

**ACADEMY 360 CHARTER SCHOOL**

**BASIC FINANCIAL STATEMENTS**

**June 30, 2018**

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## **FINANCIAL SECTION**



## JOHN CUTLER & ASSOCIATES

Board of Directors  
Academy 360 Charter School  
Denver, Colorado

### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of Academy 360 Charter School (the "Academy"), component unit of the Denver Public School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Academy, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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.

#### 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 the Academy 360 Charter School as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedules of the school's proportionate share, and schedules of the school's contributions on pages 40-44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*John Cutler & Associates, LLC*

November 12, 2018

## **Academy 360 Charter School Management's Discussion and Analysis**

As management of Academy 360 Charter School (A360 or the School), we offer readers of Academy 360 Charter School's financial statements our narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2018.

### **Financial Highlights**

The year ended June 30, 2018 is the fifth year of operations for A360. As of June 30, 2018, net position decreased by \$(115,910) to \$(268,230). This negative balance is the result of the implementation of regulations under the Governmental Accounting Standards Board Statement (GASB) Numbers 68 and 75. Further information about GASB 68 and 75 is provided in Notes 6 and 7 of the financial statements.

The operations of the School are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue. Such revenue for the year was \$1,523,145. At the close of the fiscal year, Academy 360 Charter School's governmental funds reported an ending fund balance of \$847,182, an increase of \$295,028 from prior year. This increase is the result of closely monitoring spending throughout the year and remaining proceeds from a loan.

### **Overview of Financial Statements**

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

#### ***Government-Wide Financial Statements***

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

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

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

The government-wide statement of activities distinguishes functions/programs of the School supported primarily by Per Pupil Revenue or other revenues passed through from the authorizer (Denver Public Schools). The governmental activities of the School include instruction and supporting services.

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other governmental units or schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

The School adopts annually appropriated budgets for any governmental funds. A budgetary comparison schedule for each governmental fund has been provided herein.

### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 6-39.

### **Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of Academy 360 Charter School, liabilities exceeded assets resulting in a net position of \$(268,230) in FY 2017-2018. Again, this is directly related to the Pension Plan and the Defined Benefit Other Post Employment Benefit (OPEB) liabilities reporting requirements under GASB 68 and 75. Of the School's total net position, \$59,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR

Amendment. Accordingly, these funds are not available to satisfy the school's general operating expenses.

**Academy 360 Charter School's Net Position  
Governmental Activities**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<b>ASSETS</b>		
Cash and Investments	\$ 668,905	\$ 518,026
Restricted Cash and Investments	301,728	\$ -
Accounts Receivable	20	29,248
Prepaid Expenses	38,248	40,559
Capital Assets, Not Being Depreciated	134,699	-
Capital Assets, Net of Accum Depreciation	508,831	545,736
<b>Total Assets</b>	<b>1,652,431</b>	<b>1,133,569</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Related to Pensions	528,410	607,765
Related to OPEB	11,506	-
<b>Total Deferred Outflows of Resources</b>	<b>539,916</b>	<b>607,765</b>
<b>LIABILITIES</b>		
Accounts Payable	110,729	3,917
Unearned Revenue	50,990	31,762
Noncurrent Liabilities		
Due within One Year	59,811	39,267
Due in More Than One Year	684,162	394,890
Net Pension Liability	1,192,503	1,281,815
Net OPEB Liability	67,603	-
<b>Total Liabilities</b>	<b>2,165,798</b>	<b>1,751,651</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Related to Pensions	292,668	82,670
Related to OPEB	2,111	-
<b>Total Deferred Inflows of Resources</b>	<b>294,779</b>	<b>82,670</b>
<b>NET POSITION</b>		
Investment in Capital Assets	201,285	111,579
Restricted for Emergencies	59,000	54,000
Restricted for Capital Projects	195,471	-
Unrestricted	(723,986)	(258,566)
<b>Total Net Position</b>	<b>\$ (268,230)</b>	<b>\$ (92,987)</b>

The largest portion of the School's assets is in cash and investments, at 59% of total assets in 2018.

**Academy 360 Charter School's Change in Net Position  
Governmental Activities**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Program Revenue:		
Charges for Services	\$ 22,188	\$ 26,430
Operating Grants and Contributions	184,582	274,627
Capital Grants and Contributions	45,727	45,730
Total Program Revenue	<u>252,497</u>	<u>346,787</u>
General Revenue:		
Per Pupil Revenue	1,523,145	1,430,908
Mill Levy Revenue	380,658	333,661
Rental Income	39,668	-
Interest	504	280
Total General Revenue	<u>1,943,975</u>	<u>1,764,849</u>
<b>Total Revenue</b>	<u>2,196,472</u>	<u>2,111,636</u>
Expenses:		
Current:		
Instruction	1,424,961	722,695
Supporting Services	852,129	1,343,539
Interest on Long Term Debt	35,292	29,250
Total Expenses	<u>2,312,382</u>	<u>2,095,484</u>
<b>Increase/(Decrease) in Net Position</b>	(115,910)	16,152
<b>Net Position, Beginning*</b>	<u>(152,320)</u>	<u>(109,139)</u>
<b>Net Position, Ending</b>	<u>\$ (268,230)</u>	<u>\$ (92,987)</u>

*\*The 2017-2018 beginning net position was decreased by \$59,333 as the School implemented GASB 75.*

The largest portion of the School's revenues came from per pupil revenue – 69%, respectively in 2018.

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

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

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

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$651,711, an increase of \$99,557 from the prior year. As of the end of the current fiscal year, the school's Debt Service Fund reported an ending fund balance of \$195,471, an increase of \$195,471 from the prior year. This fund records the activity of the A360 Building Corporation (the "Corporation"), created for the purpose of issuing and paying debt on behalf of the school.

### **General Fund Budgetary Highlights**

The School approves a final general fund budget in May based on enrollment projections for the school year. In October, after enrollment stabilizes, adjustments are made to the budget. At year-end, the School had some variances between its final budgeted and actual activities. Overall, the School recognized \$4,217 more revenue than expected and spent \$(93,497) less than planned, when compared to the final budget. One budget amendment was made during FY 2017-2018.

### **Capital Assets & Long-Term Debt**

The School has invested in capital assets in the form of building improvements to the school's facility, including construction in progress as of June 30, 2018. Depreciation expenses for capital assets are booked under Supporting Services of the School's operations. See Note 4 for more information.

The School has three long-term debt obligations used to finance leasehold improvements; one loan through the Charter School Development Corporation (CSDC), including an additional amount borrowed during the year, and two agreements with the school's landlord. Additional information related to long-term debt can be found in Note 5 to the financial statements.

### **Economic Factors and Next Year's Budget**

The primary factor driving the budget for Academy 360 Charter School is student enrollment. Enrollment for the 2017-2018 school year was 153.36 funded students. This information was analyzed as part of the 2018-2019 budget which is projecting a 160.84 funded student count.

## **Requests for Information**

This financial report is designed to provide a general overview of Academy 360 Charter School's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the School:

Academy 360 Charter School  
12000 East 47th Avenue  
Denver, CO 80239

## **BASIC FINANCIAL STATEMENTS**

## ACADEMY 360 CHARTER SCHOOL

## STATEMENT OF NET POSITION

As of June 30, 2018

	Governmental Activities	
	2018	2017
ASSETS		
Cash and Investments	\$ 668,905	\$ 518,026
Restricted Cash and Investments	301,728	-
Accounts Receivable	20	29,248
Prepays	38,248	40,559
Capital Assets, Not Being Depreciated	134,699	-
Capital Assets, Depreciated, Net of Accumulated Depreciation	508,831	545,736
TOTAL ASSETS	1,652,431	1,133,569
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	528,410	607,765
Related to OPEB	11,506	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	539,916	607,765
LIABILITIES		
Accounts Payable	110,729	3,917
Unearned Revenue	50,990	31,762
Noncurrent Liabilities		
Due within One Year	59,811	39,267
Due in More Than One Year	684,162	394,890
Net Pension Liability	1,192,503	1,281,815
Net OPEB Liability	67,603	-
TOTAL LIABILITIES	2,165,798	1,751,651
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	292,668	82,670
Related to OPEB	2,111	-
TOTAL DEFERRED INFLOWS OF RESOURCES	294,779	82,670
NET POSITION		
Investment in Capital Assets	201,285	111,579
Restricted for Emergencies	59,000	54,000
Restricted for Capital Projects	195,471	-
Unrestricted	(723,986)	(258,566)
TOTAL NET POSITION	\$ (268,230)	\$ (92,987)

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



ACADEMY 360 CHARTER SCHOOL

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2018

	GENERAL FUND	DEBT SERVICE FUND	TOTALS	
			2018	2017
<b>ASSETS</b>				
Cash and Investments	\$ 668,905	\$ -	\$ 668,905	\$ 518,026
Restricted Cash and Investments	-	301,728	301,728	-
Accounts Receivable	20	-	20	29,248
Prepaid Expenses	38,248	-	38,248	40,559
<b>TOTAL ASSETS</b>	<b>\$ 707,173</b>	<b>\$ 301,728</b>	<b>\$ 1,008,901</b>	<b>\$ 587,833</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 4,472	\$ 106,257	\$ 110,729	\$ 3,917
Unearned Revenue	50,990	-	50,990	31,762
<b>TOTAL LIABILITIES</b>	<b>55,462</b>	<b>106,257</b>	<b>161,719</b>	<b>35,679</b>
<b>FUND BALANCES</b>				
Nonspendable	38,248	-	\$ 38,248	40,559
Restricted for Emergencies	59,000	-	59,000	54,000
Restricted for Capital Projects	-	195,471	195,471	-
Unassigned	554,463	-	554,463	457,595
<b>TOTAL FUND BALANCES</b>	<b>651,711</b>	<b>195,471</b>	<b>847,182</b>	<b>552,154</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 707,173</b>	<b>\$ 301,728</b>		

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

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.

643,530 545,736

Long-term liabilities and related assets are not due and payable in the current period and therefore, are not reported in the funds. This liability includes net pension liability (\$1,192,503), net OPEB liability (\$67,603), deferred outflows related to pensions \$528,410, deferred outflows related to OPEB \$11,506, deferred inflows related to pensions (\$292,668), deferred inflows related to OPEB (\$2,111), and notes payable (\$743,973).

(1,758,942) (1,190,877)

Net position of governmental activities

\$ (268,230) \$ (92,987)

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

ACADEMY 360 CHARTER SCHOOL

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

	GENERAL FUND	DEBT SERVICE FUND	TOTALS	
			2018	2017
REVENUES				
Local Sources	\$ 2,033,920	\$ 73,146	\$ 2,107,066	\$ 1,988,789
State Sources	85,316	-	85,316	74,237
Federal Sources	77,236	-	77,236	114,771
TOTAL REVENUES	<u>2,196,472</u>	<u>73,146</u>	<u>2,269,618</u>	<u>2,177,797</u>
EXPENDITURES				
Current				
Instruction	1,242,176	-	1,242,176	619,541
Supporting Services	779,357	-	779,357	1,246,962
Debt Service				
Principal	-	37,854	37,854	36,911
Interest	-	35,292	35,292	29,250
Debt Issuance Cost	-	17,500	17,500	-
Capital Outlay	75,382	134,699	210,081	-
TOTAL EXPENDITURES	<u>2,096,915</u>	<u>225,345</u>	<u>2,322,260</u>	<u>1,932,664</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>99,557</u>	<u>(152,199)</u>	<u>(52,642)</u>	<u>245,133</u>
OTHER FINANCING SOURCES				
Proceeds from Issuance of Debt	-	347,670	347,670	-
NET CHANGE IN FUND BALANCES	99,557	195,471	295,028	245,133
FUND BALANCES, Beginning	<u>552,154</u>	<u>-</u>	<u>552,154</u>	<u>307,021</u>
FUND BALANCES, Ending	<u>\$ 651,711</u>	<u>\$ 195,471</u>	<u>\$ 847,182</u>	<u>\$ 552,154</u>

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

ACADEMY 360 CHARTER SCHOOL

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2018

Amounts Reported for Governmental Activities in the Statement of Activities  
are Different Because:

Net Changes in Fund Balances - Total Governmental Funds	\$ 295,028
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlay of \$167,833 exceeded depreciation of (\$70,039) in the current period.	97,794
Loan proceeds are reported as financing sources in the governmental funds and increase fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net position and does not effect the statement of activities.	(347,670)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	37,854
Deferred Charges related to pensions are not recognized in the governmental funds. However, in the government-wide statements these amounts are capitalized and amortized.	<u>(198,916)</u>
Change in Net Position of Governmental Activities	<u>\$ (115,910)</u>

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

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

Academy 360 Charter School (the “Academy”) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school within the Denver Public School District of the State of Colorado.

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

**Reporting Entity**

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

Based upon the application of these criteria, the following organization is included in the Academy’s reporting entity:

A360 Building Corporation

In June 2015, the A360 Building Corporation (the “Corporation”) was created. The purpose of the Corporation is to provide a mechanism to issue and pay debt on behalf of the Academy. The Corporation is considered to be part of the Academy for financial reporting purposes because its resources are entirely for the direct benefit of the Academy and is blended into the Academy’s financial statements as a debt service fund. As part of its ongoing responsibilities, the Corporation provides the Academy with monthly financial statements. Separate financial statements are not available.

The Academy is a component unit of the Denver Public School District.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

**Government-Wide and Fund Financial Statements** (Continued)

Governmental activities, which normally are supported by intergovernmental revenues, are reported in a single column.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

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

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

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

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

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

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

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

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

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

The Academy reports the following major governmental funds:

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

*Debt Service Fund* – This fund is used to account for the financial activities of the Academy's Building Corporation.

**Deferred Outflows/Inflows of Resources**

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

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

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

*Investments* – Investments are stated at fair value.

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

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

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

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

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements.

*Long-term Debt* – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

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

*Fund Balance Classification* – In the government-wide financial statements, net position is restricted when constraints placed on the net position are externally imposed. The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Academy is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Academy classifies Prepaid Expenses as nonspendable as these items are not expected to be converted to cash within the next year.

ACADEMY 360 CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018

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

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

- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Academy has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The Academy has also classified the fund balance of the Debt Service Fund as restricted for capital projects.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Academy did not have any committed resources as of June 30, 2018.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Academy would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned.

**Compensated Absences**

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

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

**Risk Management**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Academy carries commercial coverage for these risks of loss. The Academy has not sustained any losses that exceeded the insurable amounts in the last three years.

**Comparative Data**

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

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

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

**Budgets and Budgetary Accounting**

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

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

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 3: CASH AND INVESTMENTS**

**Deposits**

A summary of deposits and investments as of June 30, 2018 follows:

Cash Deposits	\$ 470,604
Investments	<u>500,029</u>
	<b><u>\$ 970,633</u></b>

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2018, State regulatory commissioners have indicated that all financial institutions holding deposits for the Academy are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group.

The market value of the collateral must be at least equal to 102% of the uninsured deposits. The Academy has no policy regarding custodial credit risk for deposits.

At June 30, 2018, the Academy had deposits with financial institutions with a carrying amount of \$470,604. The bank balances with the financial institutions were \$489,911. Of these balances, \$250,000 was covered by federal depository insurance and \$239,911 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

**Investments**

**Interest Rate Risk**

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

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

**Investments (Continued)**

Credit Risk

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

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

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

Investment Pools

The Academy had invested \$500,029 in the Colorado Statewide Investment Pool (CSIP), an investment vehicle established for local government entities in Colorado pursuant to Title 24, Article 75, part 7 of the Colorado Revised Statutes, to pool surplus funds for investment purposes. The State Securities Commissioner administers and enforces the requirements of creating and operating the Pools. CSIP reports its underlying investments at amortized cost and is considered a qualifying external investment pool under GASB Statement 79. CSIP operates similar to money market funds where each share is equal in value to \$1.00. The fair value of the position in the pools is the same as the value of the pooled shares.

CSIP is rated AAAM by Standard and Poor's. The designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities are owned by the pools and held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the pools. Investments of the pools comply with state statutes, consisting of obligations and repurchase agreements of the U.S. government and its Agencies and Instrumentalities, Commercial Paper, Corporate Notes and Bonds, Obligations of Banks, Negotiable Certificates of Deposit, Floating-Rate and Variable-Rate Obligations, Municipal Obligations, Money Market Mutual Funds, Bank and savings accounts and any investments authorized by section 24-75-601 et. seq. of the Colorado Revised Statutes. Investments withdrawn in advance of maturity as subject to premature redemption penalties.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

**Restricted Cash and Investments**

Cash and Investments in the amount of \$301,728 are restricted in the Debt Service Fund for capital projects.

**NOTE 4: CAPITAL ASSETS**

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

	Balance <u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2018</u>
<b>Governmental Activities</b>				
Capital Assets, Not Depreciated				
Construction in Progress	\$ -	\$ 134,699	\$ -	\$ 134,699
Capital Assets, Depreciated				
Building Improvements	651,997	15,043	-	667,040
Equipment	<u>28,894</u>	<u>18,091</u>	<u>-</u>	<u>46,985</u>
Total Capital Assets, Depreciated	<u>680,891</u>	<u>33,134</u>	<u>-</u>	<u>714,025</u>
Accumulated Depreciation				
Building Improvements	129,570	66,213	-	195,783
Equipment	<u>5,585</u>	<u>3,826</u>	<u>-</u>	<u>9,411</u>
Total Accumulated Depreciation	<u>135,155</u>	<u>70,039</u>	<u>-</u>	<u>205,194</u>
Net Capital Assets, Depreciated	<u>545,736</u>	<u>(36,905)</u>	<u>-</u>	<u>508,831</u>
Net Capital Assets	<u>\$ 545,736</u>	<u>\$ 97,794</u>	<u>\$ -</u>	<u>\$ 643,530</u>

Depreciation was charged to the supporting services activity of the Academy.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 5: LONG TERM DEBT**

Following is a summary of the Academy's long-term debt transactions for the year ended June 30, 2018:

	Balance <u>June 30, 2017</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2018</u>	Due In <u>One Year</u>
Note Payable CSDC	\$ 324,941	\$ 347,670	\$ 25,458	\$ 647,153	\$ 46,877
Note Payable Landlord	70,109	-	8,241	61,868	8,588
Note Payable Landlord	<u>39,107</u>	<u>-</u>	<u>4,155</u>	<u>34,952</u>	<u>4,346</u>
<b>Total</b>	<b><u>\$ 434,157</u></b>	<b><u>\$ 347,670</u></b>	<b><u>\$ 37,854</u></b>	<b><u>\$ 743,973</u></b>	<b><u>\$ 59,811</u></b>

**Note Payable - CSDC**

On May 15, 2015, the Academy entered into a loan agreement with the Charter School Development Corporation ("CSDC"). Loan proceeds in the amount of \$350,000 were used to finance tenant leasehold improvements to the Academy's new facility. An additional amount of \$347,670 was loaned to the school during the financial year ended June 30, 2018. The note carries an interest rate of 7%. Monthly interest payments in the amount of \$2,042 were due in July 2015 through June 2016. Beginning in July 2016, monthly principal and interest payments in the amount of \$4,064 were due and beginning May 2018 monthly principal and interest payments of \$7,557 are due through May 2023. A balloon payment in the amount of the remaining outstanding principal balance and any accrued interest is due and payable at the maturity date.

**Notes Payable – 12000 E. 47<sup>th</sup>, LLC ("Landlord")**

Sprinkler System

The Academy's amended facilities lease agreement with its landlord includes an agreement that the landlord will make improvements to the property's sprinkler system at a total cost not to exceed \$178,500 of which the Academy is to reimburse the landlord for a maximum 50% of the cost. The note carries an interest rate of 4.5%. Monthly principal and interest payments in the amount of \$964 are due to the landlord through June 2025.

Tenant Improvements

The Academy's amended facilities lease agreement with its landlord also includes an agreement that landlord will reimburse the Academy for tenant improvements not to exceed \$45,000. This tenant improvement allowance is to be repaid by the Academy beginning in January 2016. The note carries an interest rate of 4.5%. Monthly principal and interest payments in the amount of \$486 are due to the landlord through June 2025.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 5: LONG TERM DEBT** (Continued)

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 59,811	\$ 48,278	\$ 108,089
2020	63,826	44,262	108,088
2021	68,082	40,006	108,088
2022	72,631	35,458	108,089
2023	453,836	28,371	482,207
2024-2025	<u>25,787</u>	<u>1,579</u>	<u>27,366</u>
<b>Total</b>	<b><u>\$ 743,973</u></b>	<b><u>\$ 197,954</u></b>	<b><u>\$ 941,927</u></b>

**NOTE 6: DEFINED BENEFIT PENSION PLAN**

**Summary of Significant Accounting Policies**

*Pensions.* The Academy participates in the Denver Public Schools Division Trust Fund (DPS Division), a single-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 DPS Division have been determined using the economic resources measurement focus and the accrual basis of accounting.

**General Information about the Pension Plan**

- 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 DPS Division for financial reporting purposes be measured using the plan provisions in effect as of the DPS Division’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.*

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 6: DEFINED BENEFIT PENSION PLAN** (Continued)

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

*Plan description.* Eligible employees of the Academy are provided with pensions through the Denver Public Schools Division Trust Fund (DPS Division)—a single-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](http://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 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.

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

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

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

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 6:** **DEFINED BENEFIT PENSION PLAN** (Continued)

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

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

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

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.

*Contribution Provisions as of June 30, 2018.* Eligible employees and the Academy are required to contribute to the DPS Division 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.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 6: DEFINED BENEFIT PENSION PLAN** (Continued)

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

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	10.15%	10.15%
Amount of Employer Contribution apportioned to the DPS HCTF as specified in C.R.S. § 24-51-208(1)(f)	(1.02%)	(1.02%)
PCOP Offset as specified in C.R.S. § 24-51-412	(14.56%)	(14.18%)
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411	5.00%	5.00%
Total Employer Contribution Rate to the DPS Division	4.07%	4.95%

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

Employer contributions are recognized by the DPS Division in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions to the DPS Division. Employer contributions recognized by the DPS Division from the Academy were \$42,695 for the year ended June 30, 2018.

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

At June 30, 2018 the Academy reported a liability of \$1,192,503 for its proportionate share of the net pension liability. The net pension liability for the DPS Division was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017. The Academy's proportion of the net pension liability was based on the Academy's contributions to the DPS Division for the calendar year 2017 relative to the total contributions of participating employers to the DPS Division.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 6: DEFINED BENEFIT PENSION PLAN** (Continued)

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

At December 31, 2017, the Academy's proportion was 0.13302%, which was an increase of 0.01601% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018 the Academy recognized pension expense of \$242,736. At June 30, 2018, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$73,018	\$2,196
Changes in assumptions or other inputs	\$155,380	\$60,715
Net difference between projected and actual earnings on pension plan investments	N/A	\$229,757
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$276,260	N/A
Contributions subsequent to the measurement date	\$23,752	N/A
Total	\$528,410	\$292,668

\$23,752 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:

<b>Year ended June 30,</b>	
2019	\$133,363
2020	\$106,988
2021	\$34,814
2022	(\$63,175)

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 6: DEFINED BENEFIT PENSION PLAN** (Continued)

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

*Actuarial assumptions.* The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial 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 – 9.70%
Long-term investment Rate of Return, net of pension plan investment expenses, including price inflation	7.25%
Discount Rate	7.25%
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

Based on the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic assumptions were adopted by PERA's Board on November 18, 2016 and effective as of December 31, 2016. These revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2015 to December 31, 2016:

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 – 9.70%
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25%
Discount rate	7.25%
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

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 6: DEFINED BENEFIT PENSION PLAN** (Continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** (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 changed to reflect 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 DPS Division, 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.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 6: DEFINED BENEFIT PENSION PLAN** (Continued)

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

As of the 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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>10 Year Expected Geometric Real Rate of Return</b>
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 US 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 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:

- 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%.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)**

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

- 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.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 6: DEFINED BENEFIT PENSION PLAN** (Continued)

Based on the above assumptions and methods, the DPS Division’s fiduciary net position was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return of 7.25 percent on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use the municipal bond index rate, and therefore, the discount rate is 7.25 percent. There was no change in the discount rate from the prior measurement date.

*Sensitivity of the School’s proportionate share of the net pension liability to changes in the discount rate.* The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 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 pension liability	\$1,876,561	\$1,192,503	\$626,310

*Pension plan fiduciary net position.* Detailed information about the DPS Division’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](http://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](http://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).

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 6: DEFINED BENEFIT PENSION PLAN** (Continued)

**Changes between the measurement date of the net pension liability and June 30, 2018**  
(continued)

- 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 DPS Division based on the proportionate amount of annual payroll of the DPS Division 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 the Academy reported a liability of \$1,192,503 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 7.25%. For comparative purposes, the following schedule presents an estimate of what the Academy's proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the DPS Division, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the DPS Division 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%	\$ 863,970

ACADEMY 360 CHARTER SCHOOL  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 6: DEFINED BENEFIT PENSION PLAN** (Continued)

**Taxable Pension Certificates of Participation (PCOPs)**

The District issued Taxable Pension Certificates of Participation (PCOPs) on July 17, 1997 to fully fund the unfunded actuarial accrued liability (UAAL) of the Plan. Full funding of the UALL reduced the employer contribution rate from the full funding rate of 15.75% to the normal cost rate of 4.98%. This rate is based upon actuarially determined contribution requirements, the approval and recommendation of the Plan's Board and approval of the District's Board of Education. The Academy contributed 9.60%, 9.95%, and 9.84%, of covered payroll for the fiscal years ended June 30, 2018, 2017, and 2016, respectively, to the District to cover its obligation relating to the PCOPs.

During the fiscal years ended June 30, 2018, 2017, and 2016, the Academy made contributions totaling \$90,746, \$91,075, and \$71,857, respectively to the District towards its PCOPs obligation.

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**

**Summary of Significant Accounting Policies**

*OPEB.* The Academy participates in the Denver Public Schools Health Care Trust Fund (DPS HCTF), a single-employer defined benefit OPEB fund administered by the Public Employees' Retirement Association of Colorado ("PERA"). The net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the DPS 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 the Academy are provided with OPEB through the DPS HCTF—a single-employer defined benefit OPEB plan administered by PERA. The DPS HCTF is established under Title 24, Article 51, Part 12 of the Colorado Revised Statutes (C.R.S.), as amended. 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](http://www.copera.org/investments/pera-financial-reports).

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**  
(Continued)

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

*Benefits provided.* The DPS 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 Health Care Trust Fund (HCTF) and the 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 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.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**  
(Continued)

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

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

*DPS Benefit Structure*

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

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

*Contributions.* Pursuant to Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended, certain contributions are apportioned to the DPS HCTF. PERA reporting agencies of the DPS Division are required to contribute at a rate of 1.02 percent of PERA-includable salary into the DPS HCTF.

Employer contributions are recognized by the DPS HCTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions. Employer contributions recognized by the DPS HCTF from the Academy were \$9,642 for the year ended June 30, 2018.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**  
(Continued)

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

At June 30, 2018, the Academy reported a liability of \$67,603 for its proportionate share of the net OPEB liability. The net OPEB liability for the DPS HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The Academy's proportion of the net OPEB liability was based on the Academy's contributions to the DPS HCTF for the calendar year 2017 relative to the total contributions of participating employers to the DPS HCTF.

At December 31, 2017, the Academy's proportion was 0.13266 percent, which was an increase of 0.01565 percent from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the Academy recognized OPEB expense of \$8,517. At June 30, 2018, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	N/A	\$40
Net difference between projected and actual earnings on OPEB plan investments	N/A	\$2,071
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$6,612	N/A
Contributions subsequent to the measurement date	\$4,894	N/A
Total	\$11,506	\$2,111

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**

(Continued)

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

\$4,894 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:

<b>Year ended June 30,</b>	
2019	\$1,393
2020	\$1,393
2021	\$1,393
2022	\$336
2023	(\$7)
Thereafter	(\$7)

*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

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**  
(Continued)

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

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.

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%

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**  
(Continued)

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

Mortality assumptions for the determination of the total pension liability for the DPS Division as shown below are applied, as applicable, in the determination of the total OPEB liability for the DPS HCTF. Affiliated employers of the DPS Division participate in the DPS 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.

Healthy, post-retirement mortality assumptions for the DPS Division 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 DPS 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.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**  
(Continued)

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

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

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

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

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**  
(Continued)

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

Several factors were considered in evaluating the long-term rate of return assumption for the DPS 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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>30 Year Expected Geometric Real Rate of Return</b>
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%
<b>Total</b>	<b>100.00%</b>	

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%.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**  
(Continued)

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

*Sensitivity of the School'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	\$67,520	\$67,603	\$67,713

*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.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2018

**NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**  
(Continued)

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

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$77,040	\$67,603	\$59,535

*OPEB plan fiduciary net position.* Detailed information about the DPS 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](http://www.copera.org/investments/pera-financial-reports).

ACADEMY 360 CHARTER SCHOOL  
 NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2018

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

**Building Lease Agreement**

On August 25, 2014 the Academy entered into a lease agreement with 12000 E. 47<sup>th</sup> LLC for its facility. The lease agreement commenced on December 22, 2014 and lease payments commenced in April of 2015. The lease term includes two five-year lease term options that are renewable under the same terms as the initial lease. The lease agreement also includes an option for the Academy to purchase the building at market price after June 30, 2017. Under the terms of the lease the Academy is required to make monthly lease payments ranging from \$13,707 to \$74,177 through August 2024.

On May 1, 2015, the original agreement was amended. The lease commencement date was changed to July 1, 2015 and the Academy is required to make monthly lease payments beginning in December of 2015. The Academy is required to make monthly lease payments ranging from \$13,707 to \$74,159 through June 2025.

On May 10, 2018, the Academy agreed to a third amendment of the lease. The lease amendment eliminates the Academy's obligation to lease additional space as defined in the original lease agreement. In addition, the lessor agrees to make a one time payment to the Academy upon the sale of the building to third party.

Future minimum lease payments are as follows:

Year Ended	
<u>June 30</u>	
2019	\$ 442,784
2020	553,993
2021	664,570
2022	803,588
2023	836,928
2024 - 2025	<u>1,750,094</u>
Total	<b><u>\$ 5,051,957</u></b>

Total rent expense for the year ended June 30, 2018 for this lease was \$355,710.

ACADEMY 360 CHARTER SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

**NOTE 8:**     **COMMITMENTS AND CONTINGENCIES** (Continued)

**Claims and Judgments**

The Academy participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Academy may be required to reimburse the grantor government. As of June 30, 2018, significant amounts of grant expenditures have not been audited, but the Academy believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Academy.

**Tabor Amendment**

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The Academy believes it has complied with the Amendment. As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2018, the reserve of \$59,000 was recorded as a reservation of fund balance in the General Fund.

**NOTE 9:**     **RESTATEMENT OF NET POSITION**

The beginning net position of the governmental activities was decreased by \$59,333 as the Academy implemented Governmental Accounting Standards Board (GASB) Statement 75.

**NOTE 10:**    **DEFICIT NET POSITION**

The net position of the governmental activities is in a deficit position of \$268,230 due to the Academy including its Net Pension Liability per the requirements of GASB Statement No. 68 and the Net OPEB Liability per the requirements of GASB Statement No. 75.

**REQUIRED SUPPLEMENTARY INFORMATION**

ACADEMY 360 CHARTER SCHOOL  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2018

	2018			VARIANCE Positive (Negative)	2017 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
<b>REVENUES</b>					
Local Sources					
Per Pupil Revenue	\$ 1,521,079	\$ 1,522,367	\$ 1,523,145	\$ 778	\$ 1,430,908
Mill Levy Override	364,269	384,942	380,658	(4,284)	333,661
Tuition and Fees	18,288	26,000	22,188	(3,812)	26,430
Grants and Donations	50,000	30,940	67,757	36,817	131,349
Interest	179	350	504	154	280
Other	2,100	38,629	39,668	1,039	-
State Sources					
Grants and Donations	71,361	111,791	85,316	(26,475)	74,237
Federal Sources					
Grants and Donations	58,887	77,236	77,236	-	114,771
<b>TOTAL REVENUES</b>	<u>2,086,163</u>	<u>2,192,255</u>	<u>2,196,472</u>	<u>4,217</u>	<u>2,111,636</u>
<b>EXPENDITURES</b>					
Salaries	959,029	1,009,599	962,646	46,953	864,207
Employee Benefits	204,486	212,339	217,038	(4,699)	175,736
Purchased Services	789,105	852,745	785,652	67,093	729,788
Supplies and Materials	64,592	54,000	52,132	1,868	59,895
Property	37,408	38,729	75,382	(36,653)	34,476
Other	24,500	23,000	4,065	18,935	2,401
<b>TOTAL EXPENDITURES</b>	<u>2,079,120</u>	<u>2,190,412</u>	<u>2,096,915</u>	<u>93,497</u>	<u>1,866,503</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>7,043</u>	<u>1,843</u>	<u>99,557</u>	<u>97,714</u>	<u>245,133</u>
FUND BALANCE, Beginning	<u>373,456</u>	<u>552,154</u>	<u>552,154</u>	<u>-</u>	<u>307,021</u>
FUND BALANCE, Ending	<u>\$ 380,499</u>	<u>\$ 553,997</u>	<u>\$ 651,711</u>	<u>\$ 97,714</u>	<u>\$ 552,154</u>

See the accompanying independent auditors' report.

ACADEMY 360 CHARTER SCHOOL

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE  
DENVER PUBLIC SCHOOLS DIVISION TRUST FUND

Years Ended December 31,

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
School's proportionate share of the Net Pension Liability	0.073%	0.083%	0.098%	0.117%	0.133%
School's proportionate share of the Net Pension Liability	\$ 378,340	\$ 520,522	\$ 800,530	\$ 1,281,815	\$ 1,192,503
School's covered-employee payroll	\$ 198,454	\$ 491,264	\$ 615,753	\$ 773,161	\$ 901,600
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	190.6%	106.0%	130.0%	165.8%	132.3%
Plan fiduciary net position as a percentage of the total pension liability	86.3%	83.9%	79.3%	74.1%	79.5%

See the accompanying independent auditors' report.

ACADEMY 360 CHARTER SCHOOL

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS  
DENVER PUBLIC SCHOOLS DIVISION TRUST FUND

Years Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Statutorily required contributions	\$ 20,683	\$ 25,395	\$ 21,764	\$ 36,681	\$ 42,695
Contributions in relation to the Statutorily required contributions	<u>20,683</u>	<u>25,395</u>	<u>21,764</u>	<u>36,681</u>	<u>42,695</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 426,591	\$ 528,750	\$ 722,178	\$ 837,285	\$ 945,268
Contributions as a percentage of covered-employee payroll	4.85%	4.80%	3.01%	4.38%	4.52%

See the accompanying independent auditors' report.

ACADEMY 360 CHARTER SCHOOL

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

Years Ended December 31,

	<u>2016</u>	<u>2017</u>
School's proportionate share of the Net OPEB Liability	0.117%	0.133%
School's proportionate share of the Net OPEB Liability	\$ 63,782	\$ 67,603
School's covered-employee payroll	\$ 773,161	\$ 901,600
School's proportionate share of the OPEB Liability as a percentage of its covered-employee payroll	8.2%	7.5%
Plan fiduciary net position as a percentage of the total pension liability	25.17%	30.45%

See the accompanying independent auditors' report.

ACADEMY 360 CHARTER SCHOOL

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS  
DENVER PUBLIC SCHOOLS HEALTH CARE TRUST FUND

Years Ended June 30,

	<u>2017</u>	<u>2018</u>
Statutorily required contributions	\$ 8,540	\$ 9,642
Contributions in relation to the Statutorily required contributions	<u>8,540</u>	<u>9,642</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 837,285	\$ 945,268
Contributions as a percentage of covered-employee payroll	1.02%	1.02%

See the accompanying independent auditors' report.