

CARBON VALLEY ACADEMY
BASIC FINANCIAL STATEMENTS

June 30, 2018

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November 15, 2018

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JOHN CUTLER & ASSOCIATES

Board of Directors
Carbon Valley Academy
Frederick, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carbon Valley Academy, component unit of the St. Vrain Valley 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. 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, each major fund, and the aggregate remaining fund information of the Carbon Valley Academy 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.

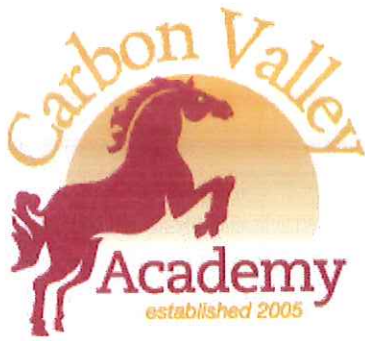
Other Matters

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, schedule of the school's proportionate share, and schedule of the school's contributions on pages 44-48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

John Luttrell & Associates, LLC

October 15, 2018



Management's Discussion and Analysis

As management of Carbon Valley Academy (hereinafter Carbon Valley Academy, or School), we offer readers of Carbon Valley Academy's financial statements this narrative overview and analysis of the financial activities of Carbon Valley Academy for the fiscal year ended June 30, 2018.

Financial Highlights

The general fund ending fund balance saw an increase from \$747,568 in FY17 to \$834,170 in FY 18.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to Carbon Valley Academy's basic financial statements. Carbon Valley Academy's basic financial statements are comprised of two components: 1) government-wide financial statements and 2) notes to the financial statements.

Government-wide Financial Statements

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

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

The statement of activities presents information showing how the School's net assets changed during the most recent fiscal year. All changes in net assets 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 Carbon Valley Academy supported primarily by per pupil operating revenue (PPR) or other Revenue passed through from the District (St. Vrain Valley RE-1J). The governmental activities of Carbon Valley Academy include instruction and supporting services expense.

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Carbon Valley Academy, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Carbon Valley Academy are categorized as governmental funds.

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.

Carbon Valley Academy maintains three individual governmental funds.

Carbon Valley Academy adopts an annual appropriated budget for its funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with the budget.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 9-43.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Carbon Valley Academy, liabilities exceeded assets by \$5,414,738 at the close of the most recent fiscal year.

Carbon Valley Academy's Net Assets

	Governmental Activities June 30, 2017	Governmental Activities June 30, 2018
Current assets	\$1,445,509	1,360,998
Capital assets	4,040,792	4,200,819
Total Assets	<u>5,486,301</u>	<u>5,561,817</u>
Current liabilities	275,257	253,110
Long Term Liabilities	4,285,000	4,248,662
Net OPEB Liability (Net of Deferred Inflows And Outflows)		182,785
Net Pension Liability (Net of Deferred Inflows And Outflows)	4,716,905	6,291,998
Total Liabilities	<u>9,277,162</u>	<u>10,976,555</u>
Net assets		
Restricted for		
Net Investment in Capital Assets	(957,752)	(920,158)
Emergencies -Tabor	70,000	75,000
Unrestricted	(2,903,109)	(4,569,580)
Total Net Assets	<u>(3,790,861)</u>	<u>(5,414,738)</u>

The largest portion of Carbon Valley Academy's current assets (99%) is Cash. The remaining 1% percent reflects Prepaid Items.

Carbon Valley Academy's Change in Net Assets For the Year Ended June 30, 2017 and June 30, 2018

	Governmental Activities June 30, 2017	Governmental Activities June 30, 2018
Program Revenue:		
Charges for Services	\$120,873	\$115,096
Grants and Contributions	141,419	123,517
Total Program Revenue	<u>262,292</u>	<u>238,613</u>
General Revenue:		
Per Pupil Operating Revenue	1,478,277	1,557,522
Taxes and Other	683,659	698,362
Capital Construction from the District	210,080	238,629
Total General Revenue	<u>2,372,016</u>	<u>2,494,513</u>
Total Revenue	<u>2,372,016</u>	<u>2,494,513</u>
Expenses:		
Current:		
Instruction	2,456,970	2,448,527
Supporting Services	1,261,346	1,489,045
Total Expenses	<u>3,718,316</u>	<u>3,937,572</u>
Increase (Decrease) in Net Assets	(1,346,300)	(1,443,059)
Beginning Net Assets, June 30 as restated	<u>(2,444,561)</u>	<u>(3,971,678)</u>
Ending Net Assets, June 30	<u>(3,790,861)</u>	<u>(5,414,737)</u>

Financial Analysis of Government and Business-type Activities Net Position

From the previous two statements, the impact of the implementation of Governmental Accounting Standards Board (GASB) Statement 68 is quite evident. GASB published an article, **New GASB Pension Statements to Bring about Major Improvements in Financial Reporting – Dec 2013**. In this article it states:

“This is an important change that will more clearly depict the government’s financial position. While this information will, in some cases, give the appearance that a government is financially weaker than it was previously, the financial reality of the government’s situation will not have changed.”

This is exactly the case for Carbon Valley Academy. It is important to note that without the impact of the Pension Liability, the net position of Carbon Valley Academy would have been an increase of \$134,001.00 as opposed to the depicted decrease of \$1,443,059. Also, note 7 pages 19 - 30 discusses the legislative changes made to the retirement plan signed into law by the Governor. The note compares what the liability would be IF the changes were in effect for this current year. The decrease in liability is substantial which reflects the corrective action taken by the legislature that will have a dramatic impact to improve the net position of Carbon Valley Academy.

Financial Analysis of the Government’s Funds

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

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

Total fund balance for Carbon Valley Academy increased by \$86,602. Unreserved fund balance increased by \$89,872.

The School’s enrollment decreased last year. Below are the historical enrollment numbers:

Fiscal Year	Enrollment
2013 / 2014	272
2014 / 2015	251.5
2015 / 2016	232
2016 /2017	203
2017 /2018	208

General Fund Budgetary Highlights

The School approves a budget in April based on enrollment projections for the following school year. In December after enrollment stabilizes, adjustments are made to the budget. The School approved a supplemental budget in December to make an adjustment to the actual student count.

Capital Asset and Debt Administration

Capital assets. Carbon Valley Academy's had capital assets net of depreciation of \$4,200,819 at June 30, 2018. See Note 4 for more information.

Long-term debt. Carbon Valley Academy had long-term debt of \$4,333,488 at June 30, 2018. See Note 6 for more information.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the Academy is student enrollment. Funded Pupil Count ("FPC") was 272 for 13/14, 251.5 for 14/15, 232 for 15/16, 203 for 16/17 and 208 for 17/18. In recent years the Frederick area has seen increased competition from newly built local schools. The FPC is projected to decrease for the 18/19 school year to 188. This factor and state funding levels were considered in preparing the Academy's budget for fiscal year 18/19. The Academy expects the funding for 18/19 to increase slightly.

Requests for Information

This financial report is designed to provide a general overview of Carbon Valley Academy'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:



Tony Carey
Executive Director
Carbon Valley Academy
4040 Coriolis Way
Frederick, CO 80504

BASIC FINANCIAL STATEMENTS

CARBON VALLEY ACADEMY

STATEMENT OF NET POSITION

As of June 30, 2018

	Governmental Activities	
	2018	2017
ASSETS		
Cash and Investments	\$ 990,236	\$ 872,532
Restricted Cash and Investments	370,762	564,707
Prepaid Items	-	8,270
Capital Assets, not Depreciated	1,158,251	1,158,251
Capital Assets, Depreciated, Net of Accumulated Depreciation	3,042,568	2,882,541
TOTAL ASSETS	5,561,817	5,486,301
DEFERRED OUTFLOWS OF RESOURCES		
Related to OPEB Liability	6,940	-
Related to Pensions	2,322,493	3,086,043
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,329,433	3,086,043
LIABILITIES		
Accounts Payable	38,259	25,612
Due to the District	4,380	663
Accrued Salaries and Benefits	113,427	106,959
Interest Payable	12,218	22,023
Noncurrent Liabilities		
Bonds		
Due in One Year	84,826	120,000
Due in More than One Year	4,248,662	4,285,000
OPEB Liability	184,264	-
Net Pension Liability	8,069,029	7,541,936
TOTAL LIABILITIES	12,755,065	12,102,193
DEFERRED INFLOWS OF RESOURCES		
Related to OPEB Liability	5,461	-
Related to Pensions	545,462	261,012
TOTAL DEFERRED INFLOWS OF RESOURCES	550,923	261,012
NET POSITION		
Net Investment in Capital Assets	(920,158)	(957,752)
Restricted for Emergencies	75,000	70,000
Unrestricted	(4,569,580)	(2,903,109)
TOTAL NET POSITION	\$ (5,414,738)	\$ (3,790,861)

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

CARBON VALLEY ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
PRIMARY GOVERNMENT					2018	2017
Governmental Activities						
Instructional	\$ 2,630,313	\$ 115,096	\$ 66,690	\$ -	\$ (2,448,527)	\$ (2,205,876)
Supporting Services	1,228,097	-	-	295,456	(932,641)	(1,261,346)
Interest on Long-Term Debt	317,776	-	-	-	(317,776)	(251,094)
Total Governmental Activities	<u>\$ 4,176,186</u>	<u>\$ 115,096</u>	<u>\$ 66,690</u>	<u>\$ 295,456</u>	<u>(3,698,944)</u>	<u>(3,718,316)</u>
		GENERAL REVENUES				
					1,557,522	1,478,277
					596,334	551,426
					3,583	3,969
					98,445	128,264
		SPECIAL ITEM				
					-	210,080
					<u>2,255,884</u>	<u>2,372,016</u>
		TOTAL GENERAL REVENUES				
					(1,443,060)	(1,346,300)
		CHANGE IN NET POSITION				
					<u>(3,971,678)</u>	<u>(2,444,561)</u>
		NET POSITION, Beginning, as Restated				
					<u>\$ (5,414,738)</u>	<u>\$ (3,790,861)</u>
		NET POSITION, Ending				

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

CARBON VALLEY ACADEMY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	GENERAL FUND	
	2018	2017
ASSETS		
Cash and Investments	\$ 990,236	\$ 872,532
Prepaid Expenses	-	8,270
TOTAL ASSETS	\$ 990,236	\$ 880,802
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 38,259	\$ 25,612
Due to the District	4,380	663
Accrued Salaries	113,427	106,959
TOTAL LIABILITIES	156,066	133,234
FUND BALANCES		
Nonspendable	-	8,270
Restricted for Emergencies	75,000	70,000
Unassigned	759,170	669,298
TOTAL FUND BALANCES	834,170	747,568
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.	125,375	140,481
Long-term liabilities and related assets related to pensions and OPEB are not due and payable in the current period and therefore, are not reported in the funds. This liability includes net pension liability (\$8,069,029), OPEB liability (\$184,264), deferred outflows related to pensions and OPEB \$2,329,433, deferred inflows related to pensions and OPEB (\$550,923).	(6,474,783)	(4,716,905)
Internal Service funds are used by management to charge the lease costs to governmental funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.	100,500	37,995
Net position of governmental activities	\$ (5,414,738)	\$ (3,790,861)

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

CARBON VALLEY ACADEMY

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

	GENERAL FUND	
	2018	2017
REVENUES		
Local Sources	\$ 2,411,491	\$ 2,347,686
State Sources	79,435	72,573
TOTAL REVENUES	<u>2,490,926</u>	<u>2,420,259</u>
EXPENDITURES		
Current		
Instruction	1,410,949	1,359,025
Supporting Services	1,077,188	1,092,871
TOTAL EXPENDITURES	<u>2,488,137</u>	<u>2,451,896</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,789</u>	<u>(31,637)</u>
OTHER FINANCING SOURCES		
Transfers In	<u>83,814</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	86,603	(31,637)
FUND BALANCES, Beginning	<u>747,568</u>	<u>779,205</u>
FUND BALANCES, Ending	<u>\$ 834,171</u>	<u>\$ 747,568</u>

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

CARBON VALLEY ACADEMY

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

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

Net change in fund balances - total governmental funds	\$	86,602
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 of depreciation expense in the current year.		(15,106)
Deferred Charges related to pension and OPEB are not recognized in the governmental funds. However, for the government-wide funds that amount is capitalized and amortized.		(1,577,061)
The Internal Service fund is used by management to charge the cost of lease payments to the governmental funds. The net revenue of the internal service fund is reported with the governmental activities.		<u>62,505</u>
Change in net position of governmental activities	\$	<u>(1,443,060)</u>

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

CARBON VALLEY ACADEMY

STATEMENT OF NET POSITION
 PROPRIETARY FUND TYPE
 June 30, 2018

	Governmental Activities	
	Internal Service Fund	
	2018	2017
ASSETS		
Current Assets		
Restricted Cash and Investments	\$ 370,762	\$ 564,707
Total Current Assets	370,762	564,707
Long-term Assets		
Capital Assets, Net of Accumulated Depreciation	4,075,444	3,900,311
Total Long-term Assets	4,075,444	3,900,311
TOTAL ASSETS	4,446,206	4,465,018
LIABILITIES		
Current Liabilities		
Interest Payable	12,218	22,023
Bonds Payable - Current	84,826	120,000
Total Current Liabilities	97,044	142,023
Long-Term Liabilities		
Bonds Payable	4,248,662	4,285,000
TOTAL LIABILITIES	4,345,706	4,427,023
NET POSITION		
Net Investment in Capital Assets	100,500	37,995
Unrestricted	-	-
TOTAL NET POSITION	\$ 100,500	\$ 37,995

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

CARBON VALLEY ACADEMY

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND TYPE
Year Ended June 30, 2018

	Governmental Activities	
	Internal Service Fund	
	2018	2017
OPERATING REVENUES		
Charges for Services	\$ 293,303	\$ 368,521
TOTAL OPERATING REVENUES	<u>293,303</u>	<u>368,521</u>
OPERATING EXPENSES		
Depreciation	91,408	90,542
Repairs and Maintenance	-	226,817
TOTAL OPERATING EXPENSES	<u>91,408</u>	<u>317,359</u>
OPERATING INCOME	<u>201,895</u>	<u>51,162</u>
NON-OPERATING EXPENSES		
Investment Income	3,571	3,969
Contribution to Repair and Replacement Fund	20,000	20,000
Capital Contribution from the District	238,629	210,080
Bond Issue Costs	(116,527)	-
Interest Expense	(201,249)	(251,094)
TOTAL NON-OPERATING EXPENSES	<u>(55,576)</u>	<u>(17,045)</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>146,319</u>	<u>34,117</u>
Transfers Out	(83,814)	-
NET INCOME	62,505	34,117
NET POSITION, Beginning	<u>37,995</u>	<u>3,878</u>
NET POSITION, Ending	<u>\$ 100,500</u>	<u>\$ 37,995</u>

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

CARBON VALLEY ACADEMY

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE
 Year Ended June 30, 2018
 Increase (Decrease) in Cash

	Governmental Activities	
	Internal Service Fund	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Rental Operations	\$ 293,303	\$ 368,521
Cash paid for Repairs and Maintenance	-	(226,817)
Net Cash Provided by Operating Activities	<u>293,303</u>	<u>141,704</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Contribution to Repair and Replacement Fund	20,000	20,000
Investment Income	3,571	3,969
Net Cash Provided by Investing Activities	<u>23,571</u>	<u>23,969</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(27,912)	-
Proceeds from Debt Issuance	4,375,000	-
Principal Payments on Bonds	(4,446,512)	(115,000)
Bond Issue Costs	(116,527)	-
Interest Expense	(211,054)	(250,509)
Payments to Other Funds	(83,814)	-
Capital Contribution from the District	-	209,555
Net Cash Used by Capital and Related Financing Activities	<u>(510,819)</u>	<u>(155,954)</u>
NET INCREASE (DECREASE) IN CASH	(193,945)	9,719
CASH, Beginning	<u>564,707</u>	<u>554,988</u>
CASH, Ending	<u><u>\$ 370,762</u></u>	<u><u>\$ 564,707</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 201,895	\$ 51,162
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation Expense	91,408	90,542
Total Adjustments	<u>91,408</u>	<u>90,542</u>
Net Cash Provided by Operating Activities	<u><u>\$ 293,303</u></u>	<u><u>\$ 141,704</u></u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contribution from the District	<u><u>\$ 238,629</u></u>	<u><u>\$ 209,555</u></u>

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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

Carbon Valley Academy (the “Academy”) was formed in March of 2005, pursuant to the Colorado Charter Schools Act to form and operate a charter school. The focus of which is to provide a Core Knowledge based curriculum to students from preschool to 8th grade.

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.

Carbon Valley Building Corporation

The Carbon Valley Building Corporation (the “Building Corporation”) is considered to be financially accountable to the Academy. The Building Corporation was formed to support and assist the Academy to perform its function and to carry out its purpose, specifically to assist in the financing and construction of the Academy’s facilities. The Building Corporation is blended into the Academy’s financial statements as an internal service fund. Separate financial statements are not available for the Building Corporation.

The Academy is a component unit of the St. Vrain Valley School District (the “District”).

Government-Wide and Fund Financial Statements

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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, 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.

CARBON VALLEY ACADEMY

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)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations.

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

The Academy reports the following major 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.

Additionally, the Academy reports the following fund types:

The *Internal Service Fund* is used to account for activity of Building Corporation.

Assets, Liabilities and Fund Balance/Net Assets

Investments – Investments are recorded at fair value.

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.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net assets in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: buildings, 40 years, leasehold improvements, 7 years; equipment, 3-7 years.

Long-term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. 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.

Unearned Revenues – Unearned revenues include tuition revenues that have been collected but the corresponding expenditure that have not been incurred.

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

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

- Nonspendable – This classification includes amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. The Academy considers Prepaid Expenses as nonspendable.
- 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.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

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

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

- 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

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.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

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.

State Compliance

At June 30, 2018, actual expenditures in the General Fund exceeded budgeted amounts by \$91,595. This may be a violation of state statute.

NOTE 3: CASH AND INVESTMENTS

Cash and Investments at June 30, 2018 consisted of the following:

Cash on Hand	\$ 6,100
Deposits	1,341,710
Investments	<u>13,188</u>
Total	<u>\$ 1,360,998</u>

The above amounts are classified in the statement of net assets as follows:

Cash and Investments	\$ 990,236
Restricted Cash and Investments	<u>370,762</u>
Total	<u>\$ 1,360,998</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2018, State regulatory commissioners have indicated that all financial institutions holding deposits for the Academy are eligible public depositories.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 3: CASH AND INVESTMENTS (Continued)

Deposits (Continued)

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 \$1,341,710. The bank balances with the financial institutions were \$1,349,633. Of this amount, \$284,334 was covered federal depository insurance and \$1,065,299 was covered by collateral held by authorized escrow agents in the financial institutions 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.

Credit Risk

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

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

Investments (Continued)

Local Government Investment Pool

The Academy had invested \$549 in the Colorado Surplus Asset Fund Trust (CSAFE) 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. CSAFE is considered a qualifying external investment pool under GASB Statement 79. CSAFE 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.

CSAFE 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 U.S. Treasury bills, notes and note strips, repurchase agreements, U.S. Instrumentalities, Commercial Paper, Bank Deposits and Money Market Funds. CSAFE does not have any limitations or restrictions on participant withdrawals.

Fair Value

The Academy categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant observable inputs.

At June 30, 2018, the Academy held investments in government agency mutual funds in the amount of \$12,639 with maturity dates of less than one year and rated AAAM by Standard and Poor's. Given the low risk of this type of investment, the Academy has not established a policy limiting the amount of investments in this type of security and deems it unnecessary at this time. These investments are valued with Level 1 inputs.

Restricted Cash and Investments

Cash and Investments totaling \$370,762 are restricted in the Internal Service for the construction the Academy's building and payment of the Academy's debt.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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>
Governmental Activities				
Capital Assets, Not Depreciated				
Land	\$ 1,062,443	\$ -	\$ -	\$ 1,062,443
Water Rights	<u>95,808</u>	<u>-</u>	<u>-</u>	<u>95,808</u>
Total Capital Assets, Not Depreciated	<u>1,158,251</u>	<u>-</u>	<u>-</u>	<u>1,158,251</u>
Capital Assets, Depreciated				
Land Improvements	280,487	-	-	280,487
Buildings	3,094,219	-	-	3,094,219
Leasehold Improvements	392,861	238,629	-	631,490
Furniture and Equipment	214,405	18,500	-	232,905
Software Costs	<u>20,021</u>	<u>9,411</u>	<u>-</u>	<u>29,432</u>
Total Capital Assets, Depreciated	<u>4,001,993</u>	<u>266,540</u>	<u>-</u>	<u>4,268,533</u>
Accumulated Depreciation				
Land Improvements	185,323	18,699	-	204,022
Buildings	662,696	63,152	-	725,848
Leasehold Improvements	187,237	19,303	-	206,540
Furniture and Equipment	64,175	5,359	-	69,534
Software Costs	<u>20,021</u>	<u>-</u>	<u>-</u>	<u>20,021</u>
Total Accumulated Depreciation	<u>1,119,452</u>	<u>106,513</u>	<u>-</u>	<u>1,225,965</u>
Total Capital Assets, Depreciated, Net	<u>2,882,541</u>	<u>160,027</u>	<u>-</u>	<u>3,042,568</u>
Net Capital Assets	<u>\$ 4,040,792</u>	<u>\$ 160,027</u>	<u>\$ -</u>	<u>\$ 4,200,819</u>

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

NOTE 5: ACCRUED SALARIES AND BENEFITS

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve-month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, as of June 30, 2018, were \$113,427. Accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of the General Fund.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 6: 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>
2006 Revenue Bonds	\$ 4,405,000	\$ -	\$ 4,405,000	\$ -	\$ -
2017 Refunding Revenue Notes	<u> -</u>	<u> 4,375,000</u>	<u> 41,512</u>	<u> 4,333,488</u>	<u> 84,826</u>
Total	<u>\$ 4,405,000</u>	<u>\$ 4,375,000</u>	<u>\$ 4,446,512</u>	<u>\$ 4,333,488</u>	<u>\$ 84,826</u>

2017 Refunding Revenue Notes

In December 2017, the Colorado Educational and Facilities Authority (CECFA) issued \$4,375,000 in Charter School Refunding Revenue Notes, Series 2017. Proceeds from the notes were loaned to the Academy under a lease agreement to refund the 2006 Revenue Bonds. The Academy is required to make equal lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at a rate of 3.50% per year. The bonds mature in December, 2024.

2006 Revenue Bonds

In December 2006, the Colorado Educational and Facilities Authority (CECFA) issued \$5,305,000 Charter School Revenue Bonds, Series 2006. Proceeds from the bonds were used to construct the Academy's building. The Academy is required to make equal lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at a rate of 5.65% per year. These bonds were fully refunded on December 1, 2017.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 6: 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	\$ 84,826	\$ 152,414	\$ 237,240
2020	87,475	149,766	237,241
2021	91,041	146,200	237,241
2022	94,324	142,916	237,240
2023	97,727	139,514	237,241
2024-2025	<u>3,878,095</u>	<u>203,184</u>	<u>4,081,279</u>
Total	<u>\$ 4,333,488</u>	<u>\$ 933,994</u>	<u>\$ 5,267,482</u>

NOTE 7: DEFINED BENEFIT PENSION PLAN

Defined Benefit Pension Plan

Summary of Significant Accounting Policies

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan

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

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

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

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

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

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 7: 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 (AIR) for the SCHDTF.

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

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2018
Employer contribution rate ¹	10.15%	10.15%
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹	(1.02)%	(1.02)%
Amount apportioned to the SCHDTF ¹	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	5.00%	5.50%
Total employer contribution rate to the SCHDTF¹	18.63%	19.13%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the Academy were \$221,284 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 \$8,069,029 for its proportionate share of the net pension liability. The net pension liability for the SCHDTF was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total pension liability to December 31, 2017. The Academy's proportion of the net pension liability was based on the Academy's contributions to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2017, the Academy's proportion was 0.02495%, which was a decrease of 0.00038% from its proportion measured as of December 31, 2016.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

For the year ended June 30, 2018, the Academy recognized pension expense of \$1,796,374. 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	\$ 148,355	N/A
Changes of assumptions or other inputs	2,060,322	13,074
Net difference between projected and actual earnings on pension plan investments	N/A	316,878
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	215,510
Contributions subsequent to the measurement date	113,816	N/A
Total	\$ 2,322,493	\$ 545,462

\$113,816 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	\$ 1,167,268
2020	655,270
2021	(39,784)
2022	(119,539)

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

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

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

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

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law 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.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

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

	1% Decrease (3.78%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Proportionate share of the net pension liability	\$ 10,192,550	\$ 8,069,024	\$ 6,338,593

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to the plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.

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

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- Directs the state to allocate \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the other divisions eligible for the direct distribution.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

At June 30, 2018, the Academy reported a liability of \$8,069,024 for its proportionate share of the net pension liability which was measured using the plan provisions in effect as of the pension plan’s year-end based on a discount rate of 4.78%. For comparative purposes, the following schedule presents an estimate of what the Academy’s proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SCHDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SCHDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)
7.25%	\$ 3,645,515

Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately \$3,766,671 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

NOTE 8: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN

Summary of Significant Accounting Policies

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 8: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(Continued)

General Information about the OPEB Plan

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

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 8: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(Continued)

General Information about the OPEB Plan (Continued)

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

PERA Benefit Structure

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

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

DPS Benefit Structure

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

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.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 8: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(Continued)

General Information about the OPEB Plan (Continued)

Retirees who do not have Medicare Part A pay the difference between the total premium and the monthly subsidy.

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the Academy were \$11,953 for the year ended June 30, 2018.

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

At June 30, 2018, the Academy reported a liability of \$184,264 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The Academy's proportion of the net OPEB liability was based on Academy's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the Academy's proportion was 0.01418%, which was a decrease of 0.00022% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the Academy recognized OPEB expense of \$13,921. At June 30, 2018, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 8: 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)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 871	N/A
Net difference between projected and actual earnings on OPEB plan investments	N/A	3,083
Changes in proportion and differences between contributions recognized and proportionate share of contributions	N/A	2,378
Contributions subsequent to the measurement date	6,069	N/A
Total	\$ 6,940	\$ 5,461

\$6,069 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	\$ (1,067)
2020	(1,067)
2021	(1,067)
2022	(1,066)
2023	(296)
Thereafter	(27)

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 8: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(Continued)

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

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

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

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 8: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(Continued)

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

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

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

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

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 8: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(Continued)

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

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

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

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

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

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

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 8: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(Continued)

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

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

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 8: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(Continued)

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

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

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

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 8: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(Continued)

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

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

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB Liability	\$179,194	\$184,264	\$190,370

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.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 8: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(Continued)

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

- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$ 207,171	\$ 184,264	\$ 164,713

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2018

NOTE 9: 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 participates in the Colorado School District Self Insurance Pool. The Pool insures property and liability exposures through contributions made by member districts. The Academy does not maintain an equity interest in the self insurance pool. The Academy funds its pool contributions, outside insurance purchases, deductibles, and uninsured losses through the General Fund. The Academy is fully self insured for unemployment compensation and has a \$500 deductible for property insurance.

The Academy continues to carry commercial insurance for all other risks of loss, including boiler and machinery coverage. Settled claims resulting from these risks have not exceeded commercial or Academy coverage's in any of the past three years.

NOTE 10: COMMITMENTS AND CONTINGENCIES

Claims and Judgments

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

Tabor Amendment

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 \$75,000 was recorded as a restriction of fund balance in the General Fund.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

NOTE 11: CAPITAL CONTRIBUTION FROM THE DISTRICT

The District agreed to allocate a portion of its 2016 Bond Proceeds to pay for various capital improvements and upgrades to the Academy's facility. Improvements totaling \$448,184 were paid for by the District for the years ended June 30, 2018 and 2017, in the amount of \$238,629 and \$209,555, respectively. For the year ended June 30, 2018, this amount has been reported as a Capital Contribution from the District in the Building Corporation's Statement of Revenues, Expenses and Changes in Fund Net Position. The improvements are reported as Leasehold Improvements in the Building Corporation's Capital Assets.

NOTE 12: RESTATEMENT OF NET POSITION

The beginning net position of the governmental activities was decreased by \$180,817 as the Academy implemented Governmental Accounting Standards Board (GASB) Statement 75.

NOTE 13: DEFICIT NET POSITION

The Net Position of the government type activities is in a deficit position of \$5,414,738 due to the Academy including the Net Pension and OPEB Liabilities per the requirements of GASB Statements No. 68 and 75.

REQUIRED SUPPLEMENTARY INFORMATION

CARBON VALLEY ACADEMY

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2018

	2018			VARIANCE	2017 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
REVENUES					
Local Sources					
Per Pupil Revenue	\$ 1,663,881	\$ 1,556,140	\$ 1,557,522	\$ 1,382	\$ 1,478,277
Mill Levy Override	551,426	596,334	596,334	-	551,426
Tuition and Fees	285,389	131,479	115,096	(16,383)	120,873
Contributions	100,000	84,007	44,082	(39,925)	68,846
Other	18,300	20,210	98,457	78,247	128,264
State Sources					
Grants and Donations	53,981	81,057	79,435	(1,622)	72,573
TOTAL REVENUES	2,672,977	2,469,227	2,490,926	21,699	2,420,259
EXPENDITURES					
Salaries	1,246,519	1,192,012	1,222,890	(30,878)	1,207,991
Employee Benefits	455,413	481,647	491,745	(10,098)	392,130
Purchased Services	669,372	593,633	682,759	(89,126)	754,565
Supplies and Materials	89,250	96,950	83,229	13,721	89,120
Property	-	-	71	(71)	407
Other	23,400	32,000	7,444	24,556	7,683
TOTAL EXPENDITURES	2,483,954	2,396,242	2,488,138	(91,896)	2,451,896
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	189,023	72,985	2,788	(70,197)	(31,637)
OTHER FINANCING SOURCES					
Transfers In	-	-	83,814	83,814	-
NET CHANGE IN FUND BALANCE	189,023	72,985	86,602	13,617	(31,637)
FUND BALANCE, Beginning	627,868	747,568	747,568	-	779,205
FUND BALANCE, Ending	\$ 816,891	\$ 820,553	\$ 834,170	\$ 13,617	\$ 747,568

See the accompanying independent auditors' report.

CARBON VALLEY ACADEMY

SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
SCHOOL 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	0.024%	0.028%	0.026%	0.025%	0.025%
School's proportionate share of the Net Pension Liability	\$ 3,071,977	\$ 3,790,127	\$ 4,038,955	\$ 7,541,937	\$ 8,069,029
School's covered-employee payroll	\$ 959,993	\$ 1,172,333	\$ 1,152,865	\$ 1,136,888	\$ 1,151,069
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	320.0%	323.3%	350.3%	663.4%	701.0%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%	43.1%	44.0%

Notes:

This schedule is reported as of December 31, as that is the plan year end.

This schedule will report ten years of data when it is available.

See the accompanying independent auditors' report.

CARBON VALLEY ACADEMY

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL 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	\$ 179,844	\$ 210,779	\$ 215,954	\$ 220,438	\$ 221,284
Contributions in relation to the Statutorily required contributions	<u>179,844</u>	<u>210,779</u>	<u>215,954</u>	<u>220,438</u>	<u>221,284</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 1,055,661	\$ 1,178,192	\$ 1,151,793	\$ 1,136,119	\$ 1,171,816
Contributions as a percentage of covered-employee payroll	17.04%	17.89%	18.75%	19.40%	18.88%

Notes:

This schedule will report ten years of data when it is available.

See the accompanying independent auditors' report.

CARBON VALLEY ACADEMY

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

Years Ended December 31,

	<u>2016</u>	<u>2017</u>
School's proportionate share of the Net OPEB Liability	0.014%	0.014%
School's proportionate share of the Net OPEB Liability	\$ 186,674	\$ 184,264
School's covered-employee payroll	\$ 1,136,888	\$ 1,151,069
School's proportionate share of the Net OPEB Liability as a percentage of its covered-employee payroll	16.4%	16.0%
Plan fiduciary net position as a percentage of the total OPEB liability	16.7%	17.5%

Notes:

This schedule is reported as of December 31, as that is the plan year end.

This schedule will report ten years of data when it is available.

See the accompanying independent auditors' report.

CARBON VALLEY ACADEMY

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
HEALTH CARE TRUST FUND

Years Ended June 30,

	<u>2017</u>	<u>2018</u>
Statutorily required contributions	\$ 11,596	\$ 11,953
Contributions in relation to the Statutorily required contributions	<u>11,596</u>	<u>11,953</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 1,136,119	\$ 1,171,816
Contributions as a percentage of covered-employee payroll	1.02%	1.02%

Notes:

This schedule will report ten years of data when it is available.

See the accompanying independent auditors' report.