

IMAGINE INDIGO RANCH
BASIC FINANCIAL STATEMENTS
June 30, 2019

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JOHN CUTLER & ASSOCIATES

Board of Directors
Imagine Indigo Ranch
Colorado Springs, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Imagine Indigo Ranch, component unit of the Falcon School District No. 49, and the related notes to the financial statements, as of and for the year ended June 30, 2019, which collectively comprise the basic financial statements of the School, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Imagine Indigo Ranch, as of June 30, 2019, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 39-43 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 Lutler & Associates, LLC

September 20, 2019

Management's Discussion and Analysis

As management of Imagine Indigo Ranch, we offer readers of Imagine Indigo Ranch's financial statements our narrative overview and analysis of the financial activities of Imagine Indigo Ranch for the fiscal year ended June 30, 2019.

Financial Highlights

As of June 30, 2019, net position decreased to (\$9,556,849) which was a change of (\$40,064) from (\$9,516,785) on June 30, 2018. This negative net position is based on the implementation of new regulations under the Governmental Accounting Standards Board Statement (GASB) Number 68. Further information about GASB 68 is provided in Note 4 of the financial statements.

At the close of the fiscal year Imagine Indigo Ranch's governmental funds reported a combined ending fund balance of \$9,067,109 which was a decrease of \$53,675 in the General Fund. The Building Corp. Fund reported an ending balance of \$7,908,956.

Forest Meadows Building Corporation was formed to assist in the financing and construction of the School's facilities. The Building Corporation received bond proceeds in the amount of \$21,140,000. Cash in the amount of \$7,908,956 has been restricted in the Building Corporation Fund for payment of the debt service expenses and to provide funding for the School's new building project.

Overview of Financial Statements

This discussion and analysis are intended to serve as an introduction to Imagine Indigo Ranch's basic financial statements. Imagine Indigo Ranch'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 Imagine Indigo Ranch's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected grant expenses and earned but unpaid salary and benefits).

The government-wide statement of activities distinguishes functions/programs of Imagine Indigo Ranch supported primarily by Per Pupil Operating Revenue or other revenues passed through from the District (Falcon District 49). The governmental activities of Imagine Indigo Ranch include instruction and supporting services. The government-wide financial statements can be found on pages 2-3 of this report.

Fund financial statements

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

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

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

Imagine Indigo Ranch maintains one individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, because it is considered to be a major fund.

Imagine Indigo Ranch adopts an annual appropriated budget for its funds. Budgetary comparison statements have been provided for the funds to demonstrate compliance with the budget.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. This information is provided in pages 6-34.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the School's financial position. In the case of Imagine Indigo Ranch, liabilities exceeded assets resulting in a Net Position of (\$9,556,849) in FY 2019. Again, this is directly related to the new pension liability reporting requirement under GASB 68.

Imagine Indigo Ranch Net Assets		
Governmental		
Activities		

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Current and other Assets	\$9,090,179	\$1,225,143
Capital Assets	\$12,495,371	0
Prepaid Expenses	\$8,430	8,431
	-----	-----
Total Assets	\$21,593,980	\$1,234,018
Related to Pensions	\$1,709,409	\$3,850,278
Related to OPEB	\$13,288	\$10,596
	-----	-----
Total Deferred Outflows	\$1,722,697	\$3,860,874
Long-term Liabilities	\$20,919,792	0
Other Liabilities	\$31,500	\$22,190
Net Pension Liability	\$5,621,427	\$13,439,627
Net OPEB Liability	\$280,102	\$306,317
	-----	-----
Total Liabilities	\$26,852,821	\$13,768,134
Related to Pensions	\$6,001,904	\$824,535
Related to OPEB	\$18,801	\$19,008
	-----	-----
Total Deferred Inflows	\$6,020,705	\$843,543
Restricted for		
Net Investment	(\$8,424,421)	0
Emergencies	173,000	183,000
Unassigned	(\$1,305,428)	(9,699,785)
	-----	-----
Total Net Position	\$ (9,556,849)	\$ (9,516,785)
	=====	=====

The largest portion of Imagine Indigo Ranch's assets is in made up on 58% capital assets and 42% cash and investments. The School's net position decreased in 2019 by \$40,064.

Imagine Indigo Ranch Statement of Activities
Governmental
Activities

	<u>Year Ended</u> <u>June 30, 2019</u>	<u>Year Ended</u> <u>June 30, 2018</u>
Revenue		
Per Pupil Revenue	\$5,155,270	\$5,108,925
Mill Levy Override	100,500	469,583
Tuition & Fees	403,810	430,952
Capital Construction	215,249	184,254
Operating Grants	116,014	83,321
Other	441,102	35,401
	-----	-----
Total Revenue	\$6,431,945	\$6,312,436
Expenses		
Instructional	2,620,555	4,343,646
Supporting Services	3,851,454	4,741,402
	-----	-----
Total Expenses	6,472,009	9,085,048
Changes in Net Position	(40,064)	(2,772,612)
Net Position, Beginning	(9,516,785)	(6,744,173)
	-----	-----
Fund Balance, Ending	\$(9,556,849)	\$(9,516,785)
	=====	=====

The largest portion of Imagine Indigo Ranch’s revenues come from per pupil funding – 86% in 2019, 81% in 2018 and 86% in 2017. The School’s revenue decreased by \$308,412 and expenses decreased by \$319,003 in 2019.

Financial Analysis of the Government’s Funds

As noted earlier, Imagine Indigo Ranch uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds The focus of Imagine Indigo Ranch’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Imagine Indigo Ranch’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.

Imagine’s enrollment has decreased for a second year in a row. However, current estimates for the 2019-2020 school year show a significant increase with an anticipated 756 student count. Below are the historical enrollment numbers:

Fiscal Year	K – 8th FTE	K – 8th Enrollment
2008 / 2009	176.5	196
2009 / 2010	544.54	591
2010 / 2011	651.3	688
2011 / 2012	745.3	848
2012 / 2013	808.86	898
2013 / 2014	794.2	821
2014 / 2015	706.46	751
2015 / 2016	723.86	773
2016 / 2017	747.28	797
2017 / 2018	698.22	742
2018 / 2019	663.00	705

As of the end of the current fiscal year, the School’s General Fund reported an ending fund balance of \$1,158,153 which was a decrease of \$53,675.

General Fund Budgetary Highlights

The School approves a final budget in May based on enrollment projections for the following school year. In October, after enrollment stabilizes, adjustments are made to the budget. At year-end, the final adjustments to the budget were made, and the school had small variances between its budgeted and actual activities. Expenses remained within budget in an effort to remain compliant with Statute.

Capital Asset and Debt Administration

Capital Assets Imagine Indigo Ranch did not have any investment in capital assets as of June 30, 2018. Forest Meadows Building Corporation received bond proceeds in the amount of \$21,140,000. Cash in the amount of \$7,908,956 has been restricted in the Building Corporation Fund for payment of the debt service expenses and to provide funding for the School’s building expansion project.

Long-Term Debt Imagine Indigo Ranch did not have any long-term debt or capital leases as of June 30, 2019. Forest Meadows Building Corporation took on long-term debt in the amount of \$20,919,792 in support of the school construction project.

Economic Factors and Next Year's Budget

During 2018/2019, the school had a funded FTE pupil count of 663 and initially approved a budget based on 700 FTE funded pupils for 2019/2020. As of 9/12/2019 the actual student count is 756 and is anticipated to remain fairly steady through count day.

Requests for Information

This financial report is designed to provide a general overview of Imagine Indigo Ranch'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 Imagine Indigo Ranch Principal, 6464 Peterson Rd, Colorado Springs, CO, 80923.

BASIC FINANCIAL STATEMENTS

IMAGINE INDIGO RANCH

STATEMENT OF NET POSITION

As of June 30, 2019

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and Investments	\$ 1,072,024	\$ 1,225,143
Restricted Cash and Investments	7,908,956	-
Accounts Receivable	109,199	444
Prepaid Expenses	8,430	8,431
Capital Assets, Not Being Depreciated	12,495,371	-
	<u>21,593,980</u>	<u>1,234,018</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	1,709,409	3,850,278
Related to OPEB	13,288	10,596
	<u>1,722,697</u>	<u>3,860,874</u>
LIABILITIES		
Accounts Payable	31,500	13,895
Unearned Revenues	-	8,295
Noncurrent Liabilities		
Due in More than One Year	20,919,792	-
Net Pension Liability	5,621,427	13,439,627
Net OPEB Liability	280,102	306,317
	<u>26,852,821</u>	<u>13,768,134</u>
DEFERRED INFLOWS OF RESOURCES		
Related to Pensions	6,001,904	824,535
Related to OPEB	18,801	19,008
	<u>6,020,705</u>	<u>843,543</u>
NET POSITION		
Net Investment in Capital Assets	(8,424,421)	-
Restricted for Emergencies	173,000	183,000
Unrestricted	(1,305,428)	(9,699,785)
	<u>\$ (9,556,849)</u>	<u>\$ (9,516,785)</u>

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

IMAGINE INDIGO RANCH

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

	GENERAL FUND	BUILDING CORP FUND	TOTALS	
			2019	2018
ASSETS				
Cash and Investments	\$ 1,072,024	\$ -	\$ 1,072,024	\$ 1,225,143
Restricted Cash and Investments	-	7,908,956	7,908,956	-
Accounts Receivable	109,199	-	109,199	444
Prepaid Expenses	8,430	-	8,430	8,431
TOTAL ASSETS	\$ 1,189,653	\$ 7,908,956	\$ 9,098,609	\$ 1,234,018
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 31,500	\$ -	\$ 31,500	\$ 13,895
Unearned Revenues	-	-	-	8,295
TOTAL LIABILITIES	31,500	-	31,500	22,190
FUND BALANCES				
Nonspendable	8,430	-	8,430	-
Restricted for Emergencies	173,000	-	173,000	183,000
Restricted for Debt Service	-	7,908,956	7,908,956	-
Unassigned	976,723	-	976,723	1,020,397
TOTAL FUND BALANCES	1,158,153	7,908,956	9,067,109	1,203,397
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,189,653	\$ 7,908,956		
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.			12,495,371	-
Long-term liabilities are not due and payable in the current period and are not reported in the funds. This included bonds payable (\$21,140,000) and bond discount \$220,208.			(20,919,792)	-
Long-term liabilities and related assets are not due and payable in the current period and, therefore, are not reported in the funds. This amount is comprised of net pension liability of (\$5,621,427), net OPEB liability of (\$280,102), deferred outflows related to pensions of \$1,709,409, deferred outflows related to OPEB of \$13,288, deferred inflows related to pensions of (\$6,001,904), deferred inflows related to OPEB of (\$18,801).			(10,199,537)	(10,728,613)
Net position of the governmental activities.			\$ (9,556,849)	\$ (9,525,216)

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

IMAGINE INDIGO RANCH

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

	GENERAL FUND	BUILDING CORP FUND	TOTALS	
			2019	2018
REVENUES				
Local Sources	\$ 5,735,461	\$ 378,320	\$ 6,113,781	\$ 6,085,631
State Sources	309,149	-	309,149	206,321
Federal Sources	5,066	-	5,066	20,484
TOTAL REVENUES	<u>6,049,676</u>	<u>378,320</u>	<u>6,427,996</u>	<u>6,312,436</u>
EXPENDITURES				
Current				
Instruction	2,985,971	-	2,985,971	2,516,562
Supporting Services	3,117,380	-	3,117,380	3,860,140
Capital Outlay	-	12,475,659	12,475,659	-
Bond Issuance Costs		316,495	316,495	-
Debt Service				
Principal	-	-	-	-
Interest	-	552,960	552,960	-
TOTAL EXPENDITURES	<u>6,103,351</u>	<u>13,345,114</u>	<u>19,448,465</u>	<u>6,376,702</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(53,675)</u>	<u>(12,966,794)</u>	<u>-</u>	<u>(64,266)</u>
OTHER FINANCING SOURCES				
Proceeds from Issuance of Debt	-	20,875,750	20,875,750	-
NET CHANGE IN FUND BALANCES	(53,675)	7,908,956	7,855,281	(64,266)
FUND BALANCES, Beginning	<u>1,211,828</u>	<u>-</u>	<u>1,211,828</u>	<u>1,276,094</u>
FUND BALANCES, Ending	<u>\$ 1,158,153</u>	<u>\$ 7,908,956</u>	<u>\$ 9,067,109</u>	<u>\$ 1,211,828</u>

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

IMAGINE INDIGO RANCH

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	\$ 7,855,281
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities.	12,495,371
Bond proceeds are reported as financing sources in the governmental funds and increase fund balance. In the government-wide financial statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not effect the statement of activities.	(20,919,792)
Deferred charges related to pensions and OPEB are not recognized in the governmental funds. However, for the government-wide funds that amount is capitalized and amortized.	<u>529,076</u>
Change in net assets of governmental activities	<u><u>\$ (40,064)</u></u>

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

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Imagine Indigo Ranch (the “School”) was formed in June 2008, pursuant to the Colorado Charter Schools Act to form and operate a charter school. The School’s focus is to provide a Core-Knowledge curriculum that encourages students to become well-educated, virtuous citizens who will embody the following attributes: Competence, Curiosity, Courage, Conscience, Compassion, and Citizenship.

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

Forest Meadows Building Corporation

The Forest Meadows Building Corporation (the “Building Corporation”) is considered to be financially accountable to the School. The Building Corporation was formed to support and assist the School to perform its function and to carry out its purpose, specifically to assist in the financing and construction of the School’s facilities. The Building Corporation received bond proceeds in the amount of \$21,140,000. Cash in the amount of \$7,908,956 has been restricted in the Building Corporation Fund for payment of the debt service expenses and to provide funding for the School’s building expansion project.

The School is a component unit of the Falcon School District No. 49 (the “District”).

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the School. 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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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 School's policy to use restricted resources first and the unrestricted resources as they are needed.

IMAGINE INDIGO RANCH

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)

The School reports the following major governmental fund:

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

Deferred Outflows/Inflows of Resources

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

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

Assets, Liabilities and Fund Balance/Net Position

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

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. 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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Fund Balance Classification – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School 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 (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The School classifies Prepaid Expenses as nonspendable as these items are not expected to be converted to cash within the next year.
- 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 School has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies. The fund balance in the Building Corporation Fund is restricted for construction expenses and debt service.
- 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 School did not have any committed resources as of June 30, 2019.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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 School's financial position and operations. However, complete comparative data in accordance with generally accepted accounting principles has not been presented since its inclusion would make the financial statements unduly complex and difficult to read. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

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

IMAGINE INDIGO RANCH

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	\$ 1,072,024
Investments	<u>7,908,956</u>
Total	<u>\$ 8,980,980</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 School 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 School has no policy regarding custodial credit risk for deposits.

At June 30, 2019, the School had deposits with financial institutions with a carrying amount of \$1,072,024. The bank balances with the financial institutions were \$1,142,338. Of these balances, \$250,000 was covered by federal depository insurance and \$892,338 was covered by collateral held by authorized escrow agents in the financial institutions name (PDPA).

Investments

Interest Rate Risk

The School 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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 3: CASH AND 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

Fair Value

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

At June 30, 2019, the School held investments in a money market fund in the amount of \$7,908,956. The fund invests only in U.S Treasury Obligations and is rated Aaa by Moody's. Given the low risk of this type of investment, the Academy has not established a policy limiting the amount of investments in this type of security and deems it unnecessary at this time. These investments are valued with Level 1 inputs.

Restricted Cash and Investments

Investments in money market funds totaling \$7,908,956 are restricted in the Building Corporation for the payment of the Academy's capital construction and debt payments.

IMAGINE INDIGO RANCH

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 Depreciated				
Construction in Progress	\$ -	\$ 12,495,371	\$ -	\$ 12,495,371
Net Capital Assets	<u>\$ -</u>	<u>\$ 12,495,371</u>	<u>\$ -</u>	<u>\$ 12,495,371</u>

NOTE 5: 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>
CECFA Charter School Revenue Bonds Series 2018A	\$ -	\$ 20,975,000	\$ -	\$ 20,975,000	\$ -
CECFA Charter School Revenue Bonds, Federally Taxable Series 2018B	-	165,000	-	165,000	-
Bond Discount	-	(264,250)	44,042	(220,208)	-
Total	<u>\$ -</u>	<u>\$ 20,875,750</u>	<u>\$ 44,042</u>	<u>\$ 20,919,792</u>	<u>\$ -</u>

2018 Bonds Payable

In July 2018, the Colorado Educational and Cultural Facilities Authority (CECFA) issued \$21,140,000 Charter School Revenue Bonds Series 2018A and 2018B. Proceeds of the bonds were loaned to the Corporation to provide funding for the Schools' building project. The Series 2018A bond accrues interest of 5.60% per annum. Principal payments are due annually on July 1 and will begin on July 1, 2021. Series 2018A will mature on July 1, 2025 and Series 2018B will mature on July 1, 2021. Interest payments are due biannually on July 1 and January 1 and began on January 1, 2019.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 5: LONG TERM DEBT (Continued)

Future debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ -	\$ 1,184,912	\$ 1,184,912
2021	-	1,184,912	1,184,912
2022	235,000	1,177,796	1,412,796
2023	250,000	1,163,680	1,413,680
2024-2026	<u>20,655,000</u>	<u>2,847,180</u>	<u>23,502,180</u>
Total	\$ 21,140,000	\$ 7,558,480	\$ 28,698,480

NOTE 6: DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Policies

Pensions. The School 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).

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 6: DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Policies (Continued)

- 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.

General Information about the Pension Plan

Plan description. Eligible employees of the School 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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 6: DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan (Continued)

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

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

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

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

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

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

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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 6: DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan (Continued)

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 School 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:

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 6: 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 School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the School were \$335,630 for the year ended June 30, 2019.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 6: DEFINED BENEFIT PENSION PLAN

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. The School proportion of the net pension liability was based on the School'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 School reported a liability of \$5,621,427 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 School 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 School were as follows:

The School's proportionate share of the net pension liability	\$5,621,427
The State's proportionate share of the net pension liability as a nonemployer contributing entity associated with the School	\$768,652
Total	\$6,390,079

At December 31, 2018, the School's proportion was 0.03175 percent, which was a decrease of 0.00982 percent from its proportion measured as of December 31, 2017.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

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

For the year ended June 30, 2019, the School recognized pension income of \$164,322 and revenue of \$3,949 for support from the State as a nonemployer contributing entity. At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 190,685	N/A
Changes of assumptions or other inputs	\$ 1,049,264	\$3,495,923
Net difference between projected and actual earnings on pension plan investments	\$306,403	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	N/A	\$ 2,505,981
Contributions subsequent to the measurement date	\$ 163,057	N/A
Total	\$1,709,409	\$6,001,904

\$163,057 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	(\$1,268,019)
2021	(\$2,059,178)
2022	(\$1,295,963)
2023	\$167,608

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

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

Actuarial assumptions. The total pension liability in the December 31, 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
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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 6: **DEFINED BENEFIT PENSION PLAN** (Continued)

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

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.

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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

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

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

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

In setting the long-term expected rate of return, projections employed to model future returns provide a range of expected long-term returns that, including expected inflation, ultimately support a long-term expected rate of return assumption of 7.25%.

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%.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

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

- 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.
- 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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 6: DEFINED BENEFIT PENSION PLAN (Continued)

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

As of the prior measurement date, the 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 School'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	\$7,146,683	\$5,621,427	\$4,341,480

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.

NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN

Summary of Significant Accounting Policies

OPEB. The School 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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(Continued)

General Information about the OPEB Plan

Plan description. Eligible employees of the School 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.

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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(Continued)

General Information about the OPEB Plan (Continued)

PERA Benefit Structure

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

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

DPS Benefit Structure

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

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

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(Continued)

General Information about the OPEB Plan (Continued)

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the School were \$17,897 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 School reported a liability of \$280,102 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 School's proportion of the net OPEB liability was based on the School'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 School's proportion was 0.02059 percent, which was a decrease of 0.00298 percent from its proportion measured as of December 31, 2017.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 7: 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)

For the year ended June 30, 2019, the School recognized OPEB expense of \$6,961. At June 30, 2019, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$1,017	\$426
Changes of assumptions or other inputs	\$1,965	N/A
Net difference between projected and actual earnings on OPEB plan investments	\$1,611	N/A
Changes in proportion and differences between contributions recognized and proportionate share of contributions	N/A	\$18,375
Contributions subsequent to the measurement date	\$8,695	N/A
Total	\$13,288	\$18,801

\$8,695 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, 2021. 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	(\$2,324)
2021	(\$2,324)
2022	(\$2,324)
2023	(\$1,205)
2024	(\$5,785)
Thereafter	(\$246)

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 7: 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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 7: 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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 7: 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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(Continued)

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

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

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

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

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

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

The following 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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 7: 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%	

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%.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 7: DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN
(Continued)

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

Sensitivity of the School'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	2.02%	3.25%	4.25%
Ultimate Medicare Part A trend rate	4.00%	45.00%	6.00%
Net OPEB Liability	\$272,367	\$280,102	\$288,998

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.
- 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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 7: 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)

- 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 School'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	\$313,410	\$280,102	\$251,627

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.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

NOTE 8: COMMITMENTS AND CONTINGENCIES

Building Lease

In July 2009, the School entered into an operating lease agreement for a building with Schoolhouse Finance, LLC. The lease requires an annual base rent payment of \$952,274, payable in monthly installments. The annual lease requirement escalates each July 1 at a rate equal to the lesser of 1.5% over the overall Consumer Price Index for the preceding calendar year or the maximum permitted by law. The lease agreement continues so long as the School's operating agreement with Imagine School, Inc. remains in effect.

Total rent expense for the year ended June 30, 2019 for the lease was \$1,340,290.

Management Service Contract

The School has entered into a service agreement in June 2008 with Imagine Schools, Inc. The contract is for management services and remains in effect until the expiration of the School's Charter, and may be cancelled or terminated pursuant to the terms and conditions as set forth in the agreement. Under the management agreement, the management company will manage and operate the School during the term of the agreement for an annual fee of 12% of revenues. Current year management fees charged under this agreement totaled \$618,850.

The service agreement also calls for a loss mitigation fee ranging from 1% - 3% of revenues for 20 years. There were no loss mitigation fees charged under the agreement for the year ended June 30, 2019.

In addition, the School is required to pay a Development Allocation fee of \$2,500 per month for 20 years through August 2028. If the School's operating agreement with Imagine is terminated, the remaining balance of the Development Allocation fee is terminated as well and will not be due and payable to Imagine. No development allocation fees were paid under this agreement for the year ended June 30, 2019.

As of June 30, 2019, the School's agreement with Imagine Schools, Inc. concluded.

Claims and Judgments

The School 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 School may be required to reimburse the grantor government. As of June 30, 2019, significant amounts of grant expenditures have not been audited, but the School believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the School.

IMAGINE INDIGO RANCH

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2019

NOTE 8: **COMMITMENTS AND CONTINGENCIES** (Continued)

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment. As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2019, the reserve of \$173,000 was recorded as a restriction of fund balance in the General Fund.

NOTE 9: **SUBSEQUENT EVENTS**

On July 1, 2018, the School began operations as Grand Peak Academy (GPA) and severed ties as a charter school under Imagination Schools, Inc. However, the School entered into a four-month lease agreement to remain in their current building until GPA's building project was completed. Once the lease is terminated, GPA will be refunded their \$100,000 security deposit.

NOTE 10: **DEFICIT NET POSITION**

The Net Position of the government type activities is in a deficit position of \$9,556,849 due to the School including the Net Pension Liability per GASB No. 68 and the Net OPEB Liability per GASB No. 75.

REQUIRED SUPPLEMENTARY INFORMATION

IMAGINE INDIGO RANCH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2019

	2019			VARIANCE Positive (Negative)	2018 ACTUAL
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		
REVENUES					
Local Sources					
Per Pupil Revenue	\$ 5,251,400	\$ 5,153,990	\$ 5,155,270	\$ 1,280	\$ 5,108,925
Mill Levy Override	9,000	44,292	100,500	56,208	469,583
Tuition and Fees	303,000	303,000	403,810	100,810	430,952
Grants and Donations	-	-	17,048	17,048	40,770
Investments	-	-	576	576	-
Other	108,160	116,804	58,257	(58,547)	35,401
State Sources					
Grants and Donations	187,884	214,941	309,149	94,208	206,321
Federal Sources					
Grants and Donations	-	2,967	5,066	2,099	20,484
TOTAL REVENUES	<u>5,859,444</u>	<u>5,835,994</u>	<u>6,049,676</u>	<u>213,682</u>	<u>6,312,436</u>
EXPENDITURES					
Instruction					
Salaries	1,466,080	1,423,803	1,616,408	(192,605)	1,489,538
Employee Benefits	654,916	662,778	672,411	(9,633)	254,115
Purchased Services	451,832	424,179	521,502	(97,323)	507,950
Supplies and Materials	74,186	118,477	81,089	37,388	158,284
Property	10,000	10,000	85,399	(75,399)	58,043
Other	5,700	5,700	9,162	(3,462)	48,632
Total Instruction	<u>2,662,714</u>	<u>2,644,937</u>	<u>2,985,971</u>	<u>(341,034)</u>	<u>2,516,562</u>
Supporting Services					
School Administration					
Salaries	359,154	362,424	365,921	(3,497)	527,495
Employee Benefits	117,760	121,441	122,884	(1,443)	508,287
Purchased Services	822,100	1,031,664	1,125,396	(93,732)	2,451,430
Supplies and Materials	95,137	95,066	141,602	(46,536)	114,063
Property	1,437,005	1,447,154	1,356,467	90,687	258,865
Other	5,600	5,390	5,110	280	-
Reserves	-	1,108,746	-	1,108,746	-
Total Supporting Services	<u>2,836,756</u>	<u>4,171,885</u>	<u>3,117,380</u>	<u>1,054,505</u>	<u>3,860,140</u>
TOTAL EXPENDITURES	<u>5,499,470</u>	<u>6,816,822</u>	<u>6,103,351</u>	<u>713,471</u>	<u>6,376,702</u>
NET CHANGE IN					
FUND BALANCE	359,974	(980,828)	(53,675)	927,153	(64,266)
FUND BALANCE, Beginning	<u>1,211,828</u>	<u>1,211,828</u>	<u>1,211,828</u>	<u>-</u>	<u>1,276,094</u>
FUND BALANCE, Ending	<u>\$ 1,571,802</u>	<u>\$ 231,000</u>	<u>\$ 1,158,153</u>	<u>\$ 927,153</u>	<u>\$ 1,211,828</u>

See the accompanying independent auditors' report.

IMAGINE INDIGO RANCH

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

Years Ended December 31,

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
School's proportionate share of the Net Pension Liability	0.042%	0.038%	0.043%	0.044%	0.042%	0.032%
School's Net Pension Liability	\$ 5,323,923	\$ 5,197,184	\$ 6,537,298	\$ 13,055,696	\$ 13,439,627	\$ 5,621,427
State of Colorado Proportionate Share of the Net Pension Liability associated with the School	-	-	-	-	-	768,652
Total	5,323,923	5,197,184	6,537,298	13,055,696	13,439,627	6,390,079
School's covered payroll	\$ 1,675,812	\$ 1,565,373	\$ 1,848,164	\$ 1,991,253	\$ 1,913,531	\$ 1,754,479
School's proportionate share of the Net Pension Liability as a percentage of its covered payroll	317.7%	332.0%	353.7%	655.7%	702.3%	320.4%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%	43.1%	44.0%	57.0%

See the accompanying independent auditors' report.

IMAGINE INDIGO RANCH

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
SCHOOL DIVISION TRUST FUND

Years Ended June 30,

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Statutorily required contributions	\$ 280,418	\$ 296,993	\$ 373,465	\$ 390,306	\$ 349,168	\$ 335,630
Contributions in relation to the Statutorily required contributions	<u>280,418</u>	<u>296,993</u>	<u>373,465</u>	<u>390,306</u>	<u>349,168</u>	<u>335,630</u>
Contribution deficiency (excess)	<u>\$ -</u>					
School's covered payroll	\$ 1,639,246	\$ 1,619,706	\$ 1,992,152	\$ 2,011,839	\$ 1,850,155	\$ 1,754,479
Contributions as a percentage of covered payroll	17.11%	18.34%	18.75%	19.40%	18.87%	19.13%

See the accompanying independent auditors' report.

IMAGINE INDIGO RANCH

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

Years Ended December 31,

	<u>2016</u>	<u>2017</u>	<u>2018</u>
School's proportionate share of the Net Pension Liability	0.025%	0.024%	0.021%
School's proportionate share of the Net Pension Liability	\$ 322,205	\$ 306,317	\$ 280,102
School's covered payroll	\$ 1,991,253	\$ 1,913,531	\$ 1,754,479
School's proportionate share of the Net Pension Liability as a percentage of its covered payroll	16.2%	16.0%	16.0%
Plan fiduciary net position as a percentage of the total pension liability	16.7%	17.5%	17.0%

See the accompanying independent auditors' report.

IMAGINE INDIGO RANCH
 SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
 HEALTH CARE TRUST FUND

Years Ended June 30,

	2017	2018	2019
Statutorily required contributions	\$ 20,521	\$ 18,872	\$ 17,897
Contributions in relation to the Statutorily required contributions	20,521	18,872	17,897
Contribution deficiency (excess)	\$ -	\$ -	\$ -
School's covered payroll	\$ 2,011,839	\$ 1,850,155	\$ 1,754,479
Contributions as a percentage of covered payroll	1.02%	1.02%	1.02%

See the accompanying independent auditors' report.