of VCA's Annual Financial Report this narrative and analysis of the financial activities of VCA for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that can be found in the basic financial statements.

Financial Highlights
Key financial highlights for the fiscal year ended June 30, 2018 are as follows:

- This was the fifth year of our existence as a charter school.

- VCA Fund Balance at the end of the year grew from $421,530 in FY17 to $527,592 in FY18, including our revolving account which is primarily private contributions for specific activities.

- At the end of the current fiscal year, the fund balance for the school's General Fund was $527,592. The General Fund has recorded a liability of $114,049 for salaries of school personnel who work approximately nine months of the year and are paid over twelve months. Colorado State law does not require the liability to be funded or budgeted until the year in which it is to be paid. At the direction of the Board of Stewards, the school continues to budget and fund this liability. Other liabilities include accounts payable of $4,634.

- In general the school's net position decreased by $1,793,232 from the previous year on a Government Wide basis. This is due to the reporting requirements of GASB 68 and GASB 75. Vision Charter Academy's share of PERA net pension liability is $7.5 million and $219,884 for the Other Post-Employment Benefits (OPEB per GASB 75) thus leaving a new ending net position of negative $7,236,271.

- VCA expended $94,217 for capital outlay using revenue provided by the Capital Construction Fund Grant for Charter Schools for a large portion of the expense. Primarily, we used these funds to lease the NF space from the district, to lease office space for administration and meeting space for our Highly Qualified Coordinators, to secure hardware for installation of security cameras on the Delta Campus and for the third installment of the five year district payment for the modular construction project in Delta.

- The school has no capital assets.

- During the current fiscal year, the school saw an increase in the funded pupil count from 404.6 FTE to 406.8 FTE.

- General revenues from state sources accounted for $3.2 million. These general revenues are our portion of the District's state equalization funding.

- VCA had $3.2 million in expenses including only expenditures and not the PERA pension liability obligations.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to VCA's basic financial statements. VCA's basic financial statement consists of three components: 1) government-wide financial statements 2) fund financial statements, and 3) notes to financial statements. This report also includes required supplementary information in addition to the basic financial statements.

Government wide financial statements.

The *government-wide financial statements* are designed to provide the reader with a broad overview of VCA's finances as a whole (similar to the private sector businesses) and includes two types of statements –

- The statement of net position presents information about all of VCA's assets, deferred outflows, liabilities, and deferred inflows with the difference reported as net position. Over time, the increases and/or decreases in VCA's net position may be an indicator of whether our financial position is improving or deteriorating.
- The statement of activities presents information demonstrating how VCA's net position has changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event occurs regardless of the timing of related cash flow. Thus, revenues and expenses are reported in this statement even though the resulting cash flow may be recorded in a future period.

Both government-wide financial statements distinguish functions of VCA that are principally supported by grants and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). VCA currently only has governmental activities.

> **Governmental Activities** – Governmental activities are generally financed through grants, intergovernmental revenues and other exchange revenues. Most of VCA's programs and services are reported here including instruction, support services, operation and maintenance of plant, and extracurricular activities.

Fund Financial Statements.

Fund financial statements are designed to demonstrate compliance with finance-related requirements. 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. VCA, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. VCA has only one governmental fund.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. Thus, readers may better understand the long-term impact of VCA's near-term financing decisions.

Notes to the Basic Financial Statement

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

Other Information

In addition to the basic financial statement and accompanying notes, this report also presents certain required supplemental information concerning VCA. VCA adopts an annual appropriated budget for the general fund.

Government-wide Financial Analysis

Government-wide Net Position

The assets of VCA are classified as current assets. Cash and receivables are current assets. These assets are available to provide resources for the near-term operations of VCA. Capital assets would be used in the operations of VCA when acquired. VCA currently has no capital assets.

Current and long-term liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include account payable, accrued salaries and benefits, and unearned revenue. The liquidation of current liabilities is anticipated to be either from currently available resources, current assets or new resources that become available during fiscal 2018-19 year. Long-term liabilities such as long-term debt obligations, compensated absences payable and net pension liability would be liquidated from resources that become available after fiscal 2018-19. The legally required TABOR reserve has also been restricted.

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of VCA, current assets exceeded current liabilities by $527,592 at the close of the most recent fiscal year.

VCA's Net Position

	Governmental Activities	
	2016-17	2017-18
Current assets	$ 526,904	$ 646,275
Total assets	526,904	646,275
Pension related deferred outflows		3,047,250
OPEB related deferred outflows		14,555
Total deferred outflows of resources	3,543,683	3,061,805
Total assets and deferred outflows of resources	$ 4,070,587	$ 3,708,080
Current liabilities	$ 105,374	$ 118,683
Noncurrent liabilities, net pension liability	9,015,662	10,097,388
Noncurrent liabilities, OPEB liability		230,581
Total liabilities	9,121,036	10,446,652
Pension related deferred inflows of resources	176,746	493,841
OPEB related deferred inflows of resources		3,858
Total Deferred inflows of resources	176,746	497,699
Net position:		
Restricted	90,179	97,553
Unrestricted	(5,317,374)	(7,333,824)
Total net position	(5,227,195)	(7,236,271)
Total liabilities, deferred inflows of resources, and net position	$ 4,070,587	$ 3,708,080

Governmental activities decreased VCA's net position by $1,793,232. Key elements of this change are as follows:

VCA's Change in Net Position

	Governmental Activities	
	2016-17	2017-18
Revenues:		
Charges for services	$ 24,635	$ 19,946
Operating grants	85,584	187,692
Capital grants	64,185	59,167
Interest	123	89
State equalization	2,896,337	3,026,149
Total revenues	3,070,864	3,213,043
Expenses:		
Instructional services	2,974,818	3,389,980
Student support	14,129	87,622
Instructional staff support	145,247	187,863
General administration	9,965	5,908
School administration	436,694	450,023
Business support	449,930	466,116
Operations/maintenance	381,030	374,502
Central support	113,320	124,261
Total expenses	4,525,132	5,086,275
Change in net position	(1,454,268)	(1,793,232)
Net position – beginning	(3,772,927)	(5,227,195)
Change in Accounting Principle		(215,844)
Net position – beginning, restated		(5,443,039)
Net position – ending	$ (5,227,195)	$ (7,236,271)

Vision Charter Academy was required to continue the implementation of GASB 68 regarding the pension liability and implement the new GASB 75 regarding other post-employment benefits which contributed to the net decrease.

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

The general fund is the only governmental fund of Vision Charter Academy and is the core of operations for VCA. As of June 30, 2018, the general fund shows an ending fund balance of $527,592. The unassigned fund balance for VCA at the end of the fiscal year consists of the unassigned balance for the General Fund of $418,855. This balance includes the revolving account that generates revenue through private contributions for specific extracurricular activities. The remainder of the fund balance is restricted for legally obligated funds – the TABOR amendment of $97,553 and non-spendable (pre-paid expenses for FY19) of $11,184.

General Fund Budgeting Highlights
Vision Charter Academy began budget development for the 2017-2018 fiscal year in November 2016. This process began with educating the Board of Stewards and staff regarding the current and past budgets. Next, an assessment was completed and reviewed by the selected Budget Committee and included reviewing department needs for resources and staffing based on enrollment projections, current position requirements and strategic priorities of the school as a whole.

After reviewing enrollment projections and the most current revenue assumptions, the proposed budget was submitted to the Vision Home & Community, Inc. Board of Stewards for review and approval. Upon the April 17, 2017 approval of the BOS, VCA submitted the budget to the Delta County School District on May 2, 2017. The budget was approved by the Delta County School District 50J Board of Education on June 16, 2016.

VCA's budget development process is consistent with current Colorado statutes that require a proposed budget to be presented to the authorizing district's Board of Education by June 1, with budget adoption by June 30. The law provides for school boards to adjust revenues and expenditures through January 31 of each fiscal year. The budget was adjusted, approved and appropriated prior to January 31, 2018 to reflect the confirmed actual October enrollment count number. Actual revenues exceeded budget by $50,676 while expenditures were under budget by $55,386. The net increase to fund balance was $106,062.

Current Issues, Economic Conditions and Outlook
Due to a stronger economy, state revenues have increased allowing the state legislature to increase K-12 education funding. State funding through the equalization formula comprises the majority of the funds provided for Delta County schools. Delta County is still facing challenges in our economic recovery, therefore, relies heavily on the state equalization. VCA's enrollment remained stable for the 2017-18 school year; however, there is a continual inflow and outflow of learners throughout the year which causes concern for the stability of enrollment numbers for the FY19 school year.

VCA developed an official four year Strategic Plan in 2017 based on overall priorities and needs gathered through a variety of processes and stakeholder groups including the Budget Committee. The 2017-2018 school year was designated as Year 1 of this plan. VCA focused on and devoted resources to the priorities outlined within the Strategic Plan in the following categories. 1) Remaining true to our foundational principles and philosophy of individualized education with care of our culture and promoting a healthy social, emotional environment. This includes a focus on the tools and structure to support each learner achieve their educational goals. One addition specific to the social emotional focus for our school was the being awarded a School Health Professional Grant that provided funding for adding a counselor to our staff and pursuing a researched based program to implement school wide. 2) Achieving academic excellence through use and application of Individual Learning Plans. This includes a focus on professional development for increased knowledge of individualizing learner's educational goals and coursework, securing and implementing a plan for use of a local assessment tool to drive instruction, changing campus classes to a content specialist model for 1st-8th and development of exemplars for references of quality work for both learners and employees. 3) Acquiring, developing, and utilizing a vast array of resources including: employee onboarding, partnerships with parents, an engagement coordinator, facility space, inventory, expansion of partnerships with community businesses, and cross training. The Strategic Planning Committee consults with the Budget Committee in a meaningful way and an ongoing dialog in order to promote the use of school funds in order to help our school grow academically while maintaining the emphasis on individualized learning.

With VCA's funding primarily reliant on the state equalization funds, we must be vigilant in understanding funding sources, regulations, and reporting requirements. VCA strives to use its resources effectively and efficiently to provide each learner with the opportunity to succeed in their educational goals while meeting the accountability required for all public schools.

Contacting VCA

This financial report is designed to provide our residents, customers, taxpayers, investors, and creditors with a general overview of VCA's finances and to show VCA's accountability for the money it receives. If you have any questions regarding this report or need additional financial information, please contact:

Vision Charter Academy
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Vision Home & Community, Inc.

STATEMENT OF NET POSITION

June 30, 2018

		Governmental Activities
ASSETS		
Cash	$	598,556
Accounts receivable		36,535
Prepaid expenses		11,184
Total assets		646,275
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows		3,047,250
OPEB related deferred outflows		14,555
Total deferred outflows of resources		3,061,805
Total assets and deferred outflows of resources	$	3,708,080
LIABILITIES		
Accounts payable	$	4,634
Accrued payroll liabilities		114,049
Noncurrent liabilities		
Net pension liability		10,097,388
Net OPEB liability		230,581
Total liabilities		10,446,652
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows		493,841
OPEB related deferred inflows		3,858
Total deferred inflows of resources		497,699
NET POSITION		
Restricted for emergencies		97,553
Unrestricted		(7,333,824)
Total net position		(7,236,271)
Total liabilities, deferred inflows of resources, and net position	$	3,708,080

The accompanying notes are an integral part of the statements.

Vision Home & Community, Inc.

STATEMENT OF ACTIVITIES

Year ended June 30, 2018

		Program Revenues			Net (Expense) Revenue and Changes in Net Position	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental activities:						
Instructional services	$ 3,389,980	$ 19,946	$ 107,692	$ -	$ (3,262,343)	$ (3,262,343)
Support services:						
Student support	87,622	-	80,000	-	(7,622)	(7,622)
Instructional staff support	187,863	-	-	-	(187,863)	(187,863)
General administration	5,908	-	-	-	(5,908)	(5,908)
School administration	450,023	-	-	-	(450,023)	(450,023)
Business support	466,116	-	-	-	(466,116)	(466,116)
Central support	124,261	-	-	-	(124,261)	(124,261)
Operations and maintenance	374,502	-	-	59,167	(315,335)	(315,335)
Total support services	1,696,295	-	80,000	59,167	(1,557,128)	(1,557,128)
Total governmental activities	$ 5,086,275	$ 19,946	$ 187,692	$ 59,167	(4,819,471)	(4,819,471)
General revenues:						
State equalization					3,026,149	3,026,149
Interest income					89	89
Total general revenues					3,026,238	3,026,238
Change in net position					(1,793,232)	(1,793,232)
Net position - beginning					(5,227,195)	(5,227,195)
Change in accounting principle					(215,844)	(215,844)
Net position - beginning, restated					(5,443,039)	(5,443,039)
Net position - ending					$ (7,236,271)	$ (7,236,271)

The accompanying notes are an integral part of the statements.

Vision Home & Community, Inc.

BALANCE SHEET - GOVERNMENTAL FUND

June 30, 2018

		General Fund
ASSETS		
Cash		$ 598,556
Accounts receivable		36,535
Prepaid expenses		11,184
	Total assets	$ 646,275
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts payable		$ 4,634
Accrued payroll liabilities		114,049
	Total liabilities	118,683
Fund balances		
Nonspendable		11,184
Restricted - TABOR reserve		97,553
Unassigned		418,855
	Total fund balances	527,592
	Total liabilities and fund balances	$ 646,275

Fund equity (as reported above)	$ 527,592
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Net pension liability and related deferred inflows and outflows of resources are not recorded in the funds ($3,047,250 - $493,841 - $10,097,388)	(7,543,979)
Net OPEB liability and related deferred inflows and outflows of resources are not recorded in the funds ($14,555 - $3,858 - $230,581)	(219,884)
Net position of governmental activities	$ (7,236,271)

The accompanying notes are an integral part of the statements.

Vision Home & Community, Inc.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUND

Year ended June 30, 2018

	General Fund
Revenues	
Local sources	$ 41,352
State sources	3,251,691
Total revenues	3,293,043
Expenditures	
Current	
Instructional services	2,079,005
Student support	28,435
Instructional staff support	106,558
General administration	5,908
School administration	242,847
Business support	286,276
Operation and maintenance	278,122
Central support	65,613
Capital outlay	94,217
Total expenditures	3,186,981
Revenues in excess (deficiency) of expenditures	106,062
Fund balance beginning of year	421,530
Fund balance end of year	$ 527,592

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances - total governmental funds	$ 106,062
In the governmental funds, expenditures related to pension and OPEB obligations are measured by the amount of financial resources used, whereas in the statement of activities, they are measured on the accrual basis. This is the amount by which pension and OPEB expense in the statement of activities is more than that in the governmental funds.	(1,899,294)
Change in net position of governmental activities	$ (1,793,232)

The accompanying notes are an integral part of the statements.

Vision Home & Community, Inc.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND - BUDGET AND ACTUAL

Year ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget Favorable
	Original	Final	Actual	(Unfavorable)
Revenues				
Local sources	$ 2,000	$ 2,000	$ 41,352	$ 39,352
State sources	3,168,521	3,240,367	3,251,691	11,324
Total revenues	3,170,521	3,242,367	3,293,043	50,676
Expenditures				
Current				
Instructional services	2,056,204	2,118,019	2,079,005	39,014
Student support	18,500	19,236	28,435	(9,199)
Instructional staff support	13,000	25,340	106,558	(81,218)
General administration	10,000	10,000	5,908	4,092
School administration	242,684	240,826	242,847	(2,021)
Business support	284,560	285,066	286,276	(1,210)
Operation and maintenance	276,487	276,787	278,122	(1,335)
Central support	155,793	155,380	65,613	89,767
Capital outlay	93,293	91,713	94,217	(2,504)
Contingency	20,000	20,000	-	20,000
Total expenditures	3,170,521	3,242,367	3,186,981	55,386
Revenues in excess (deficiency) of expenditures	-	-	106,062	106,062
Fund balance beginning of year	-	-	421,530	421,530
Fund balance end of year	$ -	$ -	$ 527,592	$ 527,592

The accompanying notes are an integral part of the statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Vision Home & Community, Inc. dba Vision Charter Academy (the Academy) have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body establishing governmental accounting and financial reporting principles.

The following is a summary of the Academy's significant accounting policies:

1. The Reporting Entity

Vision Home & Community, Inc. dba Vision Charter Academy consists of schools established under the Charter Schools Act serving kindergarten through high school students. It is governed by an independently elected Board of Stewards. The Academy is considered a component unit of Delta County Joint School District No. 50J, and is reported discretely in a separate column on their financial statements to emphasize that it is legally separate from the District.

2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Academy. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Academy presently has no business-type activities.

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

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The Academy reports the following major governmental fund:

The *General Fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

4. Assets, Liabilities and Net Position or Equity

Cash and Investments

The Academy's cash and cash equivalents are considered to be cash on hand and demand deposits. The Academy does not currently have investments.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

State statutes authorize the Academy to invest in obligations of the U.S. Treasury, obligations unconditionally guaranteed by U.S. agencies, certain international agency securities, certain types of bonds of U.S. local government entities, bankers' acceptances of certain banks, commercial paper, written repurchase agreements collateralized by certain authorized securities, certain money market funds, and guaranteed investment contracts.

Receivables

The Academy considers all receivables, if any, to be fully realizable and does not maintain an allowance for doubtful accounts.

Capital Assets

The Academy does not currently carry any capital assets on its books. If there were any, they would be reported in the government-wide financial statements. Capital assets are defined by the Academy as assets with an initial, individual cost of more than $1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Academy also has no reportable infrastructure.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Accrued Salaries

Salaries and benefits to teachers and certain other employees are paid over a 12-month period, but are earned over a school year of approximately nine months. The salaries earned, but unpaid, at June 30 are reflected in the financial statements as an accrued liability.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Stewardship, compliance and accountability

Budgetary Information

Prior to May 15, management submits to the Board of Stewards a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes expenditures and the means of financing them. Public board meetings are conducted to obtain comments. The budget is submitted by the Board of Stewards to the District's Board of Education by June 1 of each year. Prior to June 30, the budget is adopted by the District's Board of Education.

During the budget year, the Board of Stewards has the option of changing and finalizing the budget for the fiscal year. One supplemental budget amendment was adopted during the fiscal year ended June 30, 2018.

Budgeted level of expenditures

Expenditures may not legally exceed appropriations at the fund level. Administrative control is maintained through the use of detailed line-item budgets. Budgets must be amended at the fund level by the Board of Stewards. At year-end, all appropriations lapse in accordance with Colorado statutes.

Budgetary basis of accounting

Appropriated budgets are adopted by the Board of Stewards for the General Fund on a basis consistent with generally accepted accounting principles (GAAP).

6. Pensions

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

7. Adoption of GASB 75

For the year ended June 30, 2018, the School adopted the provisions of Statement of Governmental Accounting Standards (GASB Statement) No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, which replaces the requirements of Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.

8. Defined Benefit Other Post Employment Benefit Plan (OPEB)

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

NOTE B – CASH

Cash carrying value of deposits in banking institutions as of June 30, 2018 consists of the following:

Demand accounts	$ 598,170
Petty cash	386
Total cash and investments	$ 598,556

NOTE B – CASH – CONTINUED

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government including component units deposit cash in eligible public depositories; eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool is to be maintained by another institution or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least 102% of the aggregate uninsured deposits. As of June 30, 2018, the Academy had deposits of $715,195, of which $250,000 was covered by federal depository insurance and $465,195 was collateralized as noted above.

NOTE C – FUND BALANCES

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the Academy's fund balances more transparent. In the fund financial statements the following classifications describe the relative strength of the spending constraints.

- *Non-spendable fund balance* - The portion of fund balance that cannot be spent because it is either not in spendable form (such as prepaid expenses) or is legally or contractually required to be maintained intact.
- *Restricted fund balance* - The portion of fund balance constrained to being used for a specific purpose by external parties (such as grantors or bondholders), constitutional provisions or enabling legislation.
- *Committed fund balance* - The portion of fund balance constrained for specific purposes according to limitations imposed by the Academy's highest level of decision making authority, the Board of Stewards, prior to the end of the current fiscal year. The constraint may be removed or changed only through formal action of the Board.
- *Assigned fund balance* - The portion of fund balance set aside for planned or intended purposes. The intended use may be expressed by the Board or other individuals authorized to assign funds to be used for a specific purpose. Assigned fund balances in special revenue funds will also include any remaining fund balance that is not restricted or committed. This classification is necessary to indicate that those funds are, at a minimum, intended to be used for the purpose of that particular fund.

NOTE C – FUND BALANCES – CONTINUED

- *Unassigned fund balance* - The residual portion of fund balance that does not meet any of the above criteria. The Academy will only report a positive unassigned fund balance in the General Fund.

If both restricted and unrestricted amounts of fund balance are available for use when an expenditure is incurred, it is Academy policy to use restricted amounts first. Unrestricted fund balance will be used in the following order: committed, assigned, and unassigned. Net position represents the difference between assets and deferred outflows of resources and liabilities and the deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on its use, either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

NOTE D – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

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

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

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

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

NOTE D – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

- Highest average salary multiplied by 2.5 percent and then multiplied by years of service credit
- $15 times the first 10 years of service credit plus $20 times service credit over 10 years plus a monthly amount equal to the annuitized member contribution account balance based on life expectancy and other actuarial factors.

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

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

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SCHDTF.

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

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

NOTE D – DEFINED BENEFIT PENSION PLAN – CONTINUED

Contributions provisions as of June 30, 2018: Eligible employees and the School are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2018
Employer contribution rate[1]	10.15%	10.15%
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) [1]	(1.02)%	(1.02)%
Amount apportioned to the SCHDTF[1]	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 [1]	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 [1]	5.00%	5.50%
Total employer contribution rate to the SCHDTF[1]	**18.63%**	**19.13%**

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the School were $279,476 for the year ended June 30, 2018.

NOTE D – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

At June 30, 2018, the School reported a liability of $10,097,388 for its proportionate share of the net pension liability. The net pension liability for the SCHDTF was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total pension liability to December 31, 2017.

The School proportion of the net pension liability was based on the School contributions to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers to the SCHDTF. At December 31, 2017, the School proportion was .031226 percent, which was an increase of .000946 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the School recognized pension expense of $2,174,731. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$185,648	$–
Changes of assumptions or other inputs	2,578,239	16,361
Net difference between projected and actual earnings on pension plan investments	–	396,534
Changes in proportion and differences between contributions recognized and proportionate share of contributions	138,696	80,946
Contributions subsequent to the measurement date	144,667	N/A
Total	$3,047,250	$493,841

NOTE D – DEFINED BENEFIT PENSION PLAN – CONTINUED

$144,667 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30, 2018:	
2019	$ 1,599,310
2020	928,858
2021	29,751
2022	(149,177)
2023	–
Thereafter	–

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

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

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

NOTE D – DEFINED BENEFIT PENSION PLAN – CONTINUED

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

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

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

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

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

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

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

NOTE D – DEFINED BENEFIT PENSION PLAN – CONTINUED

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%.

Discount rate. The discount rate used to measure the total pension liability was 4.78 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

NOTE D – DEFINED BENEFIT PENSION PLAN – CONTINUED

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.43 percent, resulting in a discount rate of 4.78 percent.

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

NOTE D – DEFINED BENEFIT PENSION PLAN – CONTINUED

Sensitivity of the School proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 4.78 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.78 percent) or 1-percentage-point higher (5.78 percent) than the current rate:

	1% Decrease (3.78%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Proportionate share of the net pension liability	$12,754,719	$10,097,388	$7,931,967

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

Changes between the measurement date of the net pension liability and June 30, 2018

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years.*

The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to the plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.

A brief description of some of the major changes to plan provisions required by SB 18-200 are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- Directs the state to allocate $225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the other divisions eligible for the direct distribution.

NOTE D – DEFINED BENEFIT PENSION PLAN – CONTINUED

- 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, the School reported a liability of $10,097,388 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 School proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SCHDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SCHDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)
7.25%	$ 4,561,913

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 $4,713,524 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

NOTE E – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN

General Information about the OPEB Plan

Plan description. Eligible employees of the School are provided with OPEB through the HCTF—a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided. The HCTF provides a health care premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA health care plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The health care premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. For members who retire having service credit with employers in the Denver Public Schools (DPS) Division and one or more of the other four Divisions (State, School, Local Government and Judicial), the premium subsidy is allocated between the HCTF and the Denver Public Schools Health Care Trust Fund (DPS HCTF). The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

C.R.S. § 24-51-1202 et seq. specifies the eligibility for enrollment in the health care plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated.

All benefit recipients under the PERA benefit structure and all retirees under the DPS benefit structure are eligible for a premium subsidy, if enrolled in a health care plan under PERACare. Upon the death of a DPS benefit structure retiree, no further subsidy is paid.

NOTE E – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

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 percent reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

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

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

NOTE E – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

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

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the School were $15,095 for the year ended June 30, 2018.

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

At June 30, 2018, the School reported a liability of $230,581 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The School proportion of the net OPEB liability was based on School contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the School proportion was .017742 percent, which was an increase of .00053 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the School recognized OPEB expense of $19,135. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

NOTE E – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$1,090	$–
Net difference between projected and actual earnings on OPEB plan investments	–	3,858
Changes in proportion and differences between contributions recognized and proportionate share of contributions	5,751	–
Contributions subsequent to the measurement date	7,714	N/A
Total	$14,555	$3,858

$7,714 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30, 2018:	
2019	$ 380
2020	380
2021	380
2022	380
2023	1,344
Thereafter	119

NOTE E – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

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

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.00 percent for 2017, gradually rising to 4.25 percent in 2023
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

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

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

NOTE E – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services.

Effective December 31, 2016, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

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

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

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

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

NOTE E – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

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

- **Males:** Mortality improvement projected to 2018 using the MP-2015 projection scale, a 73 percent factor applied to rates for ages less than 80, a 108 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.
- **Females:** Mortality improvement projected to 2020 using the MP-2015 projection scale, a 78 percent factor applied to rates for ages less than 80, a 109 percent factor applied to rates for ages 80 and above, and further adjustments for credibility.

Healthy, post-retirement mortality assumptions for the School and Judicial Divisions were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, adjusted as follows:

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

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

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

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

NOTE E – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the "No Part A Subsidy" when they retire were revised to more closely reflect actual experience.
- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees, who qualify for the "No Part A Subsidy" but have not reached age 65, were revised to more closely reflect actual experience.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.
- The rates of PERAcare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.
- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

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

The long-term expected return on plan assets is reviewed as part of regular experience studies prepared every four or five years for PERA. Recently, this assumption has been reviewed more frequently. The most recent analyses were outlined in presentations to PERA's Board on October 28, 2016.

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.

NOTE E – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

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 the School 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:

NOTE E – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

	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	$224,237	$230,581	$238,222

Discount rate. The discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2017, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the HCTF's fiduciary net position was projected to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent.

NOTE E – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN – CONTINUED

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	$259,246	$230,581	$206,115

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 F – RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; errors and omissions; violation of civil rights; theft of, damage to, and destruction of assets; and natural disasters. The Academy uses workers compensation and other liability insurance to help mitigate these risks. During the year ended June 30, 2018, the Academy paid $16,734 in related insurance premiums to insurers.

NOTE G – TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities and other specific requirements of state and local governments. The Amendment is complex and subject to judicial interpretation. The Academy believes it is in compliance with the requirements of the Amendment. However, the Academy has made certain interpretations of the Amendment's language in order to determine its compliance.

NOTE H – LINE OF CREDIT

The School entered into an uncollateralized line of credit for $100,000. The line was not used during the year. The line carries interest at Bank of the West Prime Rate plus .25 percentage points and is due in August of each year if continued. The latest line of credit is due August 10, 2018.

NOTE I – CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2017, the School retroactively changed its method of accounting for OPEB contributions and related obligations to conform to GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Under the new accounting method, the School accrues a net OPEB liability related to its participation in a multiple employer cost sharing OPEB plan. The effect of the change decreased beginning net position for 2018 by $215,844, from ($5,227,195) to ($5,443,039).

Vision Home & Community, Inc.

SCHEDULE OF ACTIVITY - NET PENSION LIABILITY

June 30, 2018

	Employer proportion of NPL	Employer proportionate share of NPL	Employer covered payroll	Employer proportionate share of NPL as a percentage of covered payroll	Pension plan's fiduciary net position as a percentage of total pension liability
Measurement date:					
December 31, 2014	0.031119%	$ 4,217,644	$ 1,288,018	327%	63%
December 31, 2015	0.031644%	4,839,793	1,381,224	350%	59%
December 31, 2016	0.030280%	9,015,662	1,358,992	663%	43%
December 31, 2017	0.031226%	10,097,388	1,440,483	701%	44%

Vision Home & Community, Inc.

SCHEDULE OF ACTIVITY - EMPLOYER PENSION CONTRIBUTIONS

June 30, 2018

	Required employer contribution	Employer contributions recognized by the plan	Difference	Employer covered payroll	Contributions as a percentage of employer covered payroll
June 30, 2015	$ 232,340	$ 232,340	$ -	$ 1,373,356	16.92%
June 30, 2016	231,334	231,334	-	1,304,577	17.73%
June 30, 2017	260,934	260,934	-	1,419,471	18.38%
June 30, 2018	279,476	279,476	-	1,479,855	18.89%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1: Factors that Significantly Affect Trends in the Amounts Reported

For the measurement period ended December 31, 2016, the discount rate changed from 7.5% to 5.26%. This change significantly affected the total plan net pension liability and the employer share of the net pension liability. There were no other changes in benefit terms, size or composition of the population covered by the benefit terms, or assumptions used that significantly affect trends in the amounts reported.

Vision Home & Community, Inc.

SCHEDULE OF ACTIVITY - NET OPEB LIABILITY

June 30, 2018

	Employer proportion of NOPEBL	Employer proportionate share of NOPEBL	Employer covered payroll	Employer proportionate share of NOPEBL as a percentage of covered payroll	OPEB plan's fiduciary net position as a percentage of total OPEB liability
Measurement date:					
December 31, 2017	0.017742%	$ 230,581	$ 1,440,483	16%	18%

Vision Home & Community, Inc.

SCHEDULE OF ACTIVITY - EMPLOYER PENSION CONTRIBUTIONS

June 30, 2018

	Required employer contribution	Employer contributions recognized by the plan	Difference	Employer covered payroll	Contributions as a percentage of employer covered payroll
June 30, 2018	$ 15,095	$ 15,095	$ -	$ 1,479,855	1.02%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1: Factors that Significantly Affect Trends in the Amounts Reported

There were no changes in benefit terms, size or composition of the population covered by the benefit terms, or assumptions used that significantly affect trends in the amounts reported.