THE ACADEMY OF CHARTER SCHOOLS, INC.

BASIC FINANCIAL STATEMENTS

June 30, 2018

TABLE OF CONTENTS

JOHN CUTLER & ASSOCIATES

Board of Directors
The Academy of Charter Schools, Inc.
Westminster, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements governmental activities, each major fund, and the aggregate remaining fund information of The Academy of Charter Schools, Inc. (the "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 expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of The Academy of Charter Schools, Inc. as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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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 45-49 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 15, 2018

The Academy of Charter Schools, Inc.
Management's Discussion and Analysis
As of and for the fiscal year ended June 30, 2018

As management of The Academy of Charter Schools, we offer readers of the School's basic financial statements this narrative and analysis of the financial activities of The Academy for the fiscal year ended June 30, 2018.

Financial Highlights

- The General Fund balance increased $528,161 from $1,848,564 to $2,376,725. The primary drivers were an increase in revenue, a larger than expected refund from our partially self-funded health care plan (offsetting the expense), and The Academy's practice to limit routine expenditures so as to not exceed revenue in any particular year. The revenue increase was primarily from an increase in per pupil revenue and local sources (fundraising activities). The funds will provide additional reserves.

- The Proprietary Fund net position improved by $142,427 but is still at a deficit ($2,221,508). The Proprietary fund was created when the Academy used bond proceeds to construct its facilities. The deficit will be eliminated as the school pays down its debt.

- The liabilities of the Academy exceeded its assets at the close of the most recent fiscal year by $39,730,489 (net position). This is a change from the previous year's deficit net position of $26,877,605. The vast majority of this deficit is caused by the Governmental Accounting Standards Board (GASB) Statement 68 (Note 7 pages 21-32) and Governmental Accounting Standards Board (GASB) Statement 75 (Note 8 pages 32-43).

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements and provide an analytical overview of the Academy's financial activities. The basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the basic financial statements. This report also contains other required supplemental information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the financial activities in a manner similar to a private sector business.

The statement of net position presents information about all of the Academy's assets and liabilities. The difference between assets and liabilities is reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the net assets of the School changed during the current fiscal year. Changes in net assets are recorded in the statement of activities when the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement even though the resulting cash flow may be recorded in a future period.

Fund Financial Statements

Fund financial statements are designed to demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for special objectives. Fund financial statements for the Academy include two fund types – governmental funds and proprietary funds.

Governmental funds account for essentially the same information reported in the governmental activities of the government-wide financial statements. However, unlike the government-wide statements, the governmental fund financial statements focus on near-term financial resources and fund balances. Such information may be useful in evaluating financing requirements in the near term.

Since the governmental funds and the governmental activities report information using the same functions, it is useful to compare the information presented. Because the focus of each report differs, reconciliations are provided on the fund financial statements to assist the reader in comparing the near-term requirements with the long-term needs.

The Academy maintains one governmental fund, The Academy General Fund. The Academy adopts an annual appropriated budget for its general fund. The budget is developed using estimates for enrollment and State and Federal Grant awards. The Academy Board then approves a modified budget and appropriation after enrollment count and grant award letters are finalized (typically Dec/Jan of each fiscal year). A budgetary comparison schedule for the General Fund is included in the required supplemental information (page 45).

The School maintains one proprietary fund, The Academy Building Corporation. The Academy Building Corporation is considered a component unit of the charter school and is reported as business-type activities in the proprietary fund. This unit is presented with statements of net position, changes in net position and cash flows.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes can be found on pages 9-44 of this report.

Government-wide Financial Analysis

Net Position may serve over time as a useful indicator of a government's financial position. In the case of The Academy, liabilities exceeded assets by $39,730,489 at the close of the most recent fiscal year. Again, the majority of this deficit is caused by the Governmental Accounting Standards Board (GASB) Statement 68 and GASB Statement 75. All Colorado Schools, The Academy included, are required to include its Net Pension Liability and, new this year, its OPEB liability as part of the net position of the governmental activities. A detailed explanation of the Defined Benefit Pension Plan and Defined Benefit Other Post Employment Benefit Plan that impacted the financial statement as a result of GASB 68 and GASB 75 can be found in note 7, pages 21-32 and note 8 pages 32-43 respectively. Note 7 on page 24 shows the Academy's proportionate share of the Net Pension Liability increased from 0.156% to 0.164% (was 0.163% two years ago). The increase is in line with the normal range associated with a school the size of The Academy.

The assets of the School are classified as current assets and capital assets. Cash and investments, receivables, internal balances and inventories are current assets. These assets are available to provide resources for the near-term operations of the School. The majority of the current assets are the result of unspent revenues received from the state. Capital assets are used in the operations of the School. These assets represent land, buildings, and equipment of the School.

Current and non-current liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable, accrued salaries and benefits, deferred revenue, and current debt obligations. The liquidation of current liabilities is anticipated to be either from current available resources, current assets, or new resources that become available during fiscal 2019.

Long-term liabilities such as long-term debt obligations will be liquidated from resources that will become available after fiscal year 2019. The noncurrent liabilities primarily relate to the debt incurred to fund the facilities of The Academy or are part of the school's portion of the state's pension liability.

Governmental Activities

	June 30, 2018	June 30, 2017
Cash and Investments	$ 6,252,768	$ 6,141,808
Accounts Receivable	$ 332,280	$ 250,827
Capital Assets	$ 26,477,734	$ 27,076,532
Total Assets	$ 33,062,782	$ 33,469,167
Deferred Outflows – Related to OPEB Liability	$ 96,548	
Deferred Outflows – Related to Pensions	$ 16,350,119	$ 20,220,966
Current liabilities	$ 1,916,694	$ 2,272,237
Other liabilities	$ 30,838,566	$ 31,550,770
OPEB Liability	$ 1,212,163	
Pension Liability (GASB 68)	$ 53,081,661	$ 46,534,475
Total Liabilities	$ 87,049,084	$ 80,357,482
Deferred Inflows – Related to OPEB Liability	$ 20,279	
Deferred Inflows – Related to Pensions	$ 2,170,575	$ 210,256
Net Position		
Investment in Capital Assets	$ (1,230,204)	$ (1,378,291)
Restricted for Emergencies (TABOR)	$ 455,000	$ 450,000
Unrestricted	$ (38,955,285)	$ (25,949,314)
Total Net Position	$ (39,730,489)	$ (26,877,605)

Cash and investments are 18.9% of the Academy's Governmental and Business-Type assets (up from 18.4 last year and 17.3 the year before).

The Academy's Change in Net Position

For the year ending June 30, 2018

Governmental and Business-Type Activities

	June 30, 2018	June 30, 2017
Program Revenue:		
Charges for Services	$ 2,552,364	$ 2,429,284
Operating Grants and Contributions	$ 530,460	$ 459,458
Capital Grants and Contributions	$ 469,922	$ 492,730
Total Program Revenues	$ 3,552,746	$ 3,381,472
General Revenue		
Per Pupil Revenue	$ 13,306,179	$ 12,725,705
Investment Earnings	$ 42,623	$ 8,925
Other	$ 18,778	$ 19,371
Total General Revenue	$ 13,367,580	$ 12,754,001
Total Revenue	$ 16,920,326	$ 16,135,473
Expenses:		
Current:		
Instruction	$ 16,166,981	$ 14,319,509
Supporting Services	$ 10,620,392	$ 10,086,270
Interest on Long-term Debt	$ 1,849,222	$ 1,908,380
Total Expenses	$ 28,636,595	$ 26,314,159
Increase (Decrease) in Net Position	$ (11,743,269)	$ (10,178,686)
Beginning Net Position - restated	$ (27,987,220)	$ (16,698,919)
Ending Net Position	$ (39,730,489)	$ (26,877,605)

Financial Analysis of Government and Business-type Activities Net Position

From the previous two statements, the impact of the implementation of Governmental Accounting Standards Board (GASB) Statement 68 and GASB 75 is quite evident. GASB published an article, **New GASB Pension Statements to Bring about Major Improvements in Financial Reporting – Dec 2013.** In this article it states:

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

This is exactly the case for The Academy. It is important to note that without the impact of the Pension Liability, the net position of The Academy would have been an increase of $661,362 as opposed to the depicted decrease of $11,743,269. Also, note 7 pages 31-32 discuss the legislative changes made to the retirement plan signed into law by the Governor. The note compares what the liability would be IF the changes were in effect for this current year. The decrease in liability is substantial which reflects the corrective action taken by the legislature that will have a dramatic impact to improve the net position of The Academy.

Financial Analysis of the School's Governmental Funds

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

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

Proprietary Fund. The Academy Building Corporation net position deficit improved to a balance of $2,221,508 from a balance of $2,363,935 in FY2017 and $2,425,336 the year before. The deficit decrease was the result of additional principal payments on bond debt. This trend is expected to continue as the Academy continues to pay down its debt. The Building Fund has $3,341,012 in restricted cash and investments required by bond agreements to be held for future debt service.

General Fund Budgetary Highlights

The Academy approves a budget in June based on enrollment projections for the following school year. In October after enrollment stabilizes, adjustments are made to the budget. The Academy approved a supplemental budget to true up the beginning fund balance and adjustment to the actual student count. Actual expenditures in the general fund were under revenues by $528,161. The General Fund balance increased by $528,161 during fiscal year 2018.

Capital Asset and Debt Administration

Capital assets. Capital assets include the land and building in the Academy Building Corporation Fund of $26,296,520 and other capital assets in the governmental activities fund of $181,214. Depreciation expense of $22,031 and $584,676 was reported in the Governmental Activities and the Building Corporation Funds on capital assets.

Long-term lease. The Academy participates in a long-term lease agreement with the Corporation. Monthly principal and interest payments are due under the lease agreements, with interest accruing at rates ranging from 3.75% to 7.25%. The lease ends in Oct 2040. The long-term lease provides essentially level debt service for The Academy throughout the entire term with no balloon payments or requirement to refinance. Annual debt service ranges from $2,232,612 to $1,954,688 and is clearly outlined in the bond documents.

Economic Factors and Next Year's Budgets and Rates

The FY 2018-19 budget projects the Academy's general fund balance will increase by $53,328. Over the last five (5) years, the General Fund of The Academy has experienced positive net changes in fund balances ranging from $178K to over $720K with $528K in the recent year. This planned budget projection of $53K represents management's decision to identify the source of these increases and reinvest the additional dollars in school programs and facilities. Enrollment is projected to be stable in FY 2018-19 and beyond with family retention (student return rate) over 96%.

Requests for Information

This financial report is designed to provide a general overview of The 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 shall be addressed to:

Chief Executive Officer
The Academy of Charter Schools, Inc.
11800 Lowell Blvd.
Westminster, CO 80031

BASIC FINANCIAL STATEMENTS

THE ACADEMY OF CHARTER SCHOOLS, INC.

STATEMENT OF NET POSITION
June 30, 2018

	GOVERNMENTAL ACTIVITIES 2018	2017
ASSETS		
Cash and Investments	$ 2,407,140	$ 2,370,861
Restricted Cash and Investments	3,845,628	3,770,947
Accounts Receivable	332,280	250,827
Capital Assets, Not Being Depreciated	4,120,406	4,120,406
Capital Assets, Depreciated, Net of Accumulated Depreciation	22,357,328	22,956,126
TOTAL ASSETS	33,062,782	33,469,167
DEFERRED OUTFLOWS OF RESOURCES		
Related to OPEB Liability	96,548	-
Related to Pensions	16,350,119	20,220,966
TOTAL DEFERRED OUTFLOWS OF RESOURCES	16,446,667	20,220,966
LIABILITIES		
Accounts Payable	39,663	400,549
Accrued Salaries and Benefits	796,994	807,334
Unearned Revenue	30,654	26,116
Accrued Interest Payable	305,474	329,433
Compensated Absences	28,909	33,805
Noncurrent Liabilities		
Due Within One Year	715,000	675,000
Due in More Than One Year	30,838,566	31,550,770
OPEB Liability	1,212,163	-
Pension Liability	53,081,661	46,534,475
TOTAL LIABILITIES	87,049,084	80,357,482
DEFERRED INFLOWS OF RESOURCES		
Related to OPEB Liability	20,279	
Related to Pensions	2,170,575	210,256
TOTAL DEFERRED INFLOWS OF RESOURCES	2,190,854	210,256
NET POSITION		
Investment in Capital Assets	(1,230,204)	(1,378,291)
Restricted for Emergencies	455,000	450,000
Unrestricted	(38,955,285)	(25,949,314)
TOTAL NET POSITION	$ (39,730,489)	$ (26,877,605)

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

		PROGRAM REVENUES			Net Expense (Revenue) and Changes in Net Postion	
			Operating	Capital	Governmental Activities	
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Grants and Contributions	Grants and Contributions	2018	2017
PRIMARY GOVERNMENT						
Governmental Activities						
Instruction	$ 16,166,981	$ 737,921	$ 503,460	$ -	$ (14,925,600)	$ (13,156,537)
Supporting Services	10,620,392	1,814,443	-	469,922	(8,336,027)	(7,867,770)
Interest and Fiscal Charges	1,849,222	-	-	-	(1,849,222)	(1,908,380)
Total Governmental Activities	$ 28,636,595	$ 2,552,364	$ 503,460	$ 469,922	(25,110,849)	(22,932,687)
GENERAL REVENUES						
Per Pupil Revenue					13,306,179	12,725,705
Investment Earnings					42,623	8,925
Other					18,778	19,371
TOTAL GENERAL REVENUES					13,367,580	12,754,001
CHANGE IN NET POSITION					(11,743,269)	(10,178,686)
NET POSITION, Beginning, restated					(27,987,220)	(16,698,919)
NET POSITION, Ending					$ (39,730,489)	$ (26,877,605)

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

BALANCE SHEET
ALL GOVERNMENTAL FUNDS
June 30, 2018

	GENERAL FUND	
	2018	2017
ASSETS		
Cash and Investments	$ 2,407,140	$ 2,370,861
Restricted Cash and Investments	504,616	460,875
Accounts Receivable	332,280	250,827
TOTAL ASSETS	$ 3,244,036	$ 3,082,563
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	$ 39,663	$ 400,549
Accrued Salaries and Benefits	796,994	807,334
Unearned Revenue	30,654	26,116
TOTAL LIABILITIES	867,311	1,233,999
FUND BALANCES		
Restricted for Emergencies	455,000	450,000
Unassigned	1,921,725	1,398,564
TOTAL FUND BALANCES	2,376,725	1,848,564
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.	181,214	195,336
Long-term liabilities and related assets related to pensions and OPEB are not due and payable in the current period and therefore, are not reported in the funds. This liability includes net pension liability ($53,081,661), OPEB liability ($1,212,163), deferred outflows related to pensions and OPEB $16,446,667, deferred inflows related to pensions and OPEB ($2,190,854), and compensted absences ($28,909).	(40,066,920)	(26,557,570)
Internal service funds are used by management to charge the lease costs to governmental funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.	(2,221,508)	(2,363,935)
Net position of governmental activities	$ (39,730,489)	$ (26,877,605)

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

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

	GENERAL FUND	
	2018	2017
REVENUES		
Local Sources	$ 15,665,711	$ 14,973,130
State and Federal Sources	1,202,635	1,162,000
TOTAL REVENUES	16,868,346	16,135,130
EXPENDITURES		
Instruction	7,818,120	7,650,694
Supporting Services	8,522,065	8,200,576
TOTAL EXPENDITURES	16,340,185	15,851,270
NET CHANGE IN FUND BALANCES	528,161	283,860
FUND BALANCES, Beginning	1,848,564	1,564,704
FUND BALANCES, Ending	$ 2,376,725	$ 1,848,564

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

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	$ 528,161
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 ($22,031) and exceeds capital outlay $7,909, for the year.	(14,122)
Repayment of long-term is an expenditure in the governmental funds, but repayment of principal reduces long-term liabilities in the statement of net position. This is the amount of the change in compensated absences for the year.	4,896
The Internal Service fund is used by management to charge the cost of lease payments to the governmental funds. The net revenue of the internal service fund is reported with the governmental activities.	142,427
Deferred Charges related to pensions and OPEB are not recognized in the governmental funds. However. in the government-wide statements these amounts are capitalized and amortized.	(12,404,631)
Change in net position of governmental activities	$ (11,743,269)

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

STATEMENT OF NET POSITION
PROPRIETARY FUND TYPES
June 30, 2018

	GOVERNMENTAL ACTIVITIES	
	Internal Service Fund	
	2018	2017
ASSETS		
Current Assets		
Cash and Investments	$ -	$ -
Restricted Cash and Investments	3,341,012	3,310,072
Total Current Assets	3,341,012	3,310,072
Long-term Assets		
Capital Assets, Net of Accumulated Depreciation	26,296,520	26,881,196
Total Long-term Assets	26,296,520	26,881,196
TOTAL ASSETS	29,637,532	30,191,268
LIABILITIES		
Current Liabilities		
Accrued Interest Payable	305,474	329,433
Mortgage Payable - Current Portion	715,000	675,000
Total Current Liabilities	1,020,474	1,004,433
Long-Term Liabilities		
Mortgage Payable	30,838,566	31,550,770
TOTAL LIABILITIES	31,859,040	32,555,203
NET POSITION		
Net Investment in Capital Assets	(2,221,508)	(2,363,935)
TOTAL NET POSITION	$ (2,221,508)	$ (2,363,935)

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

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

	GOVERNMENTAL ACTIVITIES	
	Internal Service Fund	
	2018	2017
OPERATING REVENUES		
Rent	$ 2,582,098	$ 2,582,012
Investment Income	24,980	3,707
TOTAL OPERATING REVENUES	2,607,078	2,585,719
OPERATING EXPENSES		
Purchased Services	27,957	28,466
Depreciation	584,676	584,676
Amortization	2,796	2,796
TOTAL OPERATING EXPENSES	615,429	615,938
OPERATING INCOME	1,991,649	1,969,781
NON-OPERATING EXPENSES		
Interest Expense	(1,849,222)	(1,908,380)
TOTAL NON-OPERATING EXPENSES	(1,849,222)	(1,908,380)
NET INCOME (LOSS)	142,427	61,401
NET POSITION, Beginning	(2,363,935)	(2,425,336)
NET POSITION, Ending	$ (2,221,508)	$ (2,363,935)

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

THE ACADEMY OF CHARTER SCHOOLS, INC.

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

	GOVERNMENTAL ACTIVITIES	
	Internal Service Fund	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Rental Operations	$ 2,582,098	$ 2,582,012
Cash Paid to Suppliers	(27,957)	(28,466)
Investment Income	24,980	3,707
Net Cash Provided by Operating Activities	2,579,121	2,557,253
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest Expense	(1,873,181)	(1,908,380)
Principal Payments on Loan	(675,000)	(640,000)
Net Cash Used by Financing Activities	(2,548,181)	(2,548,380)
NET INCREASE IN CASH	30,940	8,873
CASH, Beginning	3,310,072	3,301,199
CASH, Ending	$ 3,341,012	$ 3,310,072
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES		
Operating Income	$ 1,991,649	$ 1,969,781
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities		
Depreciation Expense	584,676	584,676
Amortization Expense	2,796	2,796
Total Adjustments	587,472	587,472
Net Cash (Used) by Operating Activities	$ 2,579,121	$ 2,557,253

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

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

The Academy of Charter Schools, Inc. (the "Academy") was formed in 1994 pursuant to the Colorado Charter Schools Act to form and operate a charter school. The accounting policies of the Academy conform to generally accepted accounting principles as applicable to governmental units. Following is a summary of the more significant policies.

Reporting Entity

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

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

The Academy of Charter Schools Building Corporation

The purpose of the Corporation is to provide a mechanism to issue and pay debt on behalf of the Academy. The Corporation is considered to be part of the Academy for financial reporting purposes because its resources are entirely for the direct benefit of the Academy and is blended into the Academy's financial statements as an internal service fund. As part of its ongoing responsibilities, the Corporation provides the Academy with monthly financial statements. Separate financial statements are not available.

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.

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

Government-Wide and Fund Financial Statements (Continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

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 funds:

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

Additionally, the Academy reports the following fund types:

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and balance sheets will sometimes report a separate section for deferred outflows 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: ***<u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>*** (Continued)

Assets, Liabilities and Fund Balance/Net Position

Investments – Investments are recorded at fair value.

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

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 acquisition 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 position 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 20 - 50 years, furniture and equipment 5 to 25 years.

Long Term Obligations - In the government-wide financial statements, and proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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 debt service expenditures.

Compensated Absences – Eligible employees earn vacation time up to 160 hours per year depending on their length of service to the Academy. Employees may carry over up to 80 hours to the next contract year. Any unused vacation time in excess of 80 hours will be paid to the employee in August of each year.

Net Position– The government-wide and business-type fund financial statements utilize a net position presentation. Net position is categorized as investment in capital assets, restricted, and unrestricted.

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

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

- Investment in Capital Assets is intended to reflect the portion of net position which are 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 are liquid assets, which have third party limitations on their use.

- Unrestricted Net Position represents assets that do not have any third party limitation on their use. While Academy management may have categorized and segmented portion for various purposes, the Academy Board has the unrestricted right to revisit or alter these managerial decisions.

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 fund balances as nonspendable as of 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.

- 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.

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

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

- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Academy carries commercial insurance for these risks of loss. Settled claims have not exceeded any coverages in the last three years.

Comparative Data

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

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

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

Budgets and Budgetary Accounting

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

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:

Deposits	$ 1,291,970
Investments	4,960,798
Total	**$ 6,252,768**

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.

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

Deposits (Continued)

At June 30, 2018, the Academy had deposits with financial institutions with a carrying amount of $1,291,970. The bank balances with the financial institutions were $1,829,813. Of these balances $250,000 were covered by federal depository insurance and $1,579,813 were covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

Investments

Interest Rate Risk

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

Credit Risk

Colorado statutes specify in which instruments the units of local government may invest which includes:

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

The above investments are authorized for all funds and fund types used by Colorado municipalities.

Local Government Investment Pool

The Academy had invested $1,630,665 in the Colorado Surplus Asset Fund Trust (CSAFE) an investment vehicle established for local government entities in Colorado pursuant to Title 24, Article 75, Part 7 of the Colorado Revised Statues, to pool surplus funds for investment purposes. The State Securities Commissioner administers and enforces the requirements of creating and operating the Pools. CSAFE reports its underlying investments at amortized cost and is considered a qualifying external investment pool under GASB Statement 79. CSAFE operates similar to money market funds where each share is equal in value to $1.00. The fair value of the position in the pools is the same as the value of the pooled shares.

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

Investments (Continued)

Local Government Investment Pool (Continued)

CSAFE is rated AAAm by Standard and Poor's. The designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions. Substantially all securities are owned by the pools and held by the Federal Reserve Bank in the account maintained for the custodial bank. The custodian's internal records identify the investments owned by the pools. Investments of the pools comply with state statues, consisting of U.S. Treasury bills, notes and note strips, repurchase agreements, U.S. Instrumentalities, Commercial Paper, Bank Deposits and Money Market Funds. CSAFE does not have any limitations or restrictions on participant withdrawals.

Fair Value

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

At June 30, 2018, the Academy held investments in government agency mutual funds in the amount of $3,330,133 with maturity dates of less than one year and rated AAAm by Standard and Poor's. Given the low risk of this type of investment, the Academy has not established a policy limiting the amount of investments in this type of security and deems it unnecessary at this time. These investments are valued with Level 1 inputs.

Restricted Cash

Cash in the amount of $3,341,012 is restricted for debt service in the Internal Service Fund. Cash in the amount of $504,616 is restricted in the General Fund for the Academy's repair and replacement reserve.

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	$ 4,120,406	$ -	$ -	$ 4,120,406
Capital Assets, Depreciated				
Buildings and Improvements	28,417,915	-	-	28,417,915
Equipment	446,244	7,909	-	454,153
Total Capital Assets, Depreciated	28,864,159	7,909	-	28,872,068
Accumulated Depreciation				
Building	5,657,125	584,676	-	6,241,801
Equipment	250,908	22,031	-	272,939
Total Accumulated Depreciation	5,908,033	606,707	-	6,514,740
Net Capital Assets, Depreciated	22,956,126	(598,798)	-	22,357,328
Net Capital Assets	**$ 27,076,532**	**$ (598,798)**	**$ -**	**$ 26,477,734**

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

NOTE 5: ***ACCRUED SALARIES AND BENEFITS***

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve-month period from August to July, but are earned during a school year of nine months. The salaries and benefits earned, but unpaid, as of June 30, 2018, were $796,994 in the General Fund.

NOTE 6: *LONG-TERM DEBT*

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

	Balance June 30, 2017	Additions	Payments	Balance June 30, 2018	Due In One Year
2004 Bonds Payable	$ 16,715,000	$ -	$ 530,000	$ 16,185,000	$ 560,000
2008 Bond Payable	6,145,000	-	-	6,145,000	-
2010 Bonds Payable	9,460,000	-	145,000	9,315,000	155,000
Unamortized Discount	(94,230)	-	(2,796)	(91,434)	-
Total	**$ 32,225,770**	**$ -**	**$ 672,204**	**$ 31,553,566**	**$ 715,000**

2004 Bonds Payable

In May 2004, the Colorado Educational and Facilities Authority (CECFA) issued $20,365,000 Charter School Revenue Bonds, Series 2004. Proceeds from the bonds were used to construct the Academy's building. The Academy is required to make lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at a rate ranging from 3.75% to 5.50% per year. Interest payments are due semi-annually on May 1 and November 1 and principal payments are due annually on May 1. Bonds maturing on May 1, 2009 and thereafter are subject to mandatory sinking fund redemption beginning May 1, 2007. The lease matures in May, 2036.

2008 Bonds Payable

In August 2008, the Colorado Educational and Facilities Authority (CECFA) issued $6,145,000 Charter School Revenue Bonds, Series 2008. Proceeds from the bonds were used to construct an addition to the Academy's building. The Academy is required to make lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at a rate of 5.625% per year. Interest payments are due semi-annually on May 1 and November 1 and principal payments are due annually on May 1 starting in 2037. Bonds maturing on May 1, 2040 and thereafter are subject to mandatory sinking fund redemption beginning May 1, 2037. The lease matures in May, 2040.

NOTE 6: ***LONG-TERM DEBT*** (Continued)

2010 Bonds Payable

In November 2010, the Colorado Educational and Facilities Authority (CECFA) issued $4,435,000 Charter School Revenue Bonds, Series 2010A and $5,625,000 in Charter School Revenue Bonds, Series 2010B. Proceeds from the bonds were used to purchase land and construct an additional educational facility. The Academy is required to make lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at a rate ranging from 6.125% to 7.25% per year. Interest payments are due semi-annually on May 1 and November 1 and principal payments are due annually on November 1. Series 2010A Bonds maturing on or after November 1, 2040 are subject to mandatory sinking fund redemption beginning November 1, 2034. Series 2010B Bonds maturing on or after November 1, 2020 are subject to mandatory sinking fund redemption beginning November 1, 2012. The lease matures in November, 2040.

Future debt service requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	$ 715,000	$ 1,842,337	$ 2,557,337
2020	745,000	1,804,844	2,549,844
2021	785,000	1,765,793	2,550,793
2022	830,000	1,724,631	2,554,631
2023	875,000	1,679,081	2,554,081
2024-2028	5,200,000	7,590,832	12,790,832
2029-2033	6,950,000	5,859,706	12,809,706
2034-2038	9,845,000	3,437,751	13,282,751
2039-2041	5,700,000	616,531	6,316,531
Total	**$ 31,645,000**	**$ 26,321,506**	**$ 57,966,506**

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: ***DEFINED BENEFIT PENSION PLAN*** (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 $1,531,707 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 $53,081,661 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 0.16415%, which was an increase of 0.00786% from its proportion measured as of December 31, 2016.

NOTE 7: ***<u>DEFINED BENEFIT PENSION PLAN</u>*** (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 $13,910,059. 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	$975,947	N/A
Changes of assumptions or other inputs	$13,553,712	$86,009
Net difference between projected and actual earnings on pension plan investments	N/A	$2,084,566
Changes in proportion and differences between contributions recognized and proportionate share of contributions	$1,085,827	N/A
Contributions subsequent to the measurement date	$734,633	N/A
Total	**$16,350,119**	**$2,170,575**

$734,633 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	$8,903,106
2020	$5,216,695
2021	$114,469
2022	$(786,359)

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	$67,051,124	$53,081,628	$41,698,084

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 $53,081,625 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%	$ 23,981,819

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 $24,778,836 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: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (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 $78,509 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 $1,212,163 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 0.09327 percent, which was an increase of 0.00477 percent from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the Academy recognized OPEB expense of $104,788. 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	$5,732	N/A
Changes of assumptions or other inputs	N/A	N/A
Net difference between projected and actual earnings on OPEB plan investments	N/A	$20,279
Changes in proportion and differences between contributions recognized and proportionate share of contributions	$51,646	N/A
Contributions subsequent to the measurement date	$39,170	N/A
Total	**$96,548**	**$20,279**

$39,170 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	$6,204
2020	$6,204
2021	$6,204
2022	$6,205
2023	$11,274
Thereafter	$1,008

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	$1,178,811	$1,212,163	$1,252,332

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	$1,362,852	$1,212,163	$1,083,545

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***

Claims and Judgments

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

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The Academy believes it has complied with the Amendment. As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2018, the reserve of $455,000 was recorded as a reservation of fund balance in the General Fund.

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

The beginning net position of the governmental activities was decreased by $1,109,615 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 of $39,730,489 due to the Academy including its Net Pension Liability per the requirements of GASB Statements No. 68 and 75.

As of June 30, 2018 the Academy had an internal service fund net position deficit of $2,221,508. The deficit was created when the Academy used bond proceeds to construct its facilities. The deficit will be eliminated as the Academy pays down its debt.

REQUIRED SUPPLEMENTARY INFORMATION

THE ACADEMY OF CHARTER SCHOOLS, INC.

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	$ 12,891,713	$ 13,087,985	$ 13,306,179	$ 218,194	$ 12,725,705
Pupil Activities	580,000	687,506	737,921	50,415	703,514
Charges for Services	1,724,200	1,734,200	1,585,190	(149,010)	1,515,958
Earnings on Investments	-	5,823	17,643	11,820	5,218
Other Revenue	-	-	18,778	18,778	22,735
State and Federal Sources					
Grants and Donations	1,239,759	1,231,211	1,202,635	(28,576)	1,162,000
TOTAL REVENUES	16,435,672	16,746,725	16,868,346	121,621	16,135,130
EXPENDITURES					
Current					
Salaries	7,893,943	7,995,488	7,884,912	110,576	7,666,779
Employee Benefits	2,865,666	2,836,891	2,656,444	180,447	2,584,575
Purchased Services	3,738,426	3,707,946	3,769,090	(61,144)	3,663,327
Supplies and Materials	1,259,925	1,482,240	1,372,239	110,001	1,356,792
Property	-	25,000	-	25,000	-
Other	527,150	536,200	657,500	(121,300)	579,797
TOTAL EXPENDITURES	16,285,110	16,583,765	16,340,185	243,580	15,851,270
NET CHANGE IN FUND BALANCES	150,562	162,960	528,161	365,201	283,860
FUND BALANCE, Beginning	1,867,672	1,848,654	1,848,664	10	1,564,704
FUND BALANCE, Ending	$ 2,018,234	$ 2,011,614	$ 2,376,825	$ 365,211	$ 1,848,564

See the accompanying independent auditors' report.

THE ACADEMY OF CHARTER SCHOOLS, INC.

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	0.079%	0.160%	0.163%	0.156%	0.164%
School's proportionate share of the Net Pension Liability	$ 10,030,429	$ 21,708,268	$ 24,973,594	$ 46,534,475	$ 53,081,661
School's covered-employee payroll	$ 6,374,528	$ 6,710,029	$ 7,116,195	$ 6,988,424	$ 7,572,236
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	157.4%	323.5%	350.9%	665.9%	701.0%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%	43.1%	44.0%

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

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

See the accompanying independent auditors' report.

THE ACADEMY OF CHARTER SCHOOLS, INC.

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DIVISION TRUST FUND

Years Ended June 30,

	2014	2015	2016	2017	2018
Statutorily required contributions	$ 1,064,275	$ 1,102,441	$ 1,369,654	$ 1,374,149	$ 1,531,707
Contributions in relation to the Statutorily required contributions	1,064,275	1,102,441	1,369,654	1,374,149	1,531,707
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
School's covered-employee payroll	$ 6,252,422	$ 6,710,029	$ 7,305,839	$ 7,476,403	$ 7,696,932
Contributions as a percentage of covered-employee payroll	17.02%	16.43%	18.75%	18.38%	19.90%

Notes:

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

See the accompanying independent auditors' report.

THE ACADEMY OF CHARTER SCHOOLS, INC.

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

Years Ended December 31,

	2016	2017
School's proportionate share of the Net OPEB Liability	0.089%	0.933%
School's proportionate share of the Net OPEB Liability	$ 1,147,510	$ 1,212,163
School's covered-employee payroll	$ 6,988,424	$ 7,572,236
School's proportionate share of the Net OPEB Liability as a percentage of its covered-employee payroll	16.4%	16.0%
Plan fiduciary net position as a percentage of the total OPEB liability	16.7%	17.5%

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

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

See the accompanying independent auditors' report.

THE ACADEMY OF CHARTER SCHOOLS, INC.

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
HEALTH CARE TRUST FUND

Years Ended June 30,

	2017	2018
Statutorily required contributions	$ 76,259	$ 78,509
Contributions in relation to the Statutorily required contributions	76,259	78,509
Contribution deficiency (excess)	$ -	$ -
School's covered-employee payroll	$ 7,476,403	$ 7,696,932
Contributions as a percentage of covered-employee payroll	1.02%	1.02%

Notes:

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

See the accompanying independent auditors' report.