

ROCKY MOUNTAIN CLASSICAL ACADEMY

BASIC FINANCIAL STATEMENTS

June 30, 2019

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FINANCIAL SECTION



JOHN CUTLER & ASSOCIATES

Board of Directors
Rocky Mountain Classical Academy
Colorado Springs, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements governmental activities, each major fund, and the aggregate remaining fund information of Rocky Mountain Classical Academy (the "Academy"), a component unit of El Paso County School District No. 49, Colorado, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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 Rocky Mountain Classical Academy, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

John Luttrell & Associates, LLC

October 10, 2019

Rocky Mountain Classical Academy
Management's Discussion and Analysis
Fiscal Year Ending June 30, 2019

As management of Rocky Mountain Classical Academy (RMCA or the School), we offer readers of Rocky Mountain Classical Academy's basic financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information provided in the accompanying financial statements.

Financial Highlights

The year ended June 30, 2019 is the twelfth year of operations for RMCA. As of June 30, 2019, net position decreased by \$(437,281) to \$(16,917,825). Rocky Mountain Classical Academy's governmental fund reported an ending fund balance of \$4,694,452, an increase of \$449,144 from the prior year.

The operations of the School are funded primarily by tax revenue received under the Colorado School Finance Act in Per Pupil Revenue (PPR). Tax revenue for the year from PPR was \$10,402,459.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School'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 School's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how net position changed during the 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 the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future periods (for example, salaries and benefits earned but unpaid as of year-end).

The government-wide statement of activities distinguishes functions/programs of the School supported primarily by Per Pupil Revenue or other revenues passed through from the School's authorizer (Falcon School District 49). The governmental activities of RMCA include instruction and supporting services.

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 School keeps track of these monies to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

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.

The School maintains one governmental fund and adopts an annually appropriated budget for the fund. A budgetary comparison schedule is included that demonstrates that spending did exceed the budget. See below for more information

Proprietary Funds

The School also maintains a proprietary fund to record the activity of the Rocky Mountain Classical Academy Building Corporation (the "Corporation"). The Corporation was organized exclusively for the purpose of providing a mechanism to acquire, lease, construct, improve, equip, and issue and pay debt on behalf of the School for facilities, land, equipment, and facility improvements in connection with the property intended to be leased to the Academy.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Government-Wide Financial Analysis

As noted previously, net position may serve over time as a useful indicator of the School's financial position. For the fiscal year ended June 30, 2019, RMCA's net position was \$(16,917,825). This position includes a net pension liability in the amount of \$12,165,639, representing the School's proportionate share of the School Division Trust Fund pension liability, administered by the Public Employees' Retirement Association of Colorado (PERA). The School reports this net pension liability, and associated deferred inflows and outflows of resources, as required by GASB (Governmental Accounting Standards Board) 68. The School's net position also includes a net OPEB (Other Postemployment Benefit) liability in the amount of \$607,599, representing the School's proportionate share of the defined benefit Health Care Trust Fund, administered by PERA. The School reports this net OPEB liability, and associated deferred inflows and outflows of resources, as requirement by GASB 75. More information regarding the net pension and OPEB liabilities may be found in the notes to the financial statements.

Of the School's total net position, \$(12,649,979) is invested in capital assets and \$350,000 is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment.

Rocky Mountain Classical Academy's Net Position

	2018-2019	2017-2018
ASSETS		
Cash and Investments	\$ 5,085,532	\$ 4,464,393
Restricted Cash and Investments	2,751,694	\$ 468,076
Accounts Receivable	10,648	12,021
Prepaid Expenses	16,263	129,726
Deposits	18,710	18,710
Capital Assets, Not Being Depreciated	1,693,591	6,962,226
Capital Assets, Net of Accumulated Depreciation	<u>25,469,846</u>	<u>20,246,374</u>
TOTAL ASSETS	<u>35,046,284</u>	<u>32,301,526</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pensions, Net of Accumulated Amortization	3,738,129	9,467,878
OPEB, Net of Accumulated Amortization	112,586	101,490
Cost of Refunding	<u>7,998,867</u>	<u>8,871,471</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>11,849,582</u>	<u>18,440,839</u>
LIABILITIES		
Accounts Payable	81,704	521,289
Accrued Salaries and Benefits	354,091	347,846
Unearned Revenues	2,395	25,398
Noncurrent Liabilities		
Due Within One Year	1,123,870	1,034,430
Due in More Than One Year	41,441,240	39,253,027
Net Pension Liability	12,165,639	24,537,350
Net OPEB Liability	<u>607,599</u>	<u>560,329</u>
TOTAL LIABILITIES	<u>55,776,538</u>	<u>66,279,669</u>
DEFERRED INFLOWS OF RESOURCES		
Pensions, Net of Accumulated Amortization	8,036,228	1,137,513
OPEB, Net of Accumulated Amortization	<u>925</u>	<u>9,374</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>8,037,153</u>	<u>1,146,887</u>
NET POSITION		
Investment in Capital Assets	(12,649,979)	(4,718,622)
Restricted for Emergencies	350,000	320,000
Unrestricted	<u>(4,617,846)</u>	<u>(12,285,569)</u>
TOTAL NET POSITION	<u>\$ (16,917,825)</u>	<u>\$ (16,684,191)</u>

Rocky Mountain Classical Academy's Change in Net Position

	2018-2019	2017-2018
REVENUES		
Per Pupil Revenue	\$ 10,402,459	\$ 9,771,215
Mill Levy Override	385,093	197,419
Special Funding - PERA	8,546	-
Charges for Services	666,486	343,278
Operating Grants and Contributions	454,414	266,436
Capital Grants and Contributions	402,366	353,188
Investment Income	25,709	17,243
Other	35,901	207,614
Capital Contributed from District	<u>5,662</u>	<u>-</u>
TOTAL REVENUE	<u>12,386,636</u>	<u>11,156,393</u>
EXPENSES		
Instruction	5,636,871	9,072,757
Support Services	4,602,261	4,829,863
Interest and Fiscal Charges	<u>2,584,785</u>	<u>4,385,801</u>
TOTAL EXPENSES	<u>12,823,917</u>	<u>18,288,421</u>
CHANGE IN NET POSITION	(437,281)	(7,132,028)
NET POSITION, Beginning, Restated	<u>(16,480,544)</u>	<u>(9,552,163)</u>
NET POSITION, Ending	<u>\$ (16,917,825)</u>	<u>\$ (16,684,191)</u>

Financial Analysis of the Government's Fund

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

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

As of the end of the current fiscal year, the School's General Fund reported an ending fund balance of \$4,694,452, an increase of \$449,144 from the prior year.

General Fund Budgetary Highlights

RMCA recognized \$769,971 more revenue than expected and spent \$295,242 more than planned, when compared to the final budget. Significant revenue in excess of budget was the result of carry over Mill Levy Override revenue from the prior year and revenue associated with the Rocky Mountain Classical Academy Preschool that was not captured in the School's budget. Spending in excess of budgeted expenditures was the result of Rocky Mountain Classical Academy Preschool activity that was not captured in the School's budget, as well as the implementation of a GASB 68 accounting standard after June 30, 2019.

There were budget amendments during the year, which reflected changes in revenues and expenditures. Overall, revenue and expenses were fine-tuned to account for changes to student enrollment and funding assumptions, as well as teacher stipends.

Capital Assets & Long-Term Debt

The School has invested in capital assets for the School's education facility and land, as well as furniture and equipment. Depreciation expenses for capital assets are booked under the Supporting Services program of the School's operations. More information regarding capital assets may be found in Note 4 to the financial statements.

The School has long-term debt in the form a loan acquired in 2017 from the proceeds of Charter School Refunding and Improvement Bonds. Loan proceeds were used to advance refund 2013 Charter School Revenue Bonds and to finance building expansion for use by the Rocky Mountain Classical Academy Preschool. More information regarding long-term debt may be found in Note 6 to the financial statements.

Economic Factors and Next Year's Budget

The primary factor driving the budget for Rocky Mountain Classical Academy is student enrollment. Enrollment for the 2018-2019 school year was 1,341.82 funded students. Enrollment projected for 2019-2020 is 1,352.06 funded students. This factor was considered when preparing RMCA's budget for 2019-2020.

Requests for Information

This financial report is designed to provide a general overview of Rocky Mountain Classical 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 the School:

Rocky Mountain Classical Academy
2091 Dayton Street
Aurora, CO 80010

BASIC FINANCIAL STATEMENTS

ROCKY MOUNTAIN CLASSICAL ACADEMY

STATEMENT OF NET POSITION

June 30, 2019

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Cash and Investments	\$ 5,085,532
Restricted Cash and Investments	2,751,694
Accounts Receivable	10,648
Prepaid Expenses	16,263
Deposits	18,710
Capital Assets, Not Depreciated	1,693,591
Capital Assets, Depreciated	
Net of Accumulated Depreciation	25,469,846
TOTAL ASSETS	<u>35,046,284</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to Pensions	3,738,129
Related to OPEB	112,586
Cost of Refunding	7,998,867
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>11,849,582</u>
LIABILITIES	
Accounts Payable	81,704
Accrued Salaries and Benefits	354,091
Unearned Revenues	2,395
Noncurrent Liabilities	
Due Within One Year	1,123,870
Due in More Than One Year	41,441,240
Net Pension Liability	12,165,639
Net OPEB Liability	607,599
TOTAL LIABILITIES	<u>55,776,538</u>
DEFERRED INFLOWS OF RESOURCES	
Related to Pensions	8,036,228
Related to OPEB	925
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>8,037,153</u>
NET POSITION	
Investment in Capital Assets	(12,649,979)
Restricted for Emergencies	350,000
Unrestricted	<u>(4,617,846)</u>
TOTAL NET POSITION	<u>\$ (16,917,825)</u>

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

FUNCTIONS/PROGRAMS	Expenses	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGE IN NET POSITION
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction	\$ 5,636,871	\$ -	\$ 328,562	\$ -	\$ (5,308,309)
Supporting Services	4,602,261	666,486	125,852	402,366	(3,407,557)
Interest and Fiscal Charges	2,584,785	-	-	-	(2,584,785)
Total Governmental Activities	<u>\$ 12,823,917</u>	<u>\$ 666,486</u>	<u>\$ 454,414</u>	<u>\$ 402,366</u>	<u>(11,300,651)</u>
		GENERAL REVENUES			
					10,402,459
					385,093
					8,546
					25,709
					35,901
		SPECIAL ITEM			
					5,662
					<u>10,863,370</u>
					CHANGE IN NET POSITION (437,281)
					NET POSITION, Beginning, Restated (16,480,544)
					<u>NET POSITION, Ending \$ (16,917,825)</u>

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

	<u>GENERAL FUND</u>
ASSETS	
Cash and Investments	\$ 5,085,532
Accounts Receivable	10,648
Prepaid Expenditures	16,263
Rental Deposits	<u>18,710</u>
TOTAL ASSETS	<u><u>\$ 5,131,153</u></u>
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts Payable	\$ 80,215
Accrued Salaries and Benefits	354,091
Unearned Revenues	<u>2,395</u>
TOTAL LIABILITIES	<u>436,701</u>
FUND BALANCES	
Nonspendable	16,263
Restricted for Emergencies	350,000
Unassigned	<u>4,328,189</u>
TOTAL FUND BALANCES	4,694,452
Amounts reported for governmental activities in the statement of net position are different because:	
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 assets.	(4,652,601)
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 (\$12,165,639), net OPEB liability of (\$607,599), deferred outflows related to pensions of \$3,738,129, deferred outflows related to OPEB of \$112,586, deferred inflows related to pensions of (\$8,036,228), and deferred inflows related to OPEB of (\$925).	<u>(16,959,676)</u>
Net position of governmental activities	<u><u>\$ (16,917,825)</u></u>

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2019

	<u>GENERAL FUND</u>
REVENUES	
Local Sources	\$ 11,615,791
State and Federal Sources	<u>730,928</u>
TOTAL REVENUES	<u>12,346,719</u>
EXPENDITURES	
Current	
Instruction	5,450,796
Supporting Services	<u>6,446,779</u>
TOTAL EXPENDITURES	<u>11,897,575</u>
NET CHANGE IN FUND BALANCES	449,144
FUND BALANCES, Beginning	<u>4,245,308</u>
FUND BALANCES, Ending	<u><u>\$ 4,694,452</u></u>

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

ROCKY MOUNTAIN CLASSICAL 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, 2019

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

Net change in fund balances - total governmental funds	\$ 449,144
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.	(601,947)
Deferred Charges related to pension are not recognized in the governmental funds. However, for the government-wide funds that amount is capitalized and amortized.	<u>(284,478)</u>
Change in net position of governmental activities	<u>\$ (437,281)</u>

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

STATEMENT OF NET POSITION
 PROPRIETARY FUND TYPES

June 30, 2019

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Restricted Cash and Investments	\$ 2,751,694
Total Current Assets	<u>2,751,694</u>
Long-term Assets	
Capital Assets, Net of Accumulated Depreciation	<u>27,163,437</u>
Total Long-term Assets	<u>27,163,437</u>
TOTAL ASSETS	<u>29,915,131</u>
DEFERRED OUTFLOW OF RESOURCES	
Bond Issuance Costs	<u>7,998,867</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	1,489
Bonds Payable - Current Portion	<u>1,123,870</u>
Total Current Liabilities	<u>1,125,359</u>
Long-Term Liabilities	
Bonds Payable	<u>41,441,240</u>
TOTAL LIABILITIES	<u>42,566,599</u>
NET POSITION	
Net Investment in Capital Assets	(12,649,979)
Unrestricted	<u>7,997,378</u>
TOTAL NET POSITION	<u>\$ (4,652,601)</u>

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND TYPES
Year Ended June 30, 2019

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Rent	<u>\$ 2,774,565</u>
OPERATING EXPENSES	
Purchased Services	13,229
Supplies	26,580
Other	81,098
Depreciation	702,191
Amortization	<u>872,604</u>
TOTAL OPERATING EXPENSES	<u>1,695,702</u>
OPERATING INCOME	<u>1,078,863</u>
NON-OPERATING REVENUES (EXPENSES)	
Investment Income	25,709
Interest Expense	<u>(1,712,181)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(1,686,472)</u>
INCOME BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>(607,609)</u>
TRANSFERS AND CAPITAL CONTRIBUTIONS	
Capital Contributions	<u>5,662</u>
TOTAL TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>5,662</u>
NET INCOME (LOSS)	(601,947)
NET POSITION, Beginning, Restated	<u>(4,050,654)</u>
NET POSITION, Ending	<u><u>\$ (4,652,601)</u></u>

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND TYPES
 Year Ended June 30, 2019
 Increase (Decrease) in Cash

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Rent	\$ 2,774,565
Cash Paid to Suppliers	<u>(567,977)</u>
Net Cash Provided by Operating Activities	<u>2,206,588</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	<u>25,709</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Payments to Other Funds	<u>(60,770)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest Expense	(1,712,181)
Proceeds from Issuance of Debt	3,312,083
Acquisition and Construction of Capital Assets	(657,027)
Principal Payments on Loan	<u>(1,034,430)</u>
Net Cash Used by Financing Activities	<u>(91,555)</u>
NET INCREASE (DECREASE) IN CASH	2,079,972
CASH, Beginning	<u>671,722</u>
CASH, Ending	<u>\$ 2,751,694</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Income	<u>\$ 1,078,863</u>
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities	
Depreciation Expense	702,191
Amortization Expense	872,604
Changes in Assets and Liabilities	
Accounts Payable	(447,070)
Total Adjustments	<u>1,127,725</u>
Net Cash Provided by Operating Activities	<u>\$ 2,206,588</u>

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rocky Mountain Classical Academy (the “Academy”) was organized pursuant to the Colorado Charter Schools Act to form and operate a Charter School within the El Paso County School District 49 (the “District”), in the State of Colorado. The Academy began operation in 2006.

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.

Rocky Mountain Classical Academy Building Corporation

The Rocky Mountain Classical Academy Building Corporation (the “Corporation”) is considered to be financially accountable to the Academy. The purpose of the Corporation is to provide a mechanism to acquire, lease, construct, improve, equip and issue and pay debt on behalf of the Academy for facilities, land, equipment and other improvements in connection with property intended to be leased to the Academy. The Corporation is considered to be part of the Academy for financial reporting purposes because its resources are entirely for the direct benefit of the Academy and is blended into the Academy’s financial statements as an internal service fund. Separate financial statements are not available.

Rocky Mountain Classical Academy Preschool

Rocky Mountain Classical Academy Preschool, LLC (the “Preschool”) is considered to be financially accountable to the Academy. The Preschool is a Colorado non-profit limited liability company and the Academy is the sole member. The purpose of the Preschool is to conduct the Academy’s pre-K education program. The Preschool is considered to be part of the Academy for financial reporting purposes because its resources are entirely for the direct benefit of the Academy and is blended into the Academy’s financial statements in the General Fund. Separate financial statements are not available.

The Academy is a component unit of the District.

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to students or others who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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.

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

The Academy reports the following major governmental fund:

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

Additionally, the Academy reports the following fund types:

Internal Service Fund – This fund is used to account for activity of the Building Corporation.

Deferred Outflows/Inflows of Resources

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

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

Assets, Liabilities and Fund Balance/Net Position

Investments – Investments are recorded at fair value.

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Prepaid Expenses – Payments made to vendors for services that will benefit future periods are recorded as prepaid expense. An expenditure is reported in the year in which the services are consumed.

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

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: buildings and improvements 15-50 years; furniture and equipment 3-10 years.

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

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- Nonspendable – This classification includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The Academy classified prepaid expenses as nonspendable fund balance at June 30, 2019.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Academy has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Academy did not have any committed resources as of June 30, 2019.
- 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.

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

The Academy's policy allows employees to accumulate sick and vacation leave. Five leave days may be carried over to the following year. Accrued sick and personal leave are not paid upon termination of employment.

Risk Management

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

Comparative Data

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

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

A budget is adopted for all funds 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 by June 30th. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year-end.

State Compliance

For the year ended June 30, 2019, actual expenditures in the General Fund exceeded budgeted amounts by \$295,242. This may be a violation of state statute.

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 3: CASH AND INVESTMENTS

Cash and Investments at June 30, 2019 consisted of the following:

Deposits	\$ 7,603,492
Investments	<u>233,734</u>
Total	<u>\$ 7,837,226</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, 2019, State regulatory commissioners have indicated that all financial institutions holding deposits for the Academy are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group.

The market value of the collateral must be at least equal to 102% of the uninsured deposits. The Academy has no policy regarding custodial credit risk for deposits.

At June 30, 2019, the Academy had deposits with financial institutions with a carrying amount of \$7,603,492. The bank balances with the financial institutions were \$7,659,278. Of these balances, \$250,000 was covered by federal depository insurance and \$7,409,278 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

Investments

Interest Rate Risk

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 3: CASH AND INVESTMENTS (Continued)

Investments (Continued)

Credit Risk

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

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

It is the Academy's policy to follow Colorado State statutes guidelines for managing credit risk or interest rate risk.

Fair Value

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

Money Market Fund

State statutes limit the investments in money market funds to the highest rating issued by nationally recognized statistical rating organizations (NRSRO's), with a constant share price, and that invest only in securities allowed by State statutes. At June 30, 2018, the Academy had \$233,734 invested in a money market fund. The fund invests only in U.S. Treasury obligations and is rated AAAM by Standard and Poor's. These investments are valued using Level 1 inputs.

Restricted Cash and Investments

As of June 30, 2019, Cash and Investments in the amount of \$2,751,694 are restricted for debt service and related expenses in the internal service fund.

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 4: CAPITAL ASSETS

Capital Assets activity for the year ended June 30, 2019 is summarized below.

	Balance <u>June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2019</u>
Governmental Activities				
Capital assets, Not Being Depreciated				
Land	\$ 1,693,591	-	-	\$ 1,693,591
Construction in Progress	<u>5,268,635</u>	-	<u>5,268,635</u>	-
Governmental Activities, Capital Assets, Net	<u>6,962,226</u>	-	<u>5,268,635</u>	<u>1,693,591</u>
Capital Assets, Being Depreciated				
Buildings	21,493,769	5,779,195	-	27,272,964
Furniture and Equipment	<u>439,349</u>	<u>146,469</u>	-	<u>585,818</u>
Total Capital Assets, Being Depreciated	<u>21,933,118</u>	<u>5,925,664</u>	-	<u>27,858,782</u>
Accumulated Depreciation				
Buildings	1,481,897	625,166	-	2,107,063
Furniture and Equipment	<u>204,847</u>	<u>77,026</u>	-	<u>281,873</u>
Total Accumulated Depreciation	<u>1,686,744</u>	<u>702,192</u>	-	<u>2,388,936</u>
Total Capital Assets, Being Depreciated, Net	<u>20,246,374</u>	<u>5,223,472</u>	-	<u>25,469,846</u>
Capital Assets, Net	<u>\$ 27,208,600</u>	<u>\$ 5,223,472</u>	<u>\$ 5,268,635</u>	<u>\$ 27,163,437</u>

Depreciation expense is 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 the school year of nine months. The salaries and benefits earned, but unpaid, as of June 30, 2019, were \$354,091 in the General Fund.

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 6: LONG-TERM DEBT

Following is a summary of the Academy's long-term debt transactions for the year ended June 30, 2019:

	Balance <u>June 30, 2018</u>	<u>Additions</u>	<u>Payments</u>	Balance <u>June 30, 2019</u>	Due In <u>One Year</u>
Loan Payable	<u>\$40,287,457</u>	<u>\$ 3,312,083</u>	<u>\$ 1,034,430</u>	<u>\$ 42,565,110</u>	<u>\$ 1,123,870</u>

On September 1, 2017, the Public Finance Authority issued \$44,241,960 Charter School Refunding and Improvement Bonds, Series 2017. Bond proceeds were loaned to the Building Corporation under a loan and security agreement to advance refund the Charter School Revenue Bonds, Series 2013 with an outstanding amount of \$27,645,000 and to finance building facility and improvements. Initial proceeds of \$36,407,142 were received at closing with up to \$7,834,818 of remaining proceeds to be received to pay subsequent construction draws. All of the remaining proceeds were received as of June 30, 2019. \$36,648,932 of proceeds were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payments on the refunded bonds. As a result, the 2013 service bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. The Academy is obligated under a lease agreement to make monthly lease payments to the Building Corporation for the use of the facilities. The Building Corporation is required to make loan payments to the Trustee, for payment of the bonds. Principal and Interest payments are due monthly through September 2027 as an interest rate of 3.99%.

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,123,870	\$ 1,705,921	\$ 2,829,791
2021	1,172,700	1,654,958	2,827,658
2022	1,222,100	1,606,594	2,828,694
2023	1,272,490	1,556,230	2,828,720
2024	1,321,460	1,507,921	2,829,761
2025 – 2028	<u>36,452,110</u>	<u>4,501,640</u>	<u>40,953,750</u>
Total	<u>\$ 42,565,110</u>	<u>\$ 12,533,264</u>	<u>\$ 55,098,374</u>

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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 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/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.

The Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. A brief description of some of the major changes to plan provisions required by SB 18-200 for the SCHDTF are listed below. A full copy of the bill can be found online at www.leg.colorado.gov.

- Increases employer contribution rates for the SCHDTF by 0.25 percent on July 1, 2019.
- Increases employee contribution rates for the SCHDTF by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- As specified in C.R.S. § 24-51-413, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the total annual payroll of the SCHDTF, State Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. A portion of the direct distribution allocated to the SCHDTF is considered a nonemployer contribution for financial reporting purposes.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, increases the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the State, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 7: DEFINED BENEFIT PENSION PLAN

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 (CAFR) that can be obtained at www.copera.org/investments/pera-financial-reports.

Benefits provided as of December 31, 2018. PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

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

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

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

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

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 7: DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan (Continued)

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

As of December 31, 2018, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments in certain years, referred to as annual increases in the C.R.S. Pursuant to SB 18-200, there are no annual increases (AI) for 2018 and 2019 for all benefit recipients. Thereafter, benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure will receive an annual increase, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 1.5 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 will receive the lesser of an annual increase of 1.5 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. The automatic adjustment provision may raise or lower the aforementioned AI for a given year by up to one-quarter of 1 percent based on the parameters specified C.R.S. § 24-51-413.

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 lifetime retirement benefit formula(s) shown above considering a minimum 20 years of service credit, if deemed disabled.

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

Contributions provisions as of June 30, 2019: Eligible employees, the Academy and the State are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements for the SCHDTF are established under C.R.S. § 24-51-401, *et seq.* and § 24-51-413. Eligible employees are required to contribute 8 percent of their PERA-includable salary during the period of July 1, 2018 through June 30, 2019. Employer contribution requirements are summarized in the table below:

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 7: DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan (Continued)

	January 1, 2018 Through December 31, 2018	January 1, 2019 Through December 31, 2019
Employer contribution rate ¹	10.15%	10.15%
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) ¹	(1.02)%	(1.02)%
Amount apportioned to the SCHDTF ¹	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 ¹	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 ¹	5.50%	5.50%
Total employer contribution rate to the SCHDTF	19.13%	19.13%

Contribution rates for the SCHDTF are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

As specified in C.R.S. § 24-51-413, the State is required to contribute \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the total annual payroll of the SCHDTF, State Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools Division Trust Fund. A portion of the direct distribution allocated to the SCHDTF is considered a nonemployer contribution for financial reporting purposes.

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the Academy were \$779,568 for the year ended June 30, 2019.

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

The net pension liability for the SCHDTF was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. Standard update procedures were used to roll-forward the total pension liability to December 31, 2018.

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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 Academy's proportion of the net pension liability was based on the Academy's contributions to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers and the State as a nonemployer contributing entity.

At June 30, 2019 the Academy reported a liability of \$12,165,639 for its proportionate share of the net pension liability that reflected a reduction for support from the State as a nonemployer contributing entity. The amount recognized by the Academy as its proportionate share of the net pension liability, the related support from the State as a nonemployer contributing entity, and the total portion of the net pension liability that was associated with the Academy were as follows:

The Academy's proportionate share of the net pension liability	\$12,165,639
The State's proportionate share of the net pension liability as a nonemployer contributing entity associated with the Academy	\$1,663,482
Total	\$13,829,121

At December 31, 2018, the Academy's proportion was 0.06871%, which was a decrease of 0.00718% from its proportion measured as of December 31, 2017.

For the year ended June 30, 2019 the Academy recognized pension expense of \$1,036,320 and revenue of \$8,546 for support from the State as a nonemployer contributing entity.. At June 30, 2019, the Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 412,672	N/A
Changes of assumptions or other inputs	\$ 2,270,770	\$ 7,565,719
Net difference between projected and actual earnings on pension plan investments	\$ 663,103	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	N/A	\$ 470,509
Contributions subsequent to the measurement date	\$ 391,584	N/A
Total	\$ 3,738,129	\$ 8,036,228

\$391,584 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, 2020. 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,	
2020	(\$ 211,039)
2021	(\$ 2,793,981)
2022	(\$ 2,047,394)
2023	\$ 362,731

Actuarial assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.70 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	4.78 percent

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

ANOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

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

Post-retirement benefit increases:

PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic)	2.00 percent compounded annually
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

The revised assumptions shown below were reflected in the roll-forward calculation of the total pension liability from December 31, 2017 to December 31, 2018:

Discount rate	7.25 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07 and DPS benefit structure (automatic)	0% through 2019 and 1.5% compounded annually, thereafter
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

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.

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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

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

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

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

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%	

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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)

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 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- 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 member contribution rates in effect for each year, including the scheduled increases in SB 18-200. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law for each year, including the scheduled increase in SB 18-200. Employer contributions also include the 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.
- As specified in law, the State will provide an annual direct distribution of \$225 million (actual dollars), commencing July 1, 2018, that is proportioned between the State, School, Judicial, and DPS Division Trust Funds based upon the covered payroll of each Division. The annual direct distribution ceases when all Division Trust Funds are fully funded.
- Employer contributions and the amount of total service costs for future plan members were based upon a process to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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 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. 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 middle of the year.

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

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.43 percent were used in the discount rate determination resulting in a discount rate of 4.78 percent, 2.47 percent lower 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 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability	\$ 15,466,529	\$ 12,165,639	\$ 9,395,636

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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

Summary of Significant Accounting Policies

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

General Information about the OPEB Plan

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

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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

General Information about the OPEB Plan (Continued)

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

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

PERA Benefit Structure

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

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

DPS Benefit Structure

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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

General Information about the OPEB Plan (Continued)

The retiree pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For retirees who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, the HCTF or the DPS HCTF pays an alternate service-based premium subsidy. Each individual retiree meeting these conditions receives the maximum \$230 per month subsidy reduced appropriately for service less than 20 years, as described above. Retirees who do not have Medicare Part A pay the difference between the total premium and the monthly subsidy.

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the Academy is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the Academy were \$39,462 for the year ended June 30, 2019.

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

At June 30, 2019, the Academy reported a liability of \$607,599 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2017. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2018. The Academy's proportion of the net OPEB liability was based on the Academy's contributions to the HCTF for the calendar year 2018 relative to the total contributions of participating employers to the HCTF.

At December 31, 2018, the Academy's proportion was 0.04466%, which was an increase of 0.00154% from its proportion measured as of December 31, 2017.

For the year ended June 30, 2019, the Academy recognized OPEB expense of \$67,187. At June 30, 2019, the Academy reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 2,205	\$ 925
Changes of assumptions or other inputs	\$ 4,262	N/A
Net difference between projected and actual earnings on OPEB plan investments	\$ 3,494	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	\$ 82,803	N/A
Contributions subsequent to the measurement date	\$ 19,822	N/A
Total	\$ 112,586	\$ 925

\$19,822 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30,	
2020	\$ 18,672
2021	\$ 18,672
2022	\$ 18,672
2023	\$ 23,443
2024	\$ 12,348
Thereafter	\$ 32

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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

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

Actuarial assumptions. The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.25 percent for 2018, gradually rising to 5.00 percent in 2025
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

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

The actuarial assumptions used in the December 31, 2017, valuations were based on the results of the 2016 experience analysis for the periods January 1, 2012, through December 31, 2015, as well as, the October 28, 2016, actuarial assumptions workshop and were adopted by the PERA Board during the November 18, 2016, Board meeting. In addition, certain actuarial assumptions pertaining to per capita health care costs and their related trends are analyzed and reviewed by PERA's actuary, as discussed below.

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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

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

In determining the additional liability for PERACare enrollees who are age sixty–five or older and who are not eligible for premium–free Medicare Part A, the following monthly costs/premiums are assumed for 2018 for the PERA Benefit Structure:

Medicare Plan	Cost for Members Without Medicare Part A	Premiums for Members Without Medicare Part A
Self-Funded Medicare Supplement Plans	\$736	\$367
Kaiser Permanente Medicare Advantage HMO	602	236
Rocky Mountain Health Plans Medicare HMO	611	251
UnitedHealthcare Medicare HMO	686	213

The 2018 Medicare Part A premium is \$422 per month.

In determining the additional liability for PERACare enrollees in the PERA Benefit Structure who are age sixty–five or older and who are not eligible for premium–free Medicare Part A, the following chart details the initial expected value of Medicare Part A benefits, age adjusted to age 65 for the year following the valuation date:

Medicare Plan	Cost for Members Without Medicare Part A
Self-Funded Medicare Supplement Plans	\$289
Kaiser Permanente Medicare Advantage HMO	300
Rocky Mountain Health Plans Medicare HMO	270
UnitedHealthcare Medicare HMO	400

All costs are subject to the health care cost trend rates, as discussed below.

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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

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

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2017, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

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

Year	PERACare Medicare Plans	Medicare Part A Premiums
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.25%
2023	5.00%	4.50%
2024	5.00%	4.75%
2025+	5.00%	5.00%

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

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

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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

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

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

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

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

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

The following health care costs assumptions were updated and used in the measurement of the obligations for the HCTF:

- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2018 plan year.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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

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

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

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

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

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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

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

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%.

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

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.25%	3.25%	4.25%
Ultimate Medicare Part A trend rate	4.00%	5.00%	6.00%
Net OPEB Liability	\$ 590,821	\$ 607,599	\$ 626,897

Discount rate. The discount rate used to measure the total OPEB liability was 7.25 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2018, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date.

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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

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

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

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	\$ 679,851	\$ 607,599	\$ 545,831

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

ROCKY MOUNTAIN CLASSICAL ACADEMY

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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, 2019, significant amounts of grant expenditures have not been audited, but the Academy believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Academy.

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The Academy believes it has complied with the Amendment.

As required by the Amendment, the Academy has established a reserve for emergencies. At June 30, 2019, the reserve of \$350,000 was recorded as a reservation of fund balance in the General Fund.

Operating Leases

The Academy leases classroom facilities under noncancelable leases. Total costs for such leases were \$189,835 for the year ended June 30, 2019. Future minimum lease payments for operating leases are \$147,156 for the year to June 30, 2020.

NOTE 11: RESTATEMENT OF NET POSITION

The beginning net position of the governmental activities and internal service fund was decreased by \$203,647 as the Academy recorded rental revenues incorrectly.

NOTE 12: DEFICIT NET POSITION

The Net Position of the government type activities is in a deficit position of \$16,917,825 due to the Academy including the Net Pension Liability per GASB No. 68, Net OPEB liability per GASB No. 75 and loans.

REQUIRED SUPPLEMENTARY INFORMATION

ROCKY MOUNTAIN CLASSICAL ACADEMY

BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 Year Ended June 30, 2019

	2019			VARIANCE Positive (Negative)
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	
REVENUES				
Local Sources				
Per Pupil Revenue	10,442,831	10,397,377	\$ 10,402,459	\$ 5,082
Mill Levy Override	215,000	215,000	385,093	170,093
Tuition and Fees	480,194	309,211	666,486	357,275
Grants and Donations	150,606	176,500	125,852	(50,648)
Other	56,000	45,000	35,901	(9,099)
State and Federal Sources				
State and Federal Grants	420,447	433,660	730,928	297,268
 TOTAL REVENUES	 11,765,078	 11,576,748	 12,346,719	 769,971
EXPENDITURES				
General Government				
Current				
Salaries	3,736,121	4,012,364	4,403,834	(391,470)
Employee Benefits	1,349,986	1,214,120	1,425,743	(211,623)
Purchased Services	5,554,301	5,659,714	5,476,400	183,314
Supplies and Materials	698,111	636,690	507,622	129,068
Property	67,102	36,570	32,272	4,298
Other	40,961	42,875	51,704	(8,829)
 TOTAL EXPENDITURES	 11,446,582	 11,602,333	 11,897,575	 (295,242)
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 318,496	 (25,585)	 449,144	 474,729
 NET CHANGE IN FUND BALANCE	 318,496	 (25,585)	 449,144	 474,729
 FUND BALANCE, Beginning	 -	 -	 4,245,308	 4,245,308
 FUND BALANCE, Ending	 \$ 318,496	 \$ (25,585)	 \$ 4,694,452	 \$ 4,720,037

See the accompanying independent auditors' report.

ROCKY MOUNTAIN CLASSICAL ACADEMY

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

Years Ended December 31,

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
School's proportionate share of the Net Pension Liability	0.053%	0.056%	0.053%	0.063%	0.076%	0.069%
School's proportionate share of the Net Pension Liability	\$ 6,784,173	\$ 7,559,754	\$ 8,078,614	\$ 18,728,212	\$ 24,537,350	\$ 12,165,639
State of Colorado Proportionate Share of the Net Pension Liability associated with the Academy	-	-	-	-	-	<u>1,663,482</u>
Total portion of the Net Pension Liability associated with the Academy	\$ 6,784,173	\$ 7,559,754	\$ 8,078,614	\$ 18,728,212	\$ 24,537,350	\$ 13,829,121
School's covered payroll	\$ 2,144,196	\$ 2,336,686	\$ 2,301,931	\$ 2,823,132	\$ 3,500,320	\$ 3,868,815
School's proportionate share of the Net Pension Liability as a percentage of its covered payroll	316.4%	323.5%	350.9%	663.4%	701.0%	314.5%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%	43.1%	43.96%	57.01%

Note: Information above is presented as of the measurement date.

See the accompanying independent auditors' report.

ROCKY MOUNTAIN CLASSICAL ACADEMY

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DISTRICT TRUST FUND

Years Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Statutorily required contributions	\$ 332,994	\$ 383,918	\$ 398,925	\$ 511,834	\$ 652,110	\$ 779,568
Contributions in relation to the Statutorily required contributions	<u>(332,994)</u>	<u>(383,918)</u>	<u>(398,925)</u>	<u>(511,834)</u>	<u>(652,110)</u>	<u>(779,568)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	\$ 2,144,196	\$ 2,356,686	\$ 2,301,931	\$ 2,823,132	\$ 3,500,320	\$ 3,868,815
Contributions as a percentage of covered payroll	15.53%	16.29%	17.33%	18.13%	18.63%	20.15%

See the accompanying independent auditors' report.

ROCKY MOUNTAIN CLASSICAL ACADEMY

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

Years Ended December 31,

	<u>2017</u>	<u>2018</u>	<u>2019</u>
School's proportionate share of the Net Pension Liability	0.036%	0.043%	0.045%
School's proportionate share of the Net Pension Liability	\$ 463,188	\$ 560,329	\$ 607,599
School's covered payroll	\$ 2,823,132	\$ 3,500,320	\$ 3,868,815
School's proportionate share of the Net Pension Liability as a percentage of its covered payroll	16.4%	16.0%	15.7%
Plan fiduciary net position as a percentage of the total pension liability	16.72%	17.53%	17.03%

See the accompanying independent auditors' report.

ROCKY MOUNTAIN CLASSICAL ACADEMY
 SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
 HEALTH CARE TRUST FUND

Years Ended June 30,

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Statutorily required contributions	\$ 28,773	\$ 35,703	\$ 39,462
Contributions in relation to the Statutorily required contributions	<u>(28,773)</u>	<u>(35,703)</u>	<u>(39,462)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered-employee payroll	\$ 2,823,132	\$ 3,500,320	\$ 3,868,815
Contributions as a percentage of covered-employee payroll	1.02%	1.02%	1.02%

See the accompanying independent auditors' report.