CAPROCK ACADEMY

BASIC FINANCIAL STATEMENTS

June 30, 2018

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FINANCIAL SECTION

JOHN CUTLER & ASSOCIATES

Board of Directors
Caprock Academy
Grand Junction, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Caprock Academy, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expression an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluation the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Caprock Academy, as of June 30, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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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 42-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

John Cutler & Associates, LLC

October 22, 2018

CAPROCK ACADEMY
Management's Discussion and Analysis

As management of Caprock Academy, we offer readers of Caprock Academy's basic financial statements this narrative as an analysis of the financial activities of the school for the year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

Financial Highlights

- The assets of Caprock Academy were less than its liabilities at the close of the most recent fiscal year by $15,446,557 (*net position*). The deficit in net position is attributable to capital-related debt exceeding capital assets by $2,019,589 as well as the pension liability related to Caprock Academy's proportionate share of the net pension liability of the School Division Trust Fund (SCHDTF) of $21,657,511. Unrestricted net position and restricted net position were ($14,601,197) and $1,154,229 at June 30, 2018.

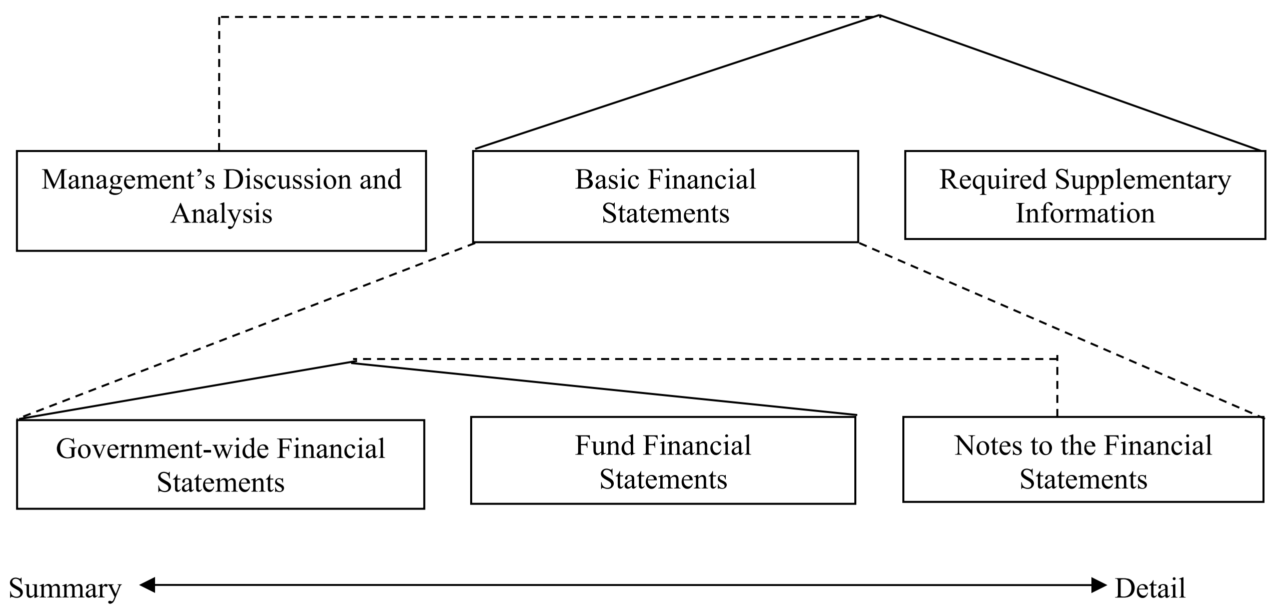
- Caprock Academy's total net position decreased by $4,406,792.

- As of the close of the current fiscal year, Caprock Academy's governmental/General fund reported an ending fund balance of $2,665,979, an increase of $413,156 in comparison with the prior year. Approximately 57 percent of this total amount, ($1,511,750), is available for spending at the Charter School's discretion (*unassigned fund balance*).

Overview of the Financial Statements

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

Organization of Caprock Academy
Annual Financial Report



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

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are found on pages 6 - 27 of this report.

Other Information

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Caprock Academy, assets were less than liabilities by $11,499,299 at the close of the most recent fiscal year.

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

Net position

	Governmental Activities		
	2018	2017	Increase (Decrease)
Assets			
Current and other assets	$ 3,013,477	$ 2,594,569	$ 418,908
Capital assets	7,167,806	7,495,556	(327,750)
Total assets	10,181,283	10,090,125	91,158
Deferred outflow of resources			
Related to pensions	7,889,845	7,935,687	45,842
Total deferred outflow of resources	7,889,845	7,935,687	45,842
Liabilities			
Current	347,498	341,746	5,752
Non-current	32,296,310	28,660,835	3,635,475
Total liabilities	32,643,808	29,002,581	3,641,227
Deferred inflow of resources			
Related to pensions	893,877	82,996	810,881
Total deferred inflow of resources	893,877	82,996	810,881
Net position			
Investment in capital assets	(2,019,589)	(1,844,122)	(175,467)
Restricted	1,154,229	1,137,932	16,297
Unrestricted	(14,601,197)	(10,353,575)	(4,247,622)
Total net position	$ (15,466,557)	$ (11,059,765)	$ (4,406,792)

An additional portion of Caprock Academy's net position, ($197,392), represents amounts restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

At the end of the current fiscal year, Caprock Academy is able to report a positive balance in the restricted category of net position. The negative $2,019,589 amount reported under investment in capital assets represents the amount of Caprock Academy's investment in capital assets, net of accumulated depreciation less the amount of debt used to acquire those capital assets. The negative $14,601,197 amount reported under unrestricted net position represents Caprock Academy's proportionate share of the net pension liability of the School Division Trust Fund (SCHDTF) of $21,657,511.

Caprock Academy's net position decreased $4,406,792 during the current fiscal year. The following summarizes the changes in net position.

Changes in Net position

	Governmental Activities		
	2018	2017	Increase (Decrease)
Revenues			
Program revenues			
Charges for services	$465,550	$411,917	$53,633
Operating grants and contributions	310,716	297,199	13,517
Capital grants and contributions	212,620	393,343	(180,723)
General revenues			
Per pupil revenue	5,864,458	5,443,525	420,933
Other	26,461	25,023	1,438
Total revenues	6,879,805	6,571,007	308,798
Expenses			
Instructional	5,893,797	5,630,835	262,962
Supporting services	4,209,586	3,274,156	935,430
Interest on long-term debt	743,680	721,107	22,573
Total expenses	10,847,063	9,626,098	1,220,965
Change in net position	(3,967,258)	(3,055,091)	(912,167)
Net position, July 1	(11,499,299)	(8,004,674)	(340,731)
Net position, June 30	$(15,446,557)	$(11,059,765)	$(3,055,091)

Revenue increased due to an increase in student enrollment from approximately 777 FTE (full-time equivalent) in 2016/2017 to approximately 806 FTE in 2017/2018 and an increased per pupil rate (PPR).

Financial Analysis of the Government’s Funds

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

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

As of the end of the current fiscal year, Caprock Academy's governmental/General fund reported a combined ending fund balance of $2,665,979, an increase of $413,156 in comparison with the prior year. Approximately 57 percent of this total amount ($1,511,750) constitutes *unassigned fund balance*, which is available for spending at Caprock Academy's discretion.

The remainder of fund balance is *restricted* to indicate that it is not available for new spending because it has already been reserved for emergencies ($197,392) and debt service ($956,837). As a measure of the General fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents approximately 23 percent of total General fund expenditures, while total fund balance represents approximately 41 percent of that same amount.

General Fund Budgetary Highlights

Caprock Academy budgeted for expenditures and transfers of $6,579,259 for the year ended June 30, 2017. Actual expenditures and transfers were $6,466,649. There was one budget amended (midyear) made during the year.

Capital Asset and Debt Administration

Capital Assets

Caprock Academy's investment in capital assets for its governmental activities as of June 30, 2018, amounts to $7,167,806 (net of accumulated depreciation). This investment in capital assets includes buildings, leasehold improvements, equipment, and land. The total depreciation for the year was $350,150. The following is a schedule of capital assets as of June 30, 2018. The long term growth in student population and program components since 2011 means that expansion space continues to be a primary strategic element. Additional information can be found on page 14 of this report.

Capital Assets
(Net of Depreciation)

	Governmental Activities		
	2018	2017	Increase (Decrease)
Land	$1,827,275	$1,827,275	$ -
Buildings and leasehold improvements, net	5,312,495	5,652,159	(339,664)
Machinery and equipment, net	28,035	50,192	(22,157)
Total	7,167,806	7,529,626	(361,821)

Factors Bearing on Caprock Academy's Future

The primary factor driving the budget for Caprock Academy is student enrollment. The 2017/2018 preliminary budget is based on approximately 835 students or approximately 803 FTE and will be revised in December 2018/January 2019 to reflect an increased student population of 838 students or approximately 806 FTE.

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

Requests for Information

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

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

BASIC FINANCIAL STATEMENTS

CAPROCK ACADEMY

STATEMENT OF NET POSITION
As of June 30, 2018

	GOVERNMENTAL ACTIVITIES	
	2018	2017
ASSETS		
Cash and Investments	$ 1,969,607	$ 1,570,620
Restricted Cash and Investments	956,837	952,369
Accounts Receivable	87,033	71,580
Capital Assets, Not Depreciated	1,827,275	1,827,275
Capital Assets, Depreciated, Net of Accumulated Depreciation	5,340,531	5,668,281
TOTAL ASSETS	10,181,283	10,090,125
DEFERRED OUTFLOW OF RESOURCES		
Related to Pensions	7,838,927	7,935,687
Related to OPEB	50,918	-
TOTAL DEFERRED OUTFLOW OF RESOURCES	7,889,845	7,935,687
LIABILITIES		
Accounts Payable	1,596	34,932
Accrued Expenses	286,069	249,248
Deposits	5,000	5,000
Accrued Interest Payable	54,833	52,566
Noncurrent Liabilities		
Due in One Year	154,565	147,894
Due in More than One Year	9,989,667	10,144,153
Net Pension Liability	21,657,511	18,368,788
Net OPEB Liability	494,567	-
TOTAL LIABILITIES	32,643,808	29,002,581
DEFERRED INFLOW OF RESOURCES		
Related to Pensions	885,603	82,996
Related to OPEB	8,274	-
TOTAL DEFERRED OUTFLOW OF RESOURCES	893,877	82,996
NET POSITION		
Net Investment in Capital Assets	(2,019,589)	(1,844,122)
Restricted for Emergencies	197,392	185,563
Restricted for Debt Service	956,837	952,369
Unrestricted	(14,601,197)	(10,353,575)
TOTAL NET POSITION	$ (15,466,557)	$ (11,059,765)

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

CAPROCK ACADEMY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

		PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION	
					Governmental Activities	
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2018	2017
PRIMARY GOVERNMENT						
Governmental Activities						
Instructional	$ 5,893,797	$ 117,900	$ 259,751	$ -	$ (5,516,146)	$ (5,256,488)
Supporting Services	4,209,586	347,650	50,965	212,620	(3,598,351)	(2,546,044)
Interest on Long-Term Debt	743,680	-	-	-	(743,680)	(721,107)
Total Governmental Activities	$ 10,847,063	$ 465,550	$ 310,716	$ 212,620	(9,858,177)	(8,523,639)
		GENERAL REVENUES				
		Per Pupil Revenue			5,864,458	5,443,525
		Other			26,461	25,023
		TOTAL GENERAL REVENUES			5,890,919	5,468,548
		CHANGE IN NET POSITION			(3,967,258)	(3,055,091)
		NET POSITION, Beginning, Restated			(11,499,299)	(8,004,674)
		NET POSITION, Ending			$ (15,466,557)	$ (11,059,765)

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

CAPROCK ACADEMY

BALANCE SHEET
ALL GOVERNMENTAL FUNDS
June 30, 2018

	GENERAL FUND	
	2018	2017
ASSETS		
Cash and Investments	$ 1,969,607	$ 1,570,620
Restricted Cash and Investments	956,837	952,369
Accounts Receivable	87,033	71,580
TOTAL ASSETS	$ 3,013,477	$ 2,594,569
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	$ 1,596	$ 34,932
Accrued Expenses	286,069	249,248
Bond Interest Payable	54,833	52,566
Deposits	5,000	5,000
TOTAL LIABILITIES	347,498	341,746
FUND BALANCES		
Restricted for Emergencies	197,392	185,563
Restricted for Debt Service	956,837	952,369
Unassigned	1,511,750	1,114,891
TOTAL FUND BALANCES	2,665,979	2,252,823
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	7,167,806	7,495,556
Long-term liabilities are not due and payable in the current period and are not reported in the funds. This included bonds payable ($9,400,000), and bond discount $97,254, and loan payable of ($841,486).	(10,144,232)	(10,292,047)
Long-term liabilities and related assets related to pensions are not due and payable in the current period and therefore, are not reported in the funds. This liability includes includes net pension liability ($21,657,511), net OPEB liability ($494,567), deferred outflow related to pensions $7,838,927, deferred outflow related to OPEB $50,918, deferred inflow related to pensions ($885,603), and deferred inflow related to OPEB ($8,274).	(15,156,110)	(10,515,544)
Net position of governmental activities	$ (15,466,557)	$ (11,059,212)

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

CAPROCK ACADEMY

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

	GENERAL FUND	
	2018	2017
REVENUES		
Local Sources	$ 6,400,034	$ 6,083,979
State Sources and Federal Sources	479,771	487,028
TOTAL REVENUES	6,879,805	6,571,007
EXPENDITURES		
Instruction	3,300,688	3,278,551
Supporting Services	2,209,062	1,999,663
Capital Outlay	65,404	389,312
Debt Service		
Principal	151,355	142,539
Interest	740,140	721,107
TOTAL EXPENDITURES	6,466,649	6,531,172
NET CHANGE IN FUND BALANCES	413,156	39,835
FUND BALANCES, Beginning	2,252,823	2,212,988
FUND BALANCES, Ending	$ 2,665,979	$ 2,252,823

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

CAPROCK ACADEMY

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

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

Net change in fund balances - total governmental funds	$	413,156
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation expense ($350,150), exceeded capital outlay $22,400 for the year.		(327,750)
Repayment of long-term debt and related costs are reported as an expenditure in the governmental funds and decrease fund balance. For the Academy as a whole, however, these costs and payments reduce the liabilities or are capitalized in the statement of net position and do not result in an expense in the statement of activities. This amount includes bond principal payment $120,000, loan principal payment $31,355 and amortization of discount ($3,540).		147,815
Deferred Charges related to pensions are not recognized in the governmental funds. However, in the government-wide statements these amounts are capitalized and amortized.		(4,200,479)
Change in net position of governmental activities	$	(3,967,258)

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

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

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

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

Reporting Entity

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

Caprock Academy Building Corporation

The Caprock Academy Building Corporation (the "Building Corporation") is considered to be financially accountable to the Academy. The Building Corporation was formed to support and assist the Academy to perform its function and to carry out its purpose, specifically to assist in the financing and construction of the Academy's facilities. As the Academy made payments directly to the bond trustee, there are no transactions to report for the Building Corporation. Separate financial statements are not available for the Building Corporation. The Academy paid $151,355 and $740,140 for principal and interest on behalf of the Building Corporation. Cash in the amount of $956,837 has been restricted in the General Fund for payment of the Building Corporation debt service expenses.

Caprock Academy Building Corporation 2

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

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

Government-Wide and Fund Financial Statements

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

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

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

The Academy reports the following major governmental fund:

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

Deferred Outflows/Inflows of Resources

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

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

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

Assets, Liabilities and Fund Balance/Net Position

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

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

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

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

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

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

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

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

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

- Nonspendable – This classification includes amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact. The Academy does not report any amounts as nonspendable at June 30, 2018.

- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Academy has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The Academy also reports funds as restricted for debt service as required by bond covenants.

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Academy did not have any committed resources as of June 30, 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.

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

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

The Academy would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources.

Compensated Absences

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

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Academy's financial position and operations. However, comparative data has not been presented in all statements because such inclusion would make certain statements unduly complex and difficult to understand. Also, certain amounts presented in the prior year data have been reclassified to be consistent with current year's presentation.

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

Budgets and Budgetary Accounting

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

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

NOTE 3: ***CASH AND INVESTMENTS***

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

Petty Cash	$ 180
Deposits	1,969,427
Investments	956,837
Total	**$ 2,926,444**

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. 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 $1,969,427. The bank balances with the financial institutions were $1,995,103. Of these balances, $250,000 was covered by federal depository insurance and $1,745,103 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

Investments

Interest Rate Risk

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

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

Investments (Continued)

Credit Risk

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

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

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

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 a money market fund in the amount of $956,837. The fund invests only in U.S Treasury Obligations and is rated Aaa by Moody'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

Investments in money market funds totaling $956,837 are restricted in the General Fund for the payment of the Academy's debt. This amount is held on behalf of the Building Corporation.

NOTE 4: *CAPITAL ASSETS*

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

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital Assets, Not Depreciated				
Land	$ 1,827,275	$ -	$ -	$ 1,827,275
Capital Assets, Depreciated				
Buildings and Improvements	7,857,546	22,400	-	7,879,946
Machinery and Equipment	67,244	-	-	67,244
Total Capital Assets, Depreciated	7,924,790	22,400	-	7,947,190
Accumulated Depreciation				
Buildings and Improvements	2,229,094	338,354	-	2,567,448
Machinery and Equipment	27,415	11,796	-	39,211
Total Accumulated Depreciation	2,256,509	350,150	-	2,606,659
Total Capital Assets, Depreciated, Net	5,668,281	(327,750)	-	5,340,531
Net Capital Assets	**$ 7,495,556**	**$ (327,750)**	**$ -**	**$ 7,167,806**

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

NOTE 5: *LONG-TERM DEBT*

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

	Balance June 30, 2017	Additions	Payments	Balance June 30, 2018	Due In One Year
Bond Payable	$ 9,520,000	$ -	$ 120,000	$ 9,400,000	$ 125,000
Bond Discount	(100,794)	-	(3,540)	(97,254)	-
Loan Payable	872,841	-	31,355	841,486	29,565
Total	**$10,292,047**	**$ -**	**$ 147,815**	**$10,144,232**	**$ 154,565**

Bonds Payable

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

Loan Payable

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

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

Future debt service requirements for the loan and bond are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	$ 154,565	$ 706,895	$ 861,460
2020	166,207	696,503	862,710
2021	925,714	1,423,975	2,349,689
2022	155,000	629,650	784,650
2023	165,000	618,800	783,800
2024-2028	1,265,000	3,439,800	4,704,800
2029-2033	1,180,000	1,957,900	3,137,900
2034-2038	2,000,000	1,919,050	3,919,050
2039-2043	2,810,000	1,113,700	3,923,700
2044-2045	1,420,000	150,850	1,570,850
Total	**$ 10,241,486**	**$ 12,657,123**	**$ 22,898,609**

NOTE 6: ***RISK OF LOSS***

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Academy participates in the Colorado School District Self Insurance Pool. The Pool insures property and liability exposures through contributions made by member entities. The Academy does not maintain an equity interest in the self-insurance pool. The Academy funds its pool contributions, outside insurance purchases, deductibles, and uninsured losses through the General Fund. The Academy has a $1,000 deductible for any property claims. Settled claims resulting from these risks have not exceeded coverage's in any of the past three years.

NOTE 7: ***DEFINED BENEFIT PENSION PLAN***

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 C*hanges between the measurement date of the net pension liability and June 30, 2018*

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.

NOTE 7: ***<u>DEFINED BENEFIT PENSION PLAN</u>*** (Continued)

General Information about the Pension Plan (Continued)

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.

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.

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

General Information about the Pension Plan (Continued)

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:

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 SCHDTF[1]	**18.63%**	**19.13%**

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the Academy were $596,328 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 $21,657,511 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 0.066976%, which was an increase of 0.00528% from its proportion measured as of December 31, 2016.

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

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

For the year ended June 30, 2018, the Academy recognized pension expense of $4,784,418. At June 30, 2018, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$398,190	N/A
Changes of assumptions or other inputs	$5,529,964	$35,092
Net difference between projected and actual earnings on pension plan investments	N/A	$850,511
Changes in proportion and differences between contributions recognized and proportionate share of contributions	$1,606,928	N/A
Contributions subsequent to the measurement date	$ 303,845	N/A
Total	**$7,838,927**	**$885,603**

$303,845 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	$4,050,310
2020	$2,553,164
2021	$363,383
2022	($317,378)

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.

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:

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.

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.

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	$27,357,103	$21,657,511	$17,012,970

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.

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.

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 $21,657,511 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%	$ 9,784,670

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 $10,109,855 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.

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.

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.

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

General Information about the OPEB Plan (Continued)

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

NOTE 8: *<u>DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN</u>* (Continued)

General Information about the OPEB Plan (Continued)

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 $32,215 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 $494,567 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 0.038055%, which was an increase of 0.00299% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the Academy recognized OPEB expense of $44,604. At June 30, 2018, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$2,339	N/A
Net difference between projected and actual earnings on OPEB plan investments	N/A	$8,274
Changes in proportion and differences between contributions recognized and proportionate share of contributions	$32,378	N/A
Contributions subsequent to the measurement date	$16,201	N/A
Total	**$50,918**	**$8,274**

$16,201 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	$4,752
2020	$4,752
2021	$4,752
2022	$4,752
2023	$6,822
Thereafter	$613

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.

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.

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.

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.

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%.

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	$480,960	$494,567	$510,956

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.

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	$556,049	$494,567	$442,091

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

NOTE 9: *COMMITMENTS AND CONTINGENCIES*

Modular Lease

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

Future minimum lease payments are as follows:

Year Ended June 30		
2019	$	32,520
2020		32,520
2021		32,520
Total	**$**	**97,560**

The Academy made lease payments under the terms of this agreement totaling $32,520 during the year ended June 30, 2018.

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.

NOTE 9: ***COMMITMENTS AND CONTINGENCIES*** (Continued)

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The Academy believes it has complied with the Amendment. As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2018, the reserve of $197,392 was recorded as a restriction of fund balance in the General Fund.

NOTE 10: ***RESTATEMENT OF NET POSITION***

The beginning net position of the governmental activities was decreased by $439,534 as the Academy implemented Governmental Accounting Standards Board (GASB) Statement 75.

NOTE 11: ***DEFICIT NET POSITION***

The net position of the governmental activities is in a deficit position in the amount of $15,466,557 due to the Academy including its Net Pension Liability and Net OPEB liability per the requirements of GASB Statement Nos. 68 and 75.

REQUIRED SUPPLEMENTARY INFORMATION

CAPROCK ACADEMY

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2018

	2018				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)	2017 ACTUAL
REVENUES					
Local Sources					
Per Pupil Operating Revenue	$ 5,812,800	$ 5,868,486	$ 5,864,458	$ (4,028)	$ 5,443,525
Charges for Services	117,300	134,000	347,650	213,650	297,711
Tuition	114,950	114,950	117,900	2,950	114,206
Grants and Donations	10,000	10,000	43,565	33,565	203,514
Other Revenue	26,000	10,500	26,461	15,961	25,023
State and Federal Sources					
Grants and Donations	413,107	441,801	479,771	37,970	487,028
TOTAL REVENUES	6,494,157	6,579,737	6,879,805	300,068	6,571,007
EXPENDITURES					
Salaries	3,344,042	3,344,042	3,231,464	112,578	3,090,539
Employee Benefits	1,028,206	1,069,280	1,084,163	(14,883)	958,075
Purchased Services	736,626	786,078	644,115	141,963	659,168
Supplies and Materials	392,100	404,350	539,882	(135,532)	558,429
Property	56,500	64,000	65,404	(1,404)	389,312
Other	6,850	6,850	10,126	(3,276)	12,003
Debt Service					
Principal	134,125	144,125	151,355	(7,230)	142,539
Interest	728,484	744,534	740,140	4,394	721,107
Contingency	22,000	16,000	-	16,000	-
TOTAL EXPENDITURES	6,448,933	6,579,259	6,466,649	112,610	6,531,172
NET CHANGE IN FUND BALANCES	45,224	478	413,156	412,678	39,835
FUND BALANCE, Beginning	2,289,564	2,252,823	2,252,823	-	2,212,988
FUND BALANCE, Ending	$ 2,334,788	$ 2,253,301	$ 2,665,979	$ 412,678	$ 2,252,823

See the accompanying independent auditors' report.

CAPROCK ACADEMY

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

Years Ended December 31,

	2013	2014	2015	2016	2017
School's proportionate share of the Net Pension Liability	0.054%	0.056%	0.057%	0.062%	0.067%
School's Net Pension Liability	$ 6,926,841	$ 7,532,429	$ 8,650,112	$ 18,368,788	$ 21,657,511
School's covered-employee payroll	$ 2,188,082	$ 2,328,240	$ 2,464,791	$ 2,768,953	$ 3,089,503
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	316.6%	323.5%	350.9%	663.4%	701.0%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%	43.10%	43.96%

See the accompanying independent auditors' report.

CAPROCK ACADEMY

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DIVISION TRUST FUND

Years Ended June 30,

	2014	2015	2016	2017	2018
Statutorily required contributions	$ 389,625	$ 419,671	$ 494,423	$ 566,205	$ 596,328
Contributions in relation to the Statutorily required contributions	389,625	419,671	494,423	566,205	596,328
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
School's covered-employee payroll	$ 2,291,924	$ 2,344,988	$ 2,636,243	$ 2,917,962	$ 3,158,286
Contributions as a percentage of covered-employee payroll	17.00%	17.90%	18.75%	19.40%	18.88%

See the accompanying independent auditors' report.

CAPROCK ACADEMY

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

Years Ended December 31,

	2016	2017
School's proportionate share of the Net Pension Liability	0.035%	0.038%
School's proportionate share of the Net Pension Liability	$ 454,661	$ 494,567
School's covered-employee payroll	$ 2,768,953	$ 3,089,503
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	16.4%	16.0%
Plan fiduciary net position as a percentage of the total pension liability	16.72%	17.53%

See the accompanying independent auditors' report.

CAPROCK ACADEMY

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
HEALTH CARE TRUST FUND

Years Ended June 30,

	2017	2018
Statutorily required contributions	$ 29,763	$ 32,215
Contributions in relation to the Statutorily required contributions	29,763	32,215
Contribution deficiency (excess)	$ -	$ -
School's covered-employee payroll	$ 2,917,962	$ 3,158,286
Contributions as a percentage of covered-employee payroll	1.02%	1.02%

See the accompanying independent auditors' report.