

CARBON VALLEY ACADEMY
BASIC FINANCIAL STATEMENTS
June 30, 2017

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JOHN CUTLER & ASSOCIATES

Board of Directors
Carbon Valley Academy
Frederick, Colorado

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Carbon Valley Academy, component unit of the St. Vrain Valley School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Academy, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Carbon Valley Academy as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedule of the school's proportionate share, and schedule of the school's contributions on pages 31-33 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 Lutler & Associates, LLC

October 31, 2017



Management’s Discussion and Analysis

As management of Carbon Valley Academy (hereinafter Carbon Valley Academy, or School), we offer readers of Carbon Valley Academy’s financial statements this narrative overview and analysis of the financial activities of Carbon Valley Academy for the fiscal year ended June 30, 2017.

Financial Highlights

The general fund ending fund balance saw a decrease from \$779,205 in FY16 to \$747,568 in FY 17.

Overview of Financial Statements

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

Government-wide Financial Statements

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

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

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

The government-wide statement of activities distinguishes functions/programs of Carbon Valley Academy supported primarily by per pupil operating revenue (PPR) or other Revenue passed through from the District (St. Vrain Valley RE-1J). The governmental activities of Carbon Valley Academy include instruction and supporting services expense.

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

Fund Financial Statements

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

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

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

Carbon Valley Academy maintains three individual governmental funds.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 9-30.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Carbon Valley Academy, liabilities exceeded assets by \$3,790,861 at the close of the most recent fiscal year.

Carbon Valley Academy's Net Assets

	Governmental Activities <u>June 30, 2016</u>	Governmental Activities <u>June 30, 2017</u>
Current assets	\$1,565,013	1,445,509
Capital assets	<u>4,146,443</u>	<u>4,040,792</u>
Total Assets	5,711,456	5,486,301
Current liabilities	367,785	275,257
Long Term Liabilities	4,405,000	4,285,000
Net Pension Liability (Net of Deferred Inflows And Outflows	<u>3,383,232</u>	<u>4,716,905</u>
Total Liabilities	8,156,017	9,277,162
Net assets		
Restricted for		
Net Investment in Capital Assets	(976,820)	(957,752)
Emergencies -Tabor	75,000	70,000
Unrestricted	<u>(1,542,741)</u>	<u>(2,903,109)</u>
Total Net Assets	<u>(2,444,561)</u>	<u>(3,790,861)</u>

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

Carbon Valley Academy's Change in Net Assets For the Year Ended June 30, 2016 and June 30, 2017

	Governmental Activities <u>June 30, 2016</u>	Governmental Activities <u>June 30, 2017</u>
Program Revenue:		
Charges for Services	\$139,560	\$120,873
Grants and Contributions	158,443	141,419
	<u>298,003</u>	<u>262,292</u>
Total Program Revenue		
General Revenue:		
Per Pupil Operating Revenue	1,657,239	1,478,277
Taxes and Other	655,642	683,659
Capital Construction from the District		210,080
Total General Revenue	<u>2,312,881</u>	<u>2,372,016</u>
Total Revenue	<u>2,610,884</u>	<u>2,372,016</u>
Expenses:		
Current:		
Instruction	1,631,277	2,409,804
Supporting Services	<u>1,231,875</u>	<u>1,261,346</u>
Total Expenses	<u>2,863,152</u>	<u>3,980,608</u>
Increase (Decrease) in Net Assets	(252,268)	(1,346,300)
Beginning Net Assets, June 30 as restated	<u>(2,192,293)</u>	<u>(2,444,561)</u>
Ending Net Assets, June 30	<u>(2,444,561)</u>	<u>(3,790,861)</u>

Financial Analysis of Government and Business-type Activities Net Position

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

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

This is exactly the case for Carbon Valley Academy. It is important to note that without the impact of the Pension Liability, the net position of Carbon Valley Academy would have been a decrease of \$12,627 as opposed to the depicted decrease of \$1,346,300.

Financial Analysis of the Government’s Funds

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

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

Total fund balance for Carbon Valley Academy decreased by \$31,637. Unreserved fund balance decreased by \$20,919.

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

Fiscal Year	Enrollment
2012 / 2013	320
2013 / 2014	272
2014 / 2015	251.5
2015/2016	232
2016/2017	203

General Fund Budgetary Highlights

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

Capital Asset and Debt Administration

Capital assets. Carbon Valley Academy's had capital assets net of depreciation of \$4,040,792 at June 30, 2017. See Note 4 for more information.

Long-term debt. Carbon Valley Academy had long-term debt of \$4,405,000 at June 30, 2017. See Note 6 for more information.

Economic Factors and Next Year's Budget

The primary factor driving the budget for the Academy is student enrollment. Funded Pupil Count ("FPC") was 320 for 12/13, 272 for 13/14, 251.5 for 14/15, 232 for 15/16 and 211 for 16/17. The Frederick area has had little to no growth over the past several years, with increased competition from other schools. The FPC is projected to increase for the 17/18 school year to 211. This factor and state funding levels were considered in preparing the Academy's budget for fiscal year 17/18. The Academy expects the funding for 17/18 to increase slightly.

Requests for Information

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

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

BASIC FINANCIAL STATEMENTS

CARBON VALLEY ACADEMY

STATEMENT OF NET POSITION

As of June 30, 2017

	Governmental Activities	
	2017	2016
ASSETS		
Cash and Investments	\$ 872,532	\$ 996,037
Restricted Cash and Investments	564,707	554,988
Prepaid Items	8,270	13,988
Capital Assets, not Depreciated	1,158,251	1,158,251
Capital Assets, Depreciated, Net of Accumulated Depreciation	2,882,541	2,988,192
TOTAL ASSETS	5,486,301	5,711,456
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	3,086,043	712,968
LIABILITIES		
Accounts Payable	25,612	120,408
Due to the District	663	22,805
Accrued Salaries and Benefits	106,959	87,607
Interest Payable	22,023	21,965
Noncurrent Liabilities		
Bonds		
Due in One Year	120,000	115,000
Due in More than One Year	4,285,000	4,405,000
Net Pension Liability	7,541,936	4,038,955
TOTAL LIABILITIES	12,102,193	8,811,740
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	261,012	57,245
NET POSITION		
Net Investment in Capital Assets	(957,752)	(976,820)
Restricted for Emergencies	70,000	75,000
Unrestricted	(2,903,109)	(1,542,741)
TOTAL NET POSITION	\$ (3,790,861)	\$ (2,444,561)

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

CARBON VALLEY ACADEMY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2017	2016
PRIMARY GOVERNMENT						
Governmental Activities						
Instructional	\$ 2,409,804	\$ 120,873	\$ 83,055	\$ -	\$ (2,205,876)	\$ (1,376,867)
Supporting Services	1,319,710	-	-	58,364	(1,261,346)	(930,938)
Interest on Long-Term Debt	251,094	-	-	-	(251,094)	(257,344)
Total Governmental Activities	<u>\$ 3,980,608</u>	<u>\$ 120,873</u>	<u>\$ 83,055</u>	<u>\$ 58,364</u>	<u>(3,718,316)</u>	<u>(2,565,149)</u>
GENERAL REVENUES						
					1,478,277	1,657,239
					551,426	536,955
					3,969	1,845
					128,264	116,842
SPECIAL ITEM						
					210,080	-
					<u>2,372,016</u>	<u>2,312,881</u>
TOTAL GENERAL REVENUES						
					(1,346,300)	(252,268)
CHANGE IN NET POSITION						
					<u>(2,444,561)</u>	<u>(2,192,293)</u>
NET POSITION, Beginning						
					<u>\$ (3,790,861)</u>	<u>\$ (2,444,561)</u>
NET POSITION, Ending						

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

CARBON VALLEY ACADEMY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	GENERAL FUND	
	2017	2016
ASSETS		
Cash and Investments	\$ 872,532	\$ 996,037
Prepaid Expenses	8,270	13,988
TOTAL ASSETS	\$ 880,802	\$ 1,010,025
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts Payable	\$ 25,612	\$ 120,408
Due to the District	663	22,805
Accrued Salaries	106,959	87,607
TOTAL LIABILITIES	133,234	230,820
FUND BALANCES		
Nonspendable	8,270	13,988
Restricted for Emergencies	70,000	75,000
Unassigned	669,298	690,217
TOTAL FUND BALANCES	747,568	779,205
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.	140,481	155,588
Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This liability includes net pension liability of (\$7,541,936), deferred outflows related to pensions of \$3,086,043, and deferred inflows related to pensions of (\$261,012).	(4,716,905)	(3,383,232)
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.	37,995	3,878
Net position of governmental activities	\$ (3,790,861)	\$ (2,444,561)

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

CARBON VALLEY ACADEMY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	GENERAL FUND	
	2017	2016
REVENUES		
Local Sources	\$ 2,347,686	\$ 2,534,429
State Sources	72,573	74,610
TOTAL REVENUES	<u>2,420,259</u>	<u>2,609,039</u>
EXPENDITURES		
Current		
Instruction	1,359,025	1,388,144
Supporting Services	1,092,871	1,192,609
TOTAL EXPENDITURES	<u>2,451,896</u>	<u>2,580,753</u>
NET CHANGE IN FUND BALANCES	(31,637)	28,286
FUND BALANCES, Beginning	<u>779,205</u>	<u>750,919</u>
FUND BALANCES, Ending	<u><u>\$ 747,568</u></u>	<u><u>\$ 779,205</u></u>

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

CARBON VALLEY ACADEMY

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

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

Net change in fund balances - total governmental funds	\$ (31,637)
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount of depreciation expense in the current year.	(15,107)
Deferred Charges related to pension are not recognized in the governmental funds. However, for the government-wide funds that amount is capitalized and amortized.	(1,333,673)
The Internal Service fund is used by management to charge the cost of lease payments to the governmental funds. The net revenue of the internal service fund is reported with the governmental activities.	<u>34,117</u>
Change in net position of governmental activities	<u>\$ (1,346,300)</u>

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

CARBON VALLEY ACADEMY

STATEMENT OF NET POSITION
 PROPRIETARY FUND TYPE
 June 30, 2017

	Governmental Activities	
	Internal Service Fund	
	2017	2016
ASSETS		
Current Assets		
Restricted Cash and Investments	\$ 564,707	\$ 554,988
Total Current Assets	564,707	554,988
Long-term Assets		
Capital Assets, Net of Accumulated Depreciation	3,900,311	3,990,855
Total Long-term Assets	3,900,311	3,990,855
TOTAL ASSETS	4,465,018	4,545,843
LIABILITIES		
Current Liabilities		
Interest Payable	22,023	21,965
Bonds Payable - Current	120,000	115,000
Total Current Liabilities	142,023	136,965
Long-Term Liabilities		
Bonds Payable	4,285,000	4,405,000
TOTAL LIABILITIES	4,427,023	4,541,965
NET POSITION		
Net Investment in Capital Assets	37,995	3,878
Unrestricted	-	-
TOTAL NET POSITION	\$ 37,995	\$ 3,878

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

CARBON VALLEY ACADEMY

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND TYPE
Year Ended June 30, 2017

	Governmental Activities	
	Internal Service Fund	
	2017	2016
OPERATING REVENUES		
Charges for Services	\$ 368,521	\$ 369,646
TOTAL OPERATING REVENUES	<u>368,521</u>	<u>369,646</u>
OPERATING EXPENSES		
Depreciation	90,542	90,543
Repairs and Maintenance	226,817	6,468
TOTAL OPERATING EXPENSES	<u>317,359</u>	<u>97,011</u>
OPERATING INCOME	<u>51,162</u>	<u>272,635</u>
NON-OPERATING EXPENSES		
Investment Income	3,969	1,845
Contribution to Repair and Replacement Fund	20,000	20,000
Capital Contribution from the District	210,080	-
Interest Expense	(251,094)	(257,344)
TOTAL NON-OPERATING EXPENSES	<u>(17,045)</u>	<u>(235,499)</u>
NET INCOME	34,117	37,136
NET POSITION, Beginning	<u>3,878</u>	<u>(33,258)</u>
NET POSITION, Ending	<u>\$ 37,995</u>	<u>\$ 3,878</u>

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

CARBON VALLEY ACADEMY

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPE
 Year Ended June 30, 2017
 Increase (Decrease) in Cash

	Governmental Activities	
	Internal Service Fund	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Rental Operations	\$ 368,521	\$ 369,646
Cash paid for Repairs and Maintenance	(226,817)	(6,468)
Net Cash Provided by Operating Activities	<u>141,704</u>	<u>363,178</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Contribution to Repair and Replacement Fund	20,000	20,000
Investment Income	3,969	1,845
Net Cash From Investing Activities	<u>23,969</u>	<u>21,845</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments on Bonds	(115,000)	(110,000)
Interest Expense	(251,034)	(257,344)
Capital Contribution from the District	209,555	-
Net Cash Used by Capital and Related Financing Activities	<u>(156,479)</u>	<u>(367,344)</u>
NET INCREASE IN CASH	9,194	17,679
CASH, Beginning	<u>554,988</u>	<u>537,309</u>
CASH, Ending	<u>\$ 564,182</u>	<u>\$ 554,988</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 51,162	\$ 272,635
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation Expense	<u>90,542</u>	<u>90,543</u>
Total Adjustments	<u>90,542</u>	<u>90,543</u>
Net Cash Provided by Operating Activities	<u>\$ 141,704</u>	<u>\$ 363,178</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contribution from the District	<u>\$ 209,555</u>	<u>\$ -</u>

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity

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

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

Carbon Valley Building Corporation

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

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

Government-Wide and Fund Financial Statements

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, are restricted to meeting the operational or capital requirements of a particular function or segment.

Unrestricted intergovernmental revenues not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

The Academy reports the following major funds:

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

Additionally, the Academy reports the following fund types:

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

Assets, Liabilities and Fund Balance/Net Assets

Investments – Investments are recorded at fair value.

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

Donated capital assets are recorded at estimated fair market value at the date of donation.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Long-term Debt – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

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

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

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

- Nonspendable – This classification includes amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact. The Academy considers Prepaid Expenses as nonspendable.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Academy has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Academy did not have any committed resources as of June 30, 2017.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

Deferred Outflows/Inflows of Resources

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

NOTE 3: CASH AND INVESTMENTS

Cash and Investments at June 30, 2017 consisted of the following:

Cash on Hand	\$ 6,100
Deposits	866,432
Investments	<u>564,707</u>
Total	<u>\$ 1,437,239</u>

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

Cash and Investments	\$ 872,532
Restricted Cash and Investments	<u>564,707</u>
Total	<u>\$ 1,437,239</u>

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2017, 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.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

The Academy has no policy regarding custodial credit risk for deposits.

At June 30, 2017, the Academy had deposits with financial institutions with a carrying amount of \$866,432. The bank balances with the financial institutions were \$866,712. Of this amount, \$250,000 was covered federal depository insurance and \$616,712 was covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

Investments

Interest Rate Risk

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

Credit Risk

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

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

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.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

The Academy had invested \$564,707 in the Colorado Surplus Asset Fund Trust (CSAFE). CSAFE is considered to be a 2a7 like investments and is valued using the NAV per share (or its equivalent) of the investments. The 2a-7 like investments do not have any unfunded commitments, redemption restrictions or redemption notice periods. The 2a-7 like investments conform to Colorado Statutes CRS 24-75-601 et. seq. and therefore invests primarily in securities of the United States Treasury, United States Agencies, Primary Dealer Repurchase Agreements, highly rated commercial paper, highly rated corporate bonds, Colorado depositories collateralized at 102% of market value according to the guidelines of the Public Deposit Protection Act. The investments will conform to its Permitted Investments and will meet Standard & Poor’s investment guidelines to achieve a AAAM rating, the highest attainable rating for a Local Government Investment Pool.

Restricted Cash and Investments

Investments in CSAFE totaling \$564,707 are restricted in the Internal Service for the construction the Academy’s building and payment of the Academy’s debt.

NOTE 4: CAPITAL ASSETS

Capital Assets activity for the year ended June 30, 2017, is summarized below.

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
Governmental Activities				
Capital Assets, Not Depreciated				
Land	\$ 1,062,443	\$ -	\$ -	\$ 1,062,443
Water Rights	<u>95,808</u>	<u>-</u>	<u>-</u>	<u>95,808</u>
Total Capital Assets, Not Depreciated	<u>1,158,251</u>	<u>-</u>	<u>-</u>	<u>1,158,251</u>
Capital Assets, Depreciated				
Land Improvements	280,487	-	-	280,487
Buildings	3,094,219	-	-	3,094,219
Leasehold Improvements	392,861	-	-	392,861
Furniture and Equipment	214,405	-	-	214,405
Software Costs	<u>20,021</u>	<u>-</u>	<u>-</u>	<u>20,021</u>
Total Capital Assets, Depreciated	<u>4,001,993</u>	<u>-</u>	<u>-</u>	<u>4,001,993</u>

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 4: CAPITAL ASSETS (Continued)

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2017</u>
Accumulated Depreciation				
Land Improvements	166,624	18,699	-	185,323
Buildings	599,543	63,153	-	662,696
Leasehold Improvements	168,798	18,439	-	187,237
Furniture and Equipment	58,815	5,360	-	64,175
Software Costs	<u>20,021</u>	<u>-</u>	<u>-</u>	<u>20,021</u>
Total Accumulated Depreciation	<u>1,013,801</u>	<u>105,651</u>	<u>-</u>	<u>1,119,452</u>
Total Capital Assets, Depreciated, Net	<u>2,988,192</u>	<u>(105,651)</u>	<u>-</u>	<u>2,882,541</u>
Net Capital Assets	<u>\$ 4,146,443</u>	<u>\$ (105,651)</u>	<u>\$ -</u>	<u>\$ 4,040,792</u>

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

NOTE 5: ACCRUED SALARIES AND BENEFITS

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve-month period from August to July, but are earned during a school year of approximately nine to ten months. The salaries and benefits earned, but unpaid, as of June 30, 2017, were \$106,959. Accordingly, the accrued compensation is reflected as a liability in the accompanying financial statements of 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, 2017:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Due In</u> <u>One Year</u>
2006 Revenue Bonds	<u>\$ 4,520,000</u>	<u>\$ -</u>	<u>\$ 115,000</u>	<u>\$ 4,405,000</u>	<u>\$ 120,000</u>

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 6: LONG-TERM DEBT (Continued)

Building Lease

In December 2006, the Colorado Educational and Facilities Authority (CECFA) issued \$5,305,000 Charter School Revenue Bonds, Series 2006. Proceeds from the bonds were used to construct the Academy's building. The Academy is required to make equal lease payments to the Building Corporation for the use of the building. The Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest accrues at a rate of 5.65% per year. The lease matures in December 2036.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 120,000	\$ 244,407	\$ 364,407
2019	130,000	237,375	367,375
2020	135,000	229,922	364,922
2021	145,000	222,047	367,047
2022	150,000	213,750	363,750
2023-2027	900,000	926,719	1,826,719
2028-2032	1,205,000	632,952	1,837,952
2033-2036	<u>1,620,000</u>	<u>240,469</u>	<u>1,860,469</u>
Total	<u>\$ 4,405,000</u>	<u>\$ 2,947,641</u>	<u>\$ 7,352,641</u>

NOTE 7: 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.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan

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

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

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

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

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.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

	For the Year Ended December 31, 2016	For the Year Ended December 31, 2017
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	4.50%	5.00%
Total employer contribution rate to the SCHDTF¹	18.13%	18.63%

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from Academy were \$220,438 for the year ended June 30, 2017.

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

At June 30, 2017, the Academy reported a liability of \$7,541,936 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. Standard update procedures were used to roll-forward the total pension liability to December 31, 2016. The Academy proportion of the net pension liability was based on the Academy's contributions to the SCHDTF for the calendar year 2016 relative to the total contributions of participating employers to the SCHDTF.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

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)

At December 31, 2016, the Academy's proportion was 0.02553%, which was a decrease of 0.00108% from its proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the Academy recognized pension expense of \$1,554,111. At June 30, 2017, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 94,286	\$ 67
Net difference between projected and actual earnings on pension plan investments	\$ 252,187	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$ 179,536	\$ 226,935
Changes in assumptions and other inputs	\$ 2,447,201	\$ 34,010
Contributions subsequent to the measurement date	\$ 112,833	N/A
Total	\$ 3,086,043	\$ 261,012

\$112,833 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, 2018. 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,	
2018	\$1,193,148
2019	\$1,035,030
2020	\$514,728
2021	(\$30,379)
2022	(\$329)

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

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, 2015 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.80 percent
Real wage growth	1.10 percent
Wage inflation	3.90 percent
Salary increases, including wage inflation	3.90 – 10.10 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.50 percent
Discount rate	7.50 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

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

Actuarial cost method	Entry age
Price inflation	2.40 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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

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)

Mortality rates used in the December 31, 2015 valuation were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with Males set back 1 year, and Females set back 2 years. Active member mortality was based upon the same mortality rates but adjusted to 55 percent of the base rate for males and 40 percent of the base rate for females. For disabled retirees, the RP-2000 Disabled Mortality Table (set back 2 years for males and set back 2 years for females) was assumed.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2008 through December 31, 2011, adopted by PERA's Board on November 13, 2012, and an economic assumption study, adopted by PERA's Board on November 15, 2013 and January 17, 2014.

As a result of the 2016 experience analysis and the October 28, 2016 actuarial assumptions workshop, revised economic and demographic actuarial assumptions including withdrawal rates, retirement rates for early reduced and unreduced retirement, disability rates, administrative expense load, and pre- and post-retirement and disability mortality rates were adopted by PERA's Board on November 18, 2016 to more closely reflect PERA's actual experience. As the revised economic and demographic assumptions are effective as of the measurement date, December 31, 2016, these revised assumptions were reflected in the total pension liability roll-forward procedures.

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

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

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

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

For disabled retirees, the mortality assumption was changed to reflect 90 percent of the RP-2014 Disabled Retiree Mortality Table.

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. As a result of the October 28, 2016 actuarial assumptions workshop and the November 18, 2016 PERA Board meeting, the economic assumptions changed, effective December 31, 2016, as follows:

- Investment rate of return assumption decreased from 7.50 percent per year, compounded annually, net of investment expenses to 7.25 percent per year, compounded annually, net of investment expenses.
- Price inflation assumption decreased from 2.80 percent per year to 2.40 percent per year.
- Real rate of investment return assumption increased from 4.70 percent per year, net of investment expenses, to 4.85 percent per year, net of investment expenses.
- Wage inflation assumption decreased from 3.90 percent per year to 3.50 percent per year.

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 by the investment consultant 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 November 18, 2016 adoption of the current long-term expected rate of return by the PERA Board, the target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

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 5.26 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 economic and demographic actuarial assumptions adopted by PERA’s Board on November 18, 2016.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

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.

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 Board of Governors of the Federal Reserve System, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.86 percent, resulting in a discount rate of 5.26 percent.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

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)

As of the prior measurement date, the projection test indicated the SCHDTF's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments of 7.50 percent was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination did not use a municipal bond index rate and the discount rate was 7.50 percent, 2.24 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 5.26 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 (4.26 percent) or 1-percentage-point higher (6.26 percent) than the current rate:

	1% Decrease (4.26%)	Current Discount Rate (5.26%)	1% Increase (6.26%)
Proportionate share of the net pension liability	\$9,483,743	\$7,541,937	\$5,690,406

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.

Other Post-Employment Benefits

Health Care Trust Fund

Plan Description – The Academy contributes to the Health Care Trust Fund ("HCTF"), a cost-sharing multiple-employer healthcare trust administered by PERA. The HCTF benefit provides a health care premium subsidy and health care programs (known as PERACare) to PERA participating benefit recipients and their eligible beneficiaries. Title 24, Article 51, Part 12 of the C.R.S., as amended, establishes the HCTF and 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 health care subsidies. PERA issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the HCTF. That report can be obtained at www.copera.org/investments/pera-financial-reports.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

Other Post-Employment Benefits (Continued)

Funding Policy – The Academy is required to contribute at a rate of 1.02 percent of PERA-includable salary for all PERA members as set by statute. No member contributions are required. The contribution requirements for the Academy are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. The apportionment of the contributions to the HCTF is established under Title 24, Article 51, Section 208(1)(f) of the C.R.S., as amended. For the years ending June 30, 2017, 2016, and 2015, the Academy’s contributions to the HCTF were \$11,588, \$11,748 and \$12,018 respectively, equal to their required contributions for each year.

NOTE 8: RISK MANAGEMENT

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Academy participates in the Colorado School District Self Insurance Pool. The Pool insures property and liability exposures through contributions made by member districts. The Academy does not maintain an equity interest in the self insurance pool. The Academy funds its pool contributions, outside insurance purchases, deductibles, and uninsured losses through the General Fund. The Academy is fully self insured for unemployment compensation and has a \$500 deductible for property insurance.

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

NOTE 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, 2017, 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.

CARBON VALLEY ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

NOTE 9: COMMITMENTS AND CONTINGENCIES (continued)

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The Academy believes it has complied with the Amendment. As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2017, the reserve of \$70,000 was recorded as a restriction of fund balance in the General Fund.

NOTE 10: CAPITAL CONTRIBUTION FROM THE DISTRICT

During the year ended June 30, 2017, the District agreed to allocate a portion of its 2016 Bond Proceeds to pay for various capital improvements and upgrades to the Academy's facility. As of June 30, 2017 improvements in the amount of \$210,080 were paid for by the District. This amount has been reported as a Capital Contribution from the District in the Building Corporation's Statement of Revenues, Expenses and Changes in Fund Net Position, with an offset to Repair and Maintenance Expense.

The total cost of improvements paid for by the District are estimated to be \$294,000 and should be completed during the year ended June 30, 2018.

NOTE 11: DEFICIT NET POSITION

The Net Position of the government type activities is in a deficit position of \$3,790,861 due to the Academy including the Net Pension Liability per GASB No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

CARBON VALLEY ACADEMY

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2017

	2017			VARIANCE	2016 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	Positive (Negative)	
REVENUES					
Local Sources					
Per Pupil Revenue	\$ 1,488,554	\$ 1,478,393	\$ 1,478,277	\$ (116)	\$ 1,657,239
Mill Levy Override	551,426	551,426	551,426	-	536,955
Tuition and Fees	105,000	143,000	120,873	(22,127)	139,560
Contributions	151,500	239,810	68,846	(170,964)	83,833
Other	95,000	21,150	128,264	107,114	116,842
State Sources					
Grants and Donations	105,900	74,214	72,573	(1,641)	74,610
TOTAL REVENUES	2,497,380	2,507,993	2,420,259	(87,734)	2,609,039
EXPENDITURES					
Salaries	1,195,145	1,288,484	1,207,991	80,493	1,163,647
Employee Benefits	414,191	418,144	392,130	26,014	425,258
Purchased Services	781,264	777,221	754,565	22,656	797,686
Supplies and Materials	87,250	93,750	89,120	4,630	177,614
Property	-	-	407	(407)	4,945
Other	12,850	23,400	7,683	15,717	11,603
TOTAL EXPENDITURES	2,490,700	2,600,999	2,451,896	149,103	2,580,753
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	6,680	(93,006)	(31,637)	61,369	28,286
FUND BALANCE, Beginning	782,578	796,982	779,205	(17,777)	750,919
FUND BALANCE, Ending	\$ 789,258	\$ 703,976	\$ 747,568	\$ 43,592	\$ 779,205

See the accompanying independent auditors' report.

CARBON VALLEY ACADEMY

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

Years Ended December 31,

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
School's proportionate share of the Net Pension Liability	0.024%	0.028%	0.026%	0.025%
School's proportionate share of the Net Pension Liability	\$ 3,071,977	\$ 3,790,127	\$ 4,038,955	\$ 7,541,937
School's covered-employee payroll	\$ 959,993	\$ 1,172,333	\$ 1,152,865	\$ 1,136,888
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	320.0%	323.3%	350.3%	663.4%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%	43.1%

See the accompanying independent auditors' report.

CARBON VALLEY ACADEMY

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DIVISION TRUST FUND

Years Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Statutorily required contributions	\$ 179,844	\$ 210,779	\$ 215,954	\$ 220,438
Contributions in relation to the Statutorily required contributions	<u>179,844</u>	<u>210,779</u>	<u>215,954</u>	<u>220,438</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 1,055,661	\$ 1,178,192	\$ 1,151,793	\$ 1,136,119
Contributions as a percentage of covered-employee payroll	17.04%	17.89%	18.75%	19.40%

See the accompanying independent auditors' report.