

Colorado Military Academy, Inc.

Financial Statements

June 30, 2018



**HINKLE &
COMPANY**
Strategic ^{PC}
Business Advisors

Colorado Military Academy, Inc.

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June 30, 2018

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**HINKLE &
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Business Advisors

Independent Auditors' Report

Board of Directors
Colorado Military Academy, Inc.
Colorado Springs, Colorado

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Colorado Military Academy, Inc., as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Colorado Military Academy, Inc., 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.

Auditors' 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 auditors' 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 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 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, the business-type activities, and each major fund of the Colorado Military Academy, Inc., as of June 30, 2018, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information listed in the table of contents 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 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.

Hick & Company, PC

Greenwood Village, Colorado
October 29, 2018



Management's Discussion and Analysis

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

Financial Highlights

At the close of its 1st year of operations, the liabilities of the Colorado Military Academy exceeded its assets by \$5,006,496 (a negative net position). The reason for the large negative balance is due primarily to the implementation of the Governmental Accounting Standards Board Statements 68 and 75(GASB), new PERA pension plan and OPEB liabilities required to be reported in the School's statement of net position. The School participates in the state-wide defined benefit pension plan for schools called PERA or Public Employees Retirement Association. The government-wide impact of this disclosure and GASB 75 (Post-Employment Benefits other Than Pensions, OPEB), is \$3,954,613 and if removed the total government-wide net position would still be negative.

At the close of the fiscal year Colorado Military Academy's governmental fund (the General Fund) reported an ending fund balance of \$215,329, an increase of \$173,756 or 3.6%. The operations of the School are funded primarily by tax revenue received under the State's School Finance Act (the Act). State capital construction revenue for the year was \$139,988. CMA as a whole ended the year with a negative fund balance/net position due to a negative balance in the proprietary fund.

Overview of Financial Statements

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

Government-wide Financial Statements

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

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

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

The government-wide financial statement of activities distinguishes functions/programs of the Colorado Military Academy supported primarily by per pupil revenue (PPR) or property, income, and sales taxes passed through from the Charter School Institute (CSI) received from the County and State. The governmental activities of the Colorado Military Academy include instruction and supporting services expenses.

The government-wide financial statements can be found on pages 3-4 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Colorado Military Academy, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Colorado Military Academy can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

Colorado Military Academy maintains one governmental fund, the General Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the General Fund.

Colorado Military Academy adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with the budget and is presented on page 30.

Proprietary Funds. The Colorado Military Academy Building Corporation, considered a component unit of the School, has one fund, an enterprise fund. It is presented with a statement of net position, a statement of revenues, expenses and changes in net position, and a statement of cash flows. The fund ended the year with a net position of (\$1,313,810), a decrease of \$977,440 due to Lease payments not covering depreciation and transfers back to the school.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 11-27.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial condition. Colorado Military Academy’s net position is a negative (\$5,006,496). The negative balance is due primarily to the adoption of GASB Statement No. 68 and 75 resulting in a liability of \$13,300,872 which represents the School’s proportionate share of PERA’s net pension and OPEB liability.

Colorado Military Academy’s Net Position Governmental and Business-Type Activities for the period ending June 30, 2018:

| | June 30, 2018 |
|-------------------------------------|---------------|
| Cash and Investments | \$168,933 |
| Other Assets | 388,403 |
| Capital Assets, Net | 13,199,339 |
| Total Assets | 13,756,675 |
| Deferred Outflows of Resources | 10,119,699 |
| Accrued Salaries, Benefits, and A/P | 249,025 |
| Accrued Interest | 92,982 |
| Noncurrent Liabilities | 14,466,551 |
| Net Pension/OPEB Liability | 13,300,872 |
| Total Liabilities | 28,109,430 |
| Deferred Inflows of Resources | 773,440 |
| Net Position | |

| | |
|----------------------------------|-----------------------|
| Net Investment in Capital Assets | (1,267,212) |
| Restricted for | |
| Emergencies Tabor | 130,000 |
| Unrestricted | (3,869,284) |
| Total Net Position | <u>\$ (5,006,496)</u> |

The largest portion of the Colorado Military Academy's Governmental and Business Type assets (95.6%) is in net capital assets. 1.2% percent of total assets represent cash. 2.8% represents accounts receivable and prepaid assets.

Colorado Military Academy's Change in Net Position Governmental and Business-Type Activities for the period ending June 30, 2018:

| | |
|---------------------------------------|-----------------------|
| | June 30, 2018 |
| Program Revenue: | |
| Charges for Services | \$ 150,726 |
| Operating Grants and Contributions | 208,862 |
| Total Program Revenue | <u>359,588</u> |
| General Revenue: | |
| Per Pupil Operating Revenue | 3,902,462 |
| Capital Construction Revenue | 139,988 |
| At Risk Funding & Supplemental Aid | 58,439 |
| Unrestricted Contributions and Grants | 326,942 |
| Interest Income | 130 |
| Other | 5,000 |
| Total General Revenue | <u>4,432,961</u> |
| Total Revenue | <u>4,792,549</u> |
| Expenses: | |
| Current: | |
| Instruction | 5,024,100 |
| Supporting Services | 3,321,288 |
| Building Corporation | 1,158,860 |
| Total Expenses | <u>9,504,248</u> |
| Increase (Decrease) in Net Position | (4,711,699) |
| Beginning Net Position | <u>(294,797)</u> |
| Ending Net Position, June 30 | <u>\$ (5,006,496)</u> |

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, June 30, 2018, the School's governmental fund reported an ending fund balance of \$215,329, an increase of \$173,756. The increase represents 421% of the beginning fund balance. The unreserved portion of ending fund balance was \$25,294 which represents approximately 2 days of available operating reserves.

General Fund Budgetary Highlights

The School approves a budget in June based on enrollment projections for the upcoming school year. In October, after enrollment is finalized, adjustments are made to the budget. The total budgeted General Fund appropriation for FY18 was \$5,603,973 with actual expenditures and transfers out of \$5,199,999 resulting in a positive budget variance of \$403,974.

Capital Asset and Debt Administration

Capital Assets. Colorado Military Academy's net investment in capital assets was \$13,199,339. Please refer to Note 5 for a breakdown on capital assets.

Long-Term Lease Agreement. Colorado Military Academy Building Corporation entered into a loan agreement in April 2017, for the purchase of land and an existing building for educational purposes. At June 30, 2018, the outstanding balance of the loan was \$14,466,551.

Colorado Military Academy entered into a lease agreement with the Colorado Military Academy Building Corporation in 2017 for use of the new facility. The lease payments are still yet to be determined as construction of the final phase is not yet complete.

Please refer to Note 6 for information on long-term debt.

Economic Factors and Next Year's Budget

The PPR increase for FY19 is approximately 6.3% over FY18. The school budgeted 733 FTE in the original budget. The actual count is expected to be 543 FTE. The school is making budget adjustments to deal with this shortfall.

Requests for Information

This financial report is designed to provide a general overview of the Colorado Military Academy's finances for all those with an interest in the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Colorado Military Academy, Attn: Barbara Ireland, 360 Command View, Colorado Springs, CO 80915

Basic Financial Statements

Colorado Military Academy, Inc.

Statement of Net Position

June 30, 2018

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|----------------|
| Assets | | | |
| Cash | \$ 168,933 | \$ - | \$ 168,933 |
| Accounts Receivable | 81,498 | - | 81,498 |
| Grants Receivable | 246,870 | - | 246,870 |
| Internal Balances | (92,982) | 92,982 | - |
| Prepaid Expenses | 18,756 | - | 18,756 |
| Deposits | 41,279 | - | 41,279 |
| Capital Assets, <i>Not Being Depreciated</i> | - | 1,661,964 | 1,661,964 |
| Capital Assets, <i>Net of Accumulated Depreciation</i> | 46,598 | 11,490,777 | 11,537,375 |
| Total Assets | 510,952 | 13,245,723 | 13,756,675 |
| Deferred Outflows of Resources | | | |
| Pensions, <i>Net of Accumulated Amortization</i> | 9,858,535 | - | 9,858,535 |
| OPEB, <i>Net of Accumulated Amortization</i> | 261,164 | - | 261,164 |
| Total Deferred Outflows of Resources | 10,119,699 | - | 10,119,699 |
| Liabilities | | | |
| Accounts Payable | 36,794 | - | 36,794 |
| Accrued Liabilities | 81,604 | - | 81,604 |
| Accrued Salaries and Benefits | 130,627 | - | 130,627 |
| Accrued Interest Payable | - | 92,982 | 92,982 |
| Noncurrent Liabilities | | | |
| Due in More Than One Year | - | 14,466,551 | 14,466,551 |
| Net Pension Liability | 13,003,917 | - | 13,003,917 |
| Net OPEB Liability | 296,955 | - | 296,955 |
| Total Liabilities | 13,549,897 | 14,559,533 | 28,109,430 |
| Deferred Inflows of Resources | | | |
| Pensions, <i>Net of Accumulated Amortization</i> | 768,472 | - | 768,472 |
| OPEB, <i>Net of Accumulated Amortization</i> | 4,968 | - | 4,968 |
| Total Deferred Inflows of Resources | 773,440 | - | 773,440 |
| Net Position | | | |
| Net Investment in Capital Assets | 46,598 | (1,313,810) | (1,267,212) |
| Restricted for Emergencies | 130,000 | - | 130,000 |
| Unrestricted | (3,869,284) | - | (3,869,284) |
| Total Net Position | \$ (3,692,686) | \$ (1,313,810) | \$ (5,006,496) |

See Notes to Financial Statements.

Colorado Military Academy, Inc.
Statement of Activities
For the Year Ended June 30, 2018

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Change in Net Position | | |
|---|---------------------|-------------------------|--|---|-----------------------------|-----------------------|
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Primary Government | | | | | | |
| <i>Governmental Activities</i> | | | | | | |
| Instruction | \$ 5,024,100 | \$ 80,567 | \$ 206,878 | \$ (4,736,655) | \$ - | \$ (4,736,655) |
| Supporting Services | 3,321,288 | 70,159 | 1,984 | (3,249,145) | - | (3,249,145) |
| Total Governmental Activities | 8,345,388 | 150,726 | 208,862 | (7,985,800) | - | (7,985,800) |
| <i>Business-Type Activities</i> | | | | | | |
| Building Corporation | 1,158,860 | - | - | - | (1,158,860) | (1,158,860) |
| Total Primary Government | <u>\$ 9,504,248</u> | <u>\$ 150,726</u> | <u>\$ 208,862</u> | <u>(7,985,800)</u> | <u>(1,158,860)</u> | <u>(9,144,660)</u> |
| General Revenues | | | | | | |
| Per Pupil Revenue | | | | 3,902,462 | - | 3,902,462 |
| At-Risk Additional Funding | | | | 2,583 | - | 2,583 |
| Supplemental At-Risk Aid | | | | 55,856 | - | 55,856 |
| Capital Construction | | | | 139,988 | - | 139,988 |
| Grants and Contributions not Restricted to Specific Programs | | | | 326,942 | - | 326,942 |
| Investment Income | | | | 130 | - | 130 |
| Other | | | | 5,000 | - | 5,000 |
| Transfers | | | | (181,420) | 181,420 | - |
| Total General Revenues and Transfers | | | | 4,251,541 | 181,420 | 4,432,961 |
| Change in Net Position | | | | (3,734,259) | (977,440) | (4,711,699) |
| Net Position, Beginning of year | | | | 41,573 | (336,370) | (294,797) |
| Net Position, End of year | | | | <u>\$ (3,692,686)</u> | <u>\$ (1,313,810)</u> | <u>\$ (5,006,496)</u> |

Colorado Military Academy, Inc.

Balance Sheet
Governmental Fund
June 30, 2018

| | <u>General</u> |
|-------------------------------------|-------------------|
| Assets | |
| Cash | \$ 168,933 |
| Accounts Receivable | 81,498 |
| Grants Receivable | 246,870 |
| Prepaid Expenditures | 18,756 |
| Deposits | <u>41,279</u> |
| Total Assets | <u>\$ 557,336</u> |
| Liabilities and Fund Balance | |
| <i>Liabilities</i> | |
| Accounts Payable | \$ 36,794 |
| Interfund Payables | 92,982 |
| Accrued Liabilities | 81,604 |
| Accrued Salaries and Benefits | <u>130,627</u> |
| Total Liabilities | <u>342,007</u> |
| <i>Fund Balance</i> | |
| Nonspendable Prepaid Expenditures | 18,756 |
| Nonspendable Deposits | 41,279 |
| Restricted for Emergencies | 130,000 |
| Unrestricted, Unassigned | <u>25,294</u> |
| Total Fund Balance | <u>215,329</u> |
| Total Liabilities and Fund Balance | <u>\$ 557,336</u> |

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

| | |
|---|-----------------------|
| Total Fund Balance of the Governmental Fund | \$ 215,329 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. | 46,598 |
| Long-term liabilities and related items are not due and payable in the current year and, therefore, are not reported in governmental funds: | |
| Net pension liability | (13,003,917) |
| Pension-related deferred outflows of resources | 9,858,535 |
| Pension-related deferred inflows of resources | (768,472) |
| Net OPEB liability | (296,955) |
| OPEB-related deferred outflows of resources | 261,164 |
| OPEB-related deferred inflows of resources | <u>(4,968)</u> |
| Total Net Position of Governmental Activities | <u>\$ (3,692,686)</u> |

See Notes to Financial Statements.

Colorado Military Academy, Inc.
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2018

| | General |
|---|--------------|
| Revenues | |
| Local Sources | \$ 4,069,427 |
| State Sources | 256,997 |
| Federal Sources | 466,125 |
| Total Revenues | 4,792,549 |
| Expenditures | |
| Instruction | 2,645,064 |
| Supporting Services | 2,554,935 |
| Total Expenditures | 5,199,999 |
| Excess of Revenues Over (Under) Expenditures | (407,450) |
| Other Financing Sources | |
| Transfers In | 581,206 |
| Net Change in Fund Balance | 173,756 |
| Fund Balance, <i>Beginning of year</i> | 41,573 |
| Fund Balance, <i>End of year</i> | \$ 215,329 |

Colorado Military Academy, Inc.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities For the Year Ended June 30, 2018

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

| | |
|---|-----------------------|
| Net Change in Fund Balance of the Governmental Fund | \$ 173,756 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: | |
| Depreciation expense | (2,949) |
| Capital outlay | 49,547 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This includes changes in the following: | |
| Net pension liability | (13,003,917) |
| Pension-related deferred outflows of resources | 9,858,535 |
| Pension-related deferred inflows of resources | (768,472) |
| Net OPEB liability | (296,955) |
| OPEB-related deferred outflows of resources | 261,164 |
| OPEB-related deferred inflows of resources | <u>(4,968)</u> |
| Change in Net Position of Governmental Activities | <u>\$ (3,734,259)</u> |

Colorado Military Academy, Inc.
Statement of Net Position
Proprietary Fund
June 30, 2018

| | Building Corporation |
|--|-------------------------|
| Assets | |
| <i>Current Assets</i> | |
| Interfund Receivables | \$ 92,982 |
| <i>Noncurrent Assets</i> | |
| Capital Assets, <i>Not Being Depreciated</i> | 1,661,964 |
| Capital Assets, <i>Net of Accumulated Depreciation</i> | 11,490,777 |
| Total Assets | 13,245,723 |
| Liabilities | |
| <i>Current Liabilities</i> | |
| Accrued Interest Payable | 92,982 |
| Total Current Liabilities | 92,982 |
| <i>Noncurrent Liabilities</i> | |
| Loan Payable | 14,466,551 |
| Total Liabilities | 14,559,533 |
| Net Position | |
| Net Investment in Capital Assets | (1,313,810) |
| Total Net Position | \$ (1,313,810) |

Colorado Military Academy, Inc.
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
For the Year Ended June 30, 2018

| | <u>Building Corporation</u> |
|---|---------------------------------|
| Operating Revenues | |
| Lease Income | \$ <u>762,626</u> |
| Total Operating Revenues | <u>762,626</u> |
| Operating Expenses | |
| Depreciation | 396,234 |
| Debt Service | |
| Interest and Fiscal Charges | <u>762,626</u> |
| Total Operating Expenses | <u>1,158,860</u> |
| Net Operating Loss | (396,234) |
| Transfers Out | <u>(581,206)</u> |
| Change in Net Position | (977,440) |
| Net Position, <i>Beginning of year</i> | <u>(336,370)</u> |
| Net Position, <i>End of year</i> | <u><u>\$ (1,313,810)</u></u> |

Colorado Military Academy, Inc.

Statement of Cash Flows Proprietary Fund For the Year Ended June 30, 2018

| | <u>Building Corporation</u> |
|---|---------------------------------|
| Cash Flows From Operating Activities | |
| Lease Payments Received | \$ 669,644 |
| Loan Interest and Fees Paid | <u>(669,644)</u> |
| Net Cash Provided (Used) by Operating Activities | <u>-</u> |
| Cash Flows From Capital and Related Financing Activities | |
| Loan Proceeds | 5,308,908 |
| Acquisition and Construction of Capital Assets | (4,569,418) |
| Loan Interest Paid and Capitalized | (158,284) |
| Payments to the School | <u>(581,206)</u> |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>-</u> |
| Net Change in Cash | - |
| Cash, Beginning of year | <u>-</u> |
| Cash, End of year | <u><u>\$ -</u></u> |
| Reconciliation of Net Operating Loss to Net Cash Provided (Used) by Operating Activities | |
| Net Operating Loss | \$ (396,234) |
| Adjustments to Reconcile Net Operating Loss to Net Cash Provided (Used) by Operating Activities | |
| Depreciation Expense | 396,234 |
| Changes in Assets and Liabilities | |
| Interfund Receivables | (92,982) |
| Accrued Interest Payable | <u>92,982</u> |
| Net Cash Provided (Used) by Operating Activities | <u><u>\$ -</u></u> |

Colorado Military Academy, Inc.

Notes to Financial Statements

June 30, 2018

Note 1: Summary of Significant Accounting Policies

The Colorado Military Academy, Inc. (the School) was organized pursuant to the Colorado Charter Schools Act to form and operate a charter school. On May 9, 2017, the School entered into a contract with the Colorado Charter School Institute (the Institute) to authorize the School for an initial term of five years, through June 30, 2022. The School began operations in the Fall of 2017.

The accounting policies of the School conform to generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Following is a summary of the School's more significant policies.

Reporting Entity

The financial reporting entity consists of the School, organizations for which the School is financially accountable, and organizations that raise and hold economic resources for the direct benefit of the School. All funds, organizations, institutions, agencies, departments and offices that are not legally separate are part of the School. Legally separate organizations for which the School is financially accountable are considered part of the reporting entity. Financial accountability exists if the School appoints a voting majority of the organization's governing board and is able to impose its will on the organization, or if there is a potential for the organization to provide benefits to, or impose financial burdens on, the School.

The School includes the Colorado Military Academy Building Corporation (the Corporation) within its reporting entity. The Corporation was organized specifically for holding title to real and/or personal property for, and making the same available for use by, the School, and to otherwise provide a public building, facilities, and equipment to the School. The Corporation is blended into the School's financial statements as an enterprise fund, and does not issue separate financial statements.

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 activities of the School. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges for interfund services that are reasonably equivalent to the services provided. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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 revenues not properly included among program revenues are reported instead as *general revenues*. Internally dedicated resources are reported as general revenues rather than as program revenues.

Colorado Military Academy, Inc.
Notes to Financial Statements
June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements (Continued)

Separate financial statements are provided for the governmental fund and the proprietary fund. Major individual funds are reported as 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, as are the proprietary fund financial statements. 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 year or soon enough thereafter to pay liabilities of the current year, not to exceed 60 days. Intergovernmental revenues, grants, and interest associated with the current year are considered to be susceptible to accrual and so have been recognized as revenues of the current year. All other revenues are considered to be measurable and available only when cash is received by the School. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with ongoing operations. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The School reports the following major governmental fund:

General Fund - This fund is the general operating fund of the School. It is currently used to account for all financial activities of the School.

The School reports one major proprietary fund, as follows:

Building Corporation - This fund is used to account for the financial activities of the Corporation, primarily related to capital assets and the related debt service.

Colorado Military Academy, Inc.

Notes to Financial Statements

June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Position/Fund Balance

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

Interfund Receivables and Payables - During the course of operations, certain transactions occur between individual funds. The resulting receivables and payables are classified in the fund financial statements as *interfund receivables* and *interfund payables*. Any residual balances outstanding between governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future years and are reported as prepaid expenses.

Deposits - The School has provided a deposit for utilities, refundable after three years of service.

Capital Assets - Capital assets, which include land, buildings, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund in the fund financial statements. Capital assets are defined as assets with an initial, individual cost of \$5,000 or more 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 the acquisition value on the date of donation.

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported in the statement of net position. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method.

| | |
|----------------------------|----------|
| Buildings and Improvements | 30 years |
| Equipment | 7 years |

Accrued Salaries and Benefits - Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve-month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, are reported as a liability in the financial statements.

Long-Term Debt - In the government-wide financial statements and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs are reported as current expenses or expenditures.

Colorado Military Academy, Inc.

Notes to Financial Statements

June 30, 2018

Note 1: Summary of Significant Accounting Policies (Continued)

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

Pensions - The School participates in the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan 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 and deductions from the SDTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the SDTF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Employer contributions are recognized when the compensation is payable to the employees.

Postemployment Benefits Other Than Pensions (OPEB) - The School participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit postemployment healthcare plan 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 and deductions from the HCTF's fiduciary net position have been determined using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used by the HCTF. For this purpose, the HCTF recognizes benefit payments when due and payable in accordance with the benefit terms. Employer contributions are recognized when the compensation is payable to the employees.

Net Position/Fund Balance - In the government-wide and fund financial statements, net position and fund balance are restricted when constraints placed on the use of resources are externally imposed. The Board of Directors is authorized to establish a fund balance commitment through passage of a resolution, and may assign fund balances to a specific purpose through an informal action.

The School has not established a formal policy for its use of restricted and unrestricted fund balances. However, if both restricted and unrestricted fund balances are available for a specific purpose, the School uses restricted fund balance first, followed by committed, assigned and unassigned balances.

Risk Management

The School 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 School purchases commercial insurance for these risks of loss.

Colorado Military Academy, Inc.

Notes to Financial Statements

June 30, 2018

Note 2: Stewardship, Compliance and Accountability

Accountability

At June 30, 2018, the Corporation had a negative net position of \$1,313,810. Management expects this negative balance to be eliminated as the Corporation's debt is paid.

Note 3: Cash and Investments

Deposits

The Colorado Public Deposit Protection Act (PDPA) requires all local government entities to deposit cash in eligible public depositories. Eligibility is determined by State regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. The 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 uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At June 30, 2018, the School had bank deposits of \$70,195 collateralized with securities held by the financial institution's agent but not in the School's name.

Investments

The School is required to comply with State statutes which specify investment instruments meeting defined rating, maturity and concentration risk criteria in which local governments may invest, which include the following. State statutes do not address custodial risk.

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

Interest Rate Risk - State statutes generally limit the maturity of investment securities to five years from the date of purchase, unless the governing board authorizes the investment for a period in excess of five years.

Credit Risk - State statutes limit certain investments to those with specified ratings from nationally recognized statistical rating organizations, depending on the type of investment.

Concentration of Credit Risk - State statutes do not limit the amount the School may invest in a single issuer of investment securities, except for corporate securities.

At June 30, 2018, the School had no investments.

Colorado Military Academy, Inc.
Notes to Financial Statements
June 30, 2018

Note 4: Interfund Balances and Transactions

At June 30, 2018, the School owed the Corporation \$92,982 under its facilities lease agreement (See Note 6).

During the year ended June 30, 2018, the Corporation reimbursed the School for technology and other equipment costs paid by the School through a transfer of \$581,206.

Note 5: Capital Assets

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

| | Balance 6/30/17 | Additions | Deletions | Balance 6/30/18 |
|---|----------------------------|---------------------|---------------------|----------------------------|
| Governmental Activities | | | | |
| <i>Capital Assets, Being Depreciated</i> | | | | |
| Equipment | \$ - | \$ 49,547 | \$ - | \$ 49,547 |
| Less Accumulated Depreciation | - | (2,949) | - | (2,949) |
| Governmental Activities Capital Assets, net | \$ - | \$ 46,598 | \$ - | \$ 46,598 |
| Business-Type Activities | | | | |
| <i>Capital Assets, Not Being Depreciated</i> | | | | |
| Land | \$ 1,242,000 | \$ - | \$ - | \$ 1,242,000 |
| Construction in Progress | 679,273 | 4,727,702 | 4,987,011 | 419,964 |
| Total Capital Assets, Not Being Depreciated | 1,921,273 | 4,727,702 | 4,987,011 | 1,661,964 |
| <i>Capital Assets, Being Depreciated</i> | | | | |
| Buildings and Improvements | 6,900,000 | 4,987,011 | - | 11,887,011 |
| Less Accumulated Depreciation | - | (396,234) | - | (396,234) |
| Total Capital Assets, Being Depreciated, net | 6,900,000 | 4,590,777 | - | 11,490,777 |
| Business-Type Activities Capital Assets, net | \$ 8,821,273 | \$ 9,318,479 | \$ 4,987,011 | \$ 13,152,741 |

Depreciation expense of the governmental activities was charged to the supporting services program.

Colorado Military Academy, Inc.
Notes to Financial Statements
June 30, 2018

Note 6: Long-Term Debt

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

| Business-Type Activities | <u>Balance 6/30/17</u> | <u>Additions</u> | <u>Payments</u> | <u>Balance 6/30/18</u> | <u>Due Within One Year</u> |
|---------------------------------|----------------------------|------------------|-----------------|----------------------------|--------------------------------|
| Building Loan | \$ 9,157,643 | \$ 5,308,908 | \$ - | \$ 14,466,551 | \$ - |

In April, 2017, the Corporation entered into a loan agreement with Education Capital Solutions, LLC, to borrow up to \$13,193,830 to purchase land and an existing building, provide financing to refurbish the building for educational purposes, and for start-up costs. In April, 2018, the agreement was modified to include additional borrowing up to a total of \$14,846,985. Interest accrues on the outstanding balance of the loan at an initial rate of 8.8% per annum. Beginning on October 1, 2018, and each year thereafter, the interest rate increases until the rate reaches 14.07% per annum. Monthly interest-only payments are required beginning on October 31, 2017.

No principal payments are required. However, the loan may be paid in full on the third, fifth, seventh, tenth, fifteenth or twentieth year anniversary dates.

The School is obligated under a lease agreement to make monthly payments to the Corporation equal to the Corporation's loan obligations for using the education facilities.

Note 7: Defined Benefit Pension Plan

General Information

Plan Description - The School contributes to the School Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension plan administered by the Public Employees' Retirement Association of Colorado (PERA). All employees of the School participate in the SDTF. Title 24, Article 51 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the SDTF. That report may be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided - The SDTF provides retirement, disability, and survivor benefits to plan participants or their beneficiaries. Retirement benefits are determined by the amount of service credit earned or purchased, highest average salary, the benefit structure in place, the benefit option selected at retirement, and age at retirement. The retirement benefit is the greater of the a) highest average salary over three years multiplied by 2.5% and then multiplied by years of service credit, or b) the value of the participant's contribution account plus an equal match on the retirement date, annualized into a monthly amount based on life expectancy and other actuarial factors. In no case can the benefit amount exceed the highest average salary or the amount allowed by applicable federal regulations.

Colorado Military Academy, Inc.
Notes to Financial Statements
June 30, 2018

Note 7: Defined Benefit Pension Plan (Continued)

General Information (Continued)

Retirees may elect to withdraw their contributions upon termination of employment, and may be eligible to receive a matching amount if five years of service credit is earned and certain other criteria is met. Retirees who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments (COLAs) as established by State statutes. Retirees who began employment before January 1, 2007, receive an annual increase of 2%, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2% or the average consumer price index for the prior calendar year. Retirees that began employment after January 1, 2007, receive an annual increase of the lesser of 2% or the average consumer price index for the prior calendar year, with certain limitations.

Disability benefits are available for plan participants once they reach five years of earned service credit and meet the definition of a disability. The disability benefit amount is based on the retirement benefit formula described previously, considering a minimum of twenty years of service credit.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure in place, and the qualified survivor receiving the benefits.

Contributions - The School and eligible employees are required to contribute to the SDTF at rates established by Title 24, Article 51, Part 4 of the CRS. These contribution requirements are established and may be amended by the State Legislature. The contribution rate for employees is 8% of covered salaries. The School's contribution rate for calendar years 2017 and 2018 was 19.65% and 20.15% of covered salaries, respectively. However, a portion of the School's contribution (1.02% of covered salaries) is allocated to the Health Care Trust Fund (See Note 8). The School's contributions to the SDTF for the year ended June 30, 2018, were \$400,575, equal to the required contributions.

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

At June 30, 2018, the School reported a net pension liability of \$13,003,917, representing its proportionate share of the net pension liability of the SDTF. The net pension liability was measured at December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total pension liability to December 31, 2017.

The School's proportion of the net pension liability was based on the School's contributions to the SDTF for the calendar year ended December 31, 2017, relative to the contributions of all participating employers. At December 31, 2017, the School's proportion was 0.0402144300%. The School began participating in the SDTF on July 1, 2017, and therefore, had no measurable proportion of the total pension liability at December 31, 2016.

Colorado Military Academy, Inc.

Notes to Financial Statements

June 30, 2018

Note 7: Defined Benefit Pension Plan (Continued)

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

During the 2018 legislative session, the State Legislature passed Senate Bill (SB) 18-200 with the goal of eliminating the unfunded pension liability of the SDTF within the next 30 years. The significant provisions of the legislation include increased age and service requirements to receive full retirement benefits, highest average salary calculated over five years rather than three years, changes to includable employee salaries, increased contributions from employees and employers, and an annual direct distribution from the State of Colorado. The School's estimated net pension liability at June 30, 2018, had the provisions of SB 18-200 been effective was \$5,875,057.

For the year ended June 30, 2018, the School recognized pension expense of \$4,487,323. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 160,340 | \$ - |
| Changes of assumptions and other inputs | 1,008,189 | - |
| Net difference between projected and actual earnings on plan investments | - | 768,472 |
| Changes in proportion | 8,462,133 | - |
| Contributions subsequent to the measurement date | 227,873 | - |
| Total | \$ 9,858,535 | \$ 768,472 |

The School's contributions subsequent to the measurement date of \$227,873 will be recognized as a reduction of the net pension liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,

| | |
|-------|--------------|
| 2019 | \$ 3,804,007 |
| 2020 | 3,804,007 |
| 2021 | 1,446,293 |
| 2022 | (192,117) |
| Total | \$ 8,862,190 |

Colorado Military Academy, Inc.

Notes to Financial Statements

June 30, 2018

Note 7: Defined Benefit Pension Plan (Continued)

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

Actuarial Assumptions - The actuarial valuation as of December 31, 2016, determined the total pension liability using the following actuarial assumptions and other inputs.

| | |
|---|-------------|
| Price inflation | 2.4% |
| Real wage growth | 1.1% |
| Wage inflation | 3.5% |
| Salary increases, including wage inflation | 3.5% - 9.7% |
| Long-term investment rate of return, net of plan investment expenses, including price inflation | 7.25% |
| Discount rate ¹ | 5.26% |
| Post-retirement benefit increases: | |
| Hired prior to 1/1/2007 | 2% |
| Hired after 12/31/2006 | ad hoc |

¹The discount rate reflected in the roll-forward calculation of the total pension liability to the measurement date was 4.78%.

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table. 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 were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, with certain adjustments. For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

On November 18, 2016, PERA's governing board adopted revised economic and demographic assumptions based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, which were effective on December 31, 2016. The significant changes affecting the plan included decreasing the investment rate of return assumption from 7.5% per year, compounded annually, net of investment expenses, to 7.25%, and updating mortality assumptions based on RP-2014 mortality tables.

The long-term expected rate of return on plan investments was determined using 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.

Colorado Military Academy, Inc.

Notes to Financial Statements

June 30, 2018

Note 7: Defined Benefit Pension Plan (Continued)

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

The most recent analysis of the long-term expected rate of return was adopted by PERA's governing board on November 18, 2016, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>30 Year Expected Geometric Real Rate of Return</u> |
|-----------------------------------|--------------------------|---|
| 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 | <u>100.00%</u> | |

Discount Rate - The discount rate used to measure the total pension liability was 4.78%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and the employer contributions will be made at the rates specified in State statutes, which currently require annual increases, to a total of 20.15% of covered salaries for the year ended December 31, 2018. When the actuarially determined funding ratio reaches 103%, the employer contribution rate will decrease 0.5% each year, to a minimum of 10.15%.

Based on the assumptions described previously, the SDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate, defined as the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index, was used in the determination of the discount rate. The long-term expected rate of return of 7.25% on plan investments was applied to all periods through 2041, and the municipal bond index rate was applied to periods after 2041 to develop the discount rate. On the measurement date of December 31, 2017, the municipal bond index rate was 3.43%, resulting in a discount rate of 4.78%. The discount rate at the prior measurement date was 5.26%.

Colorado Military Academy, Inc.

Notes to Financial Statements

June 30, 2018

Note 7: Defined Benefit Pension Plan (Continued)

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 4.78%, as well as the School's proportionate share of the net pension liability if it were calculated using a discount rate that is one percentage point lower (3.78%) or one percentage point higher (5.78%) than the current rate, as follows:

| | <u>1% Decrease (3.78%)</u> | <u>Current Discount Rate (4.78%)</u> | <u>1% Increase (5.78%)</u> |
|---|--------------------------------|--|--------------------------------|
| Proportionate share of the net pension liability | \$ 16,426,159 | \$ 13,003,917 | \$ 10,215,181 |

Pension Plan Fiduciary Net Position - Detailed information about the SDTF's fiduciary net position is available in PERA's separately issued financial report, which may be obtained at www.copera.org/investments/pera-financial-reports.

Note 8: Postemployment Healthcare Benefits

General Information

Plan Description - All employees of the School are eligible to receive postemployment benefits other than pensions (OPEB) through the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the Public Employees' Retirement Association of Colorado (PERA). Title 24, Article 51, Part 12 of the Colorado Revised Statutes (CRS) assigns the authority to establish and amend plan provisions to the State Legislature. PERA issues a publicly available financial report that includes information on the HCTF. That report may be obtained at www.copera.org/investments/pera-financial-reports.

Benefits Provided - The HCTF provides a healthcare premium subsidy to eligible benefit recipients and retirees who choose to enroll. Eligibility to enroll is voluntary and includes benefit recipients, their eligible dependents and surviving spouses, among others. Eligible benefit recipients may enroll in the HCTF upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period. The health care premium subsidy is based on the benefit structure under which the member retires and the member's years of service credit.

Colorado Military Academy, Inc.
Notes to Financial Statements
June 30, 2018

Note 8: Postemployment Healthcare Benefits (Continued)

General Information (Continued)

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, and \$115 per month for benefit recipients who are over 65 years of age or who are under 65 years of age and entitled to Medicare. An additional subsidy is provided if the benefit recipient has not participated in Social Security and is not otherwise eligible for Medicare Part A. The maximum subsidy is based on 20 or more years of service. The subsidy is reduced for each year of service less than 20 years. The benefit recipient pays the remaining portion of the premium not covered by the subsidy.

Contributions - As established by Title 24, Article 51, Section 208 of the CRS, 1.02% of the School's contributions to the School Division Trust Fund (SDTF) (See Note 7) is apportioned to the HCTF. No employee contributions are required. These contribution requirements are established and may be amended by the State Legislature. The School's apportionment to the HCTF for the year ended June 30, 2018, was \$20,513, equal to the required amount.

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

At June 30, 2018, the School reported a net OPEB liability of \$296,955, representing its proportionate share of the net OPEB liability of the HCTF. The net OPEB liability was measured at December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll forward the total OPEB liability to December 31, 2017.

The School's proportion of the net OPEB liability was based on the School's contributions to the HCTF for the calendar year ended December 31, 2017, relative to the contributions of all participating employers. At December 31, 2017, the School's proportion was 0.0228496978%. The School began participating in the HCTF on July 1, 2017, and therefore, had no measurable proportion of the total OPEB liability at December 31, 2016.

For the year ended June 30, 2018, the School recognized OPEB expense of \$71,831. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Colorado Military Academy, Inc.

Notes to Financial Statements

June 30, 2018

Note 8: Postemployment Healthcare Benefits (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 |
|--|---|--|
| Differences between expected and actual experience | \$ 1,405 | \$ - |
| Net difference between projected and actual earnings on plan investments | - | 4,968 |
| Changes in proportion | 247,608 | - |
| Contributions subsequent to the measurement date | 12,151 | - |
| Total | \$ 261,164 | \$ 4,968 |

The School's contributions subsequent to the measurement date of \$12,151 will be recognized as a reduction of the net OPEB liability in the subsequent fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ended June 30,

| | |
|-------|------------|
| 2019 | \$ 47,680 |
| 2020 | 47,680 |
| 2021 | 47,680 |
| 2022 | 47,680 |
| 2023 | 48,922 |
| 2024 | 4,403 |
| Total | \$ 244,045 |

Actuarial Assumptions - The actuarial valuation as of December 31, 2016, determined the total OPEB liability using the following actuarial assumptions and other inputs, applied to all periods included in the measurement.

Colorado Military Academy, Inc.

Notes to Financial Statements

June 30, 2018

Note 8: Postemployment Healthcare Benefits (Continued)

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

| | |
|--|-------|
| Price inflation | 2.4% |
| Real wage growth | 1.1% |
| Wage inflation | 3.5% |
| Salary increases, including wage inflation | 3.5% |
| Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation | 7.25% |
| Discount rate | 7.25% |
| Health care cost trend rates: | |
| Service-based subsidy | 0% |
| Medicare plans | 5% |
| Medicare Part A premiums: | |
| 3% for 2017, gradually rising to 4.25% in 2023 | |

Healthy mortality assumptions for active members were based on the RP-2014 White Collar Employee Mortality Table. 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 were based on the RP-2014 White Collar Healthy Annuitant Mortality Table, with certain adjustments. For disabled retirees, the mortality assumption was based on 90 percent of the RP-2014 Disabled Retiree Mortality Table.

Health care cost trend rates are based on published annual health care inflation surveys in conjunction with actual plan experience, building block models and heuristics developed by actuaries and administrators, and other projected trends.

The actuarial assumptions used in the December 31, 2016, valuation were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, and were adopted by PERA's governing board on November 18, 2016. In addition, certain actuarial assumptions pertaining to per capita health care costs and the related trends are analyzed by PERA's actuary as needed.

The long-term expected rate of return on the HCTF investments was determined using 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.

Colorado Military Academy, Inc.

Notes to Financial Statements

June 30, 2018

Note 8: Postemployment Healthcare Benefits (Continued)

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

The most recent analysis of the long-term expected rate of return was adopted by PERA's governing board on November 18, 2016, and included the target allocation and best estimates of geometric real rates of return for each major asset class, as presented previously in Note 7.

Discount Rate - The discount rate used to measure the total OPEB liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at the current contribution rate. Based on this assumption, the HCTF's fiduciary net position was projected to be available to make all projected future OPEB payments to current active and inactive employees. Therefore, the long-term expected rate of return on HCTF investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate - The following presents the School's proportionate share of the net OPEB liability calculated using the discount rate of 7.25%, as well as the School's proportionate share of the net OPEB liability if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate, as follows:

| | 1% Decrease (6.25%) | Current Discount Rate (7.25%) | 1% Increase (8.25%) |
|--|------------------------|-------------------------------------|------------------------|
| Proportionate share of the net OPEB liability | \$ 333,870 | \$ 296,955 | \$ 265,446 |

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the School's proportionate share of the net OPEB liability calculated using the current healthcare cost trend rates, ranging from 3% to 5%, as well as the School's proportionate share of the net OPEB liability if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates, as follows:

| | 1% Decrease | Current Healthcare Cost Trend Rates | 1% Increase |
|--|-------------|---|-------------|
| Proportionate share of the net OPEB liability | \$ 288,784 | \$ 296,955 | \$ 306,795 |

OPEB Plan Fiduciary Net Position - Detailed information about the HCTF's fiduciary net position is available in PERA's separately issued financial report, which may be obtained at www.copera.org/investments/pera-financial-reports.

Colorado Military Academy, Inc.

Notes to Financial Statements

June 30, 2018

Note 9: Commitments and Contingencies

Claims and Judgments

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

Tabor Amendment

In November 1992, Colorado voters approved the Tabor Amendment to the State Constitution which limits state and local government taxing powers and imposes spending limitations. The Amendment is subject to many interpretations, but the School believes it is in substantial compliance with the Amendment. In accordance with the Amendment, the School has established an emergency reserve representing 3% of qualifying expenditures. At June 30, 2018, the reserve was reported as restricted fund balance in the General Fund, in the amount of \$130,000.

Required Supplementary Information

Colorado Military Academy, Inc.
 Required Supplementary Information
 Schedule of Proportionate Share of the Net Pension Liability and Contributions
 Public Employees' Retirement Association of Colorado School Division Trust Fund
 June 30, 2018

| | 12/31/17 |
|--|---------------|
| Proportionate Share of the Net Pension Liability | |
| School's Proportion of the Net Pension Liability | 0.0402144300% |
| School's Proportionate Share of the Net Pension Liability | \$ 13,003,917 |
| School's Covered Payroll | \$ 927,522 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | 1402% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 44% |
| | 6/30/18 |
| School Contributions | |
| Statutorily Required Contribution | \$ 380,062 |
| Contributions in Relation to the Statutorily Required Contribution | (380,062) |
| Contribution Deficiency (Excess) | \$ - |
| School's Covered Payroll | \$ 2,011,033 |
| Contributions as a Percentage of Covered Payroll | 18.90% |

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

Colorado Military Academy, Inc.
 Required Supplementary Information
 Schedule of Proportionate Share of the Net OPEB Liability and Contributions
 Public Employees' Retirement Association of Colorado Health Care Trust Fund
 June 30, 2018

| | 12/31/17 |
|--|---------------|
| Proportionate Share of the Net OPEB Liability | |
| School's Proportion of the Net OPEB Liability | 0.0228496978% |
| School's Proportionate Share of the Net OPEB Liability | \$ 296,955 |
| School's Covered-Employee Payroll | \$ 939,981 |
| School's Proportionate Share of the Net OPEB Liability as a Percentage of Covered-Employee Payroll | 32% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 18% |
| | 6/30/18 |
| School Contributions | |
| Statutorily Required Contribution | \$ 20,513 |
| Contributions in Relation to the Statutorily Required Contribution | (20,513) |
| Contribution Deficiency (Excess) | \$ - |
| School's Covered-Employee Payroll | \$ 2,177,216 |
| Contributions as a Percentage of Covered-Employee Payroll | 0.94% |

This schedule is presented to show information for 10 years. Until information for the full 10-year period is available, information will be presented for the years it is available.

Colorado Military Academy, Inc.
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2018

| | Original Budget | Final Budget | Actual | Variance Positive (Negative) |
|---|--------------------|-------------------|-------------------|------------------------------------|
| Revenues | | | | |
| <i>Local Sources</i> | | | | |
| Per Pupil Revenue | \$ 4,684,037 | \$ 4,023,408 | \$ 3,902,462 | \$ (120,946) |
| Tuition and Fees | 389,720 | 317,200 | 150,726 | (166,474) |
| Contributions | - | - | 11,109 | 11,109 |
| Investment Income | - | - | 130 | 130 |
| Other | - | - | 5,000 | 5,000 |
| Total Local Sources | <u>5,073,757</u> | <u>4,340,608</u> | <u>4,069,427</u> | <u>(271,181)</u> |
| <i>State Sources</i> | | | | |
| At-Risk Additional Funding | - | - | 2,583 | 2,583 |
| Supplemental At-Risk Aid | 76,993 | - | 55,856 | 55,856 |
| Capital Construction | 160,875 | 134,713 | 139,988 | 5,275 |
| Grants | 42,940 | 52,004 | 58,570 | 6,566 |
| Total State Sources | <u>280,808</u> | <u>186,717</u> | <u>256,997</u> | <u>70,280</u> |
| <i>Federal Sources</i> | | | | |
| Grants | 136,464 | 507,206 | 466,125 | (41,081) |
| Total Revenues | <u>5,491,029</u> | <u>5,034,531</u> | <u>4,792,549</u> | <u>(241,982)</u> |
| Expenditures | | | | |
| Salaries | 2,517,972 | 2,217,711 | 2,177,216 | 40,495 |
| Employee Benefits | 681,607 | 525,736 | 473,575 | 52,161 |
| Purchased Services | 1,382,910 | 1,786,150 | 1,430,560 | 355,590 |
| Supplies | 244,908 | 550,040 | 632,088 | (82,048) |
| Property | 229,672 | 495,118 | 461,620 | 33,498 |
| Other | 114,617 | 29,218 | 24,940 | 4,278 |
| Total Expenditures | <u>5,171,686</u> | <u>5,603,973</u> | <u>5,199,999</u> | <u>403,974</u> |
| Excess of Revenues Over (Under) Expenditures | 319,343 | (569,442) | (407,450) | 161,992 |
| Other Financing Sources | | | | |
| Transfers In | - | 735,418 | 581,206 | (154,212) |
| Net Change in Fund Balance | 319,343 | 165,976 | 173,756 | 7,780 |
| Fund Balance, Beginning of year | - | 41,573 | 41,573 | - |
| Fund Balance, End of year | <u>\$ 319,343</u> | <u>\$ 207,549</u> | <u>\$ 215,329</u> | <u>\$ 7,780</u> |

See the accompanying Independent Auditors' Report.

Colorado Military Academy, Inc.
Notes to Required Supplementary Information
June 30, 2018

Note 1: Schedule of Proportionate Share of the Net Pension Liability and Contributions

The Public Employees' Retirement Association of Colorado (PERA) School Division Trust Fund's net pension liability and associated amounts are measured annually at December 31, based on an actuarial valuation as of the previous December 31. The School's contributions and related ratios represent cash contributions and any related accruals that coincide with the School's fiscal year ending on June 30.

Note 2: Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting

A budget is adopted for the School 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, for their approval. The budget includes proposed expenditures and the means of financing them.

Expenditures may not legally exceed appropriations at the fund level. Revisions that alter the total expenditures of any fund must be approved by the Board of Directors.

All budget appropriations lapse at fiscal year-end.