



**JAMES MADISON CHARTER  
ACADEMY**

FINANCIAL STATEMENTS  
With Independent Auditors' Report

For the Year Ended June 30, 2018

**JAMES MADISON CHARTER ACADEMY**  
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**JUNE 30, 2018**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
James Madison Charter Academy

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of James Madison Charter Academy, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of James Madison Charter Academy, as of June 30, 2018, and the respective changes in

financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As described in Note 1 to the financial statements, effective July 1, 2017, the School adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

### ***Other-Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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.

*Hoelting & Company Inc.*

Colorado Springs, Colorado  
November 2, 2018

## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

The management of James Madison Charter Academy (JMCA), offers readers of the financial statements this narrative overview and analysis of the financial activities of the Academy for the fiscal year ended June 30, 2018. Readers are encouraged to consider the information presented here in conjunction with additional information that can be found in the notes to the financial statements.

## **FINANCIAL HIGHLIGHTS**

The liabilities and deferred inflows of JMCA exceeded its assets and deferred outflows at the close of fiscal year 2017-2018 by \$3,434,756 with a deficit of \$3,121,806 in unrestricted net position. In comparison, at June 30, 2017, liabilities exceeded assets by \$2,540,479 with a deficit of \$2,236,794 in unrestricted net position on the government-wide basis.

The total liabilities at June 30, 2018 were \$5,999,713 compared to \$5,687,327 at June 30, 2017. For the 2017-2018 fiscal year, JMCA’s revenues were \$1,350,763 compared to \$1,510,041 for fiscal year 2016-2017. Total expenses for the fiscal year 2017-2018 were \$2,152,664 compared to \$2,170,995 for the fiscal year 2016-2017 on the government-wide basis.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

Management’s discussion and analysis is intended to serve as an introduction to JMCA’s basic financial statements. This report consists of three parts: 1) Management’s Discussion and Analysis, 2) Basic Financial Statements, including Notes to the Financial Statements, and 3) Required and Other Supplemental Information.

## **SCHOOL-WIDE FINANCIAL STATEMENTS**

The School-wide financial statements are designed to provide readers with a broad overview of the school’s finances, in a manner similar to a private sector business.

The Statement of Net Position presents information on all of the School’s assets and liabilities, with the difference between the two reported as net position. Over time, increase or decreases in net position may serve as a useful indicator of whether the financial position of the school is improving or deteriorating.

The Statement of Activities presents information showing how the 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 result in cash flows in future fiscal periods (e.g. earned but unpaid salary and benefits).

The School-wide statement of activities distinguishes functions of the School supported primarily by per pupil revenue or other revenues passed through from Widefield School

District No. 3. The governmental activities of the School include instruction and supporting services.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other governmental units or charter schools, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the School-wide financial statements. However, unlike the school-wide financial statements, governmental funds financial statements focus on near term inflows and outflows of resources available to spend 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 School-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the School-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.

**Proprietary funds.** JMCA reports one proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The School uses an enterprise fund to account for its building lease activities. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Individual fund data for the Enterprise fund is provided in the other supplemental information in this report.

**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.

### **FINANCIAL ANALYSIS OF THE SCHOOL**

One of the most important questions asked about a school's finances is "Is the school as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position and the Statement of Activities report information about the School's activities in a way that can help answer that question. These two statements report the net position of the school and changes in them. The School's net position (the difference between assets and liabilities) are one way to measure financial health or financial position. In addition, readers also need to consider other non-financial factors such as changes in economic conditions, student population growth, or changes in governmental legislation.

## NET POSITION

As part of the analysis, below is a summary of the school's comparative Statement of Net Position and Statement of Activities on the government-wide basis below.

Condensed Statement of Net Position						
June 30, 2018 and June 30, 2017						
	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Current assets	\$ 143,461	\$ 209,756	\$ -	\$ -	\$ 143,461	\$ 209,756
Noncurrent assets	-	-	249,149	248,175	249,149	248,175
Capital assets (net)	18,656	-	1,101,108	1,158,808	1,119,764	1,158,808
Total Assets	162,117	209,756	1,350,257	1,406,983	1,512,374	1,616,739
Deferred outflows	1,262,350	1,601,423	-	-	1,262,350	1,601,423
Current liabilities	27,632	73,129	61,500	56,938	89,132	130,067
Long-term liabilities	4,255,918	3,863,930	1,654,663	1,693,330	5,910,581	5,557,260
Total Liabilities	4,283,550	3,937,059	1,716,163	1,750,268	5,999,713	5,687,327
Deferred inflows	209,767	71,314	-	-	209,767	71,314.00
Net Investment in Capital Assets	18,656	-	(593,555.00)	(569,522.00)	(574,899)	(569,522.00)
Restricted funds	34,300	39,600	227,649	226,237	261,949	265,837
Unrestricted funds	(3,121,806)	(2,236,794)	-	-	(3,121,806)	(2,236,794)
Total Net Position	\$ (3,068,850)	\$ (2,197,194)	\$ (365,906)	\$ (343,285)	\$ (3,434,756)	\$ (2,540,479)
Condensed Statement of Activities						
For the Years Ended June 30, 2018 and June 30, 2017						
	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ -	\$ -	\$ 167,021	\$ 168,812	\$ 167,021	\$ 168,812
Operating grants and contributions	70,528	134,973	-	-	70,528	134,973
General revenues:						
Property taxes	106,760	70,888	-	-	106,760	70,888
Per pupil revenue	953,481	1,135,009	-	-	953,481	1,135,009
Other	50,664	9	2,309	350	52,973	359
Total Revenues	1,181,433	1,340,879	169,330	169,162	1,350,763	1,510,041
<b>Expenses</b>						
Instructional	1,198,628	1,189,436	-	-	1,198,628	1,189,436
Support services	762,085	788,482	-	-	762,085	788,482
Enterprise operations	-	-	191,951	193,077	191,951	193,077
Total Expenses	1,960,713	1,977,918	191,951	193,077	2,152,664	2,170,995
Change in net position	(779,280)	(637,039)	(22,621)	(23,915)	(801,901)	(660,954)
Beginning net position as restated	(2,289,570)	(1,560,155)	(343,285)	(319,370)	(2,632,855)	(1,879,525)
Ending Net Position	\$ (3,068,850)	\$ (2,197,194)	\$ (365,906)	\$ (343,285)	\$ (3,434,756)	\$ (2,540,479)

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The School developed its budget for Fiscal Year 2018 in the spring of 2017. The actual expenditures for the year subceeded the final budget for expenditures by \$21,048.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** The School-wide investment in capital assets for the primary government, including business-type activities, as of June 30, 2018 totaled \$1,119,764 (net of accumulated depreciation of \$631,965).

**Long-term debt** At the end of the current fiscal year, the School had total long-term debt outstanding of \$1,694,663 including \$40,000 due within the next twelve months. The School's debt is non-rated. For comparison, at the end of the previous fiscal year, the School had total long-term debt outstanding, of \$1,728,330 including \$35,000 due within the next twelve months.

For more detailed information on capital assets and debt administration, see Notes 4 and 5 in the Notes to the Basic Financial Statements.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

Assets with a useful life of more than one year and a unit cost of greater than \$5,000 are capitalized. Assets are recorded at cost and depreciated using the straight-line method over the estimated useful life of the assets. James Madison Building Corporation acquired the building in which JMCA is operating the Charter School, therefore, the cost and accumulated depreciation for this building are reported in the financial statements of the reporting entity.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The primary factor driving the budget for the school is student enrollment. The enrollment projected for the 2018-2019 school year is 138 FTE. The School is also projecting grant revenue of over \$50,000 for the 2018-2019 school year.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the James Madison Charter Academy's finances for all those with an interest in them. Questions concerning any of the information provided in this report should be directed to the school at James Madison Charter Academy, 660 Syracuse Street, Colorado Springs, CO 80911.



## **BASIC FINANCIAL STATEMENTS**

**JAMES MADISON CHARTER ACADEMY**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 24,859	\$ -	\$ 24,859
Intergovernmental receivable	118,602	-	118,602
Restricted cash and cash equivalents	-	249,149	249,149
Capital assets:			
Building	-	1,731,000	1,731,000
Equipment	20,729	-	20,729
Less: accumulated depreciation	(2,073)	(629,892)	(631,965)
Total capital assets	18,656	1,101,108	1,119,764
Total assets	162,117	1,350,257	1,512,374
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - Pensions	1,258,889	-	1,258,889
Deferred outflows - OPEB	3,461	-	3,461
Total deferred outflows of resources	1,262,350	-	1,262,350
<b>LIABILITIES</b>			
Accounts payable	9,962	-	9,962
Accrued salaries and benefits	17,670	-	17,670
Accrued interest payable	-	21,500	21,500
Long-term liabilities:			
Due within one year			
Bonds payable	-	40,000	40,000
Due in more than one year			
Bonds payable	-	1,654,663	1,654,663
Net pension liability	4,160,901	-	4,160,901
Net OPEB liability	95,017	-	95,017
Total liabilities	4,283,550	1,716,163	5,999,713
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - Pensions	207,447	-	207,447
Deferred inflows - OPEB	2,320	-	2,320
Total deferred inflows of resources	209,767	-	209,767
<b>NET POSITION</b>			
Net investment in capital assets	18,656	(593,555)	(574,899)
Restricted for:			
Emergency reserve (TABOR)	34,300	-	34,300
Debt service	-	227,649	227,649
Unrestricted	(3,121,806)	-	(3,121,806)
Total net position	\$ (3,068,850)	\$ (365,906)	\$ (3,434,756)

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

**JAMES MADISON CHARTER ACADEMY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs					Net (Expense) Revenue and Changes in Net Position		
	Expenses	Program Revenue		Capital Grants and Contributions	Primary Government		Total
		Charges for Services	Operating Grants and Contributions		Governmental Activities	Business-type Activities	
Governmental activities:							
Instruction	\$ 1,198,628	\$ -	\$ 28,898	\$ -	\$ (1,169,730)	\$ -	\$ (1,169,730)
Instructional support	27,932	-	-	-	(27,932)	-	(27,932)
General administration	23,278	-	-	-	(23,278)	-	(23,278)
School administration	389,425	-	7,060	-	(382,365)	-	(382,365)
Business services	14,244	-	-	-	(14,244)	-	(14,244)
Maintenance and operations	307,206	-	34,570	-	(272,636)	-	(272,636)
Total governmental activities	<u>1,960,713</u>	<u>-</u>	<u>70,528</u>	<u>-</u>	<u>(1,890,185)</u>	<u>-</u>	<u>(1,890,185)</u>
Business-type activities:							
Building Corporation	<u>191,951</u>	<u>167,021</u>	<u>-</u>	<u>-</u>		<u>(24,930)</u>	<u>(24,930)</u>
<b>Total primary government</b>	<u>\$ 2,152,664</u>	<u>\$ 167,021</u>	<u>\$ 70,528</u>	<u>\$ -</u>		<u>(24,930)</u>	<u>(1,915,115)</u>
<b>General revenues:</b>							
Property taxes					106,760	-	106,760
Per pupil revenue					953,481	-	953,481
Miscellaneous revenues					<u>50,664</u>	<u>2,309</u>	<u>52,973</u>
Total general revenues					<u>1,110,905</u>	<u>2,309</u>	<u>1,113,214</u>
Change in net position					<u>(779,280)</u>	<u>(22,621)</u>	<u>(801,901)</u>
Net position - beginning, as restated (deficit)					<u>(2,289,570)</u>	<u>(343,285)</u>	<u>(2,632,855)</u>
Net position - ending (deficit)					<u>\$ (3,068,850)</u>	<u>\$ (365,906)</u>	<u>\$ (3,434,756)</u>

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

**JAMES MADISON CHARTER ACADEMY  
BALANCE SHEET  
GENERAL FUND  
JUNE 30, 2018**

**ASSETS**

Cash and cash equivalents	\$ 24,859
Intergovernmental receivable	<u>118,602</u>
Total assets	<u><u>\$ 143,461</u></u>

**LIABILITIES**

Accounts payable	\$ 9,962
Accrued salaries and benefits	<u>17,670</u>
Total liabilities	<u>27,632</u>

**FUND BALANCES**

Restricted for emergency reserve (TABOR)	34,300
Unassigned	<u>81,529</u>
Total fund balances	<u>115,829</u>

Total liabilities and fund balances	<u><u>\$ 143,461</u></u>
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The accompanying notes are an integral part of these financial statements.

**JAMES MADISON CHARTER ACADEMY  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total Fund Balance of Governmental Funds		\$	115,829
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.			18,656
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred outflows of resources.			
Pension outflows	\$	1,258,889	
OPEB outflows		<u>3,461</u>	1,262,350
Net pension and OPEB liabilities are not due and payable in the current period and, therefore, are not reported in the funds.			
Net pension liabilities	\$	(4,160,901)	
Net OPEB liabilities		<u>(95,017)</u>	(4,255,918)
Other long-term liabilities are not due and payable in the current period and, therefore, are reported as deferred inflows of resources.			
Pension inflows	\$	(207,447)	
OPEB inflows		<u>(2,320)</u>	<u>(209,767)</u>
Total Net Position of Governmental Activities			<u><u>\$ (3,068,850)</u></u>

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

**JAMES MADISON CHARTER ACADEMY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**REVENUES**

Local sources	\$ 136,696
State sources	1,005,526
Federal sources	<u>18,483</u>
 Total revenues	 <u>1,160,705</u>

**EXPENDITURES**

Instruction	653,321
Instructional staff	17,891
General administration	23,278
School administration	196,514
Business services	14,244
Operation and maintenance	<u>276,255</u>
 Total expenditures	 <u>1,181,503</u>
 Net change in fund balance	 <u>(20,798)</u>
 Fund balance - beginning	 <u>136,627</u>
 Fund balance - ending	 <u><u>\$ 115,829</u></u>

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

**JAMES MADISON CHARTER ACADEMY  
RECONCILIATION OF THE STATEMENT OF  
REVENUE, EXPENDITURES, AND CHANGE IN FUND BALANCE TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net Change in Fund Balance of Governmental Funds	\$	(20,798)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		18,656
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Pension expenses	\$ (775,638)		
OPEB expenses	(1,500)		(777,138)
Change in Net Position of Governmental Activities		\$ (779,280)	

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

**JAMES MADISON CHARTER ACADEMY**  
**STATEMENT OF NET POSITION**  
**ENTERPRISE FUND**  
**JUNE 30, 2018**

**ASSETS**

Noncurrent assets:

Restricted cash and cash equivalents	\$ 249,149
Building	1,731,000
Less: accumulated depreciation	<u>(629,892)</u>
Total noncurrent assets	<u>1,350,257</u>
Total assets	<u>1,350,257</u>

**LIABILITIES**

Current Liabilities:

Accrued interest payable	21,500
Bonds payable - current portion	<u>40,000</u>
Total current liabilities	<u>61,500</u>

Noncurrent Liabilities:

Bonds payable	<u>1,654,663</u>
Total noncurrent liabilities	<u>1,654,663</u>
Total liabilities	<u>1,716,163</u>

**NET POSITION**

Net investment in capital assets	(593,555)
Restricted for debt service	<u>227,649</u>
Total net position (deficit)	<u><u>\$ (365,906)</u></u>

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



**JAMES MADISON CHARTER ACADEMY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**  
**ENTERPRISE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**OPERATING REVENUES**

Rental income	\$ 167,021
	<u>167,021</u>
Total operating revenues	<u>167,021</u>

**OPERATING EXPENSES**

Interest expense	<u>134,251</u>
Total operating expenses	<u>134,251</u>
Operating income (loss)	<u>32,770</u>

**NONOPERATING REVENUES (EXPENSES)**

Interest income	2,309
Depreciation expense	<u>(57,700)</u>
Total nonoperating revenues (expenses)	<u>(55,391)</u>
Change in net position	<u>(22,621)</u>
Net position - beginning	<u>(343,285)</u>
Net position - ending	<u><u>\$ (365,906)</u></u>

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

**JAMES MADISON CHARTER ACADEMY  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from lessee	\$ 167,021
Interest payments to bondholders	<u>(133,356)</u>
Net cash provided (used) by operating activities	<u>33,665</u>

**CASH FLOWS FROM CAPITAL AND RELATED  
FINANCING ACTIVITIES**

Principal payment on bonds	<u>(35,000)</u>
Net cash provided (used) by capital and related financing activities	<u>(35,000)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest received	<u>2,309</u>
Net cash provided (used) by investing activities	<u>2,309</u>
Net increase (decrease) in cash and cash equivalents	974

Cash and cash equivalents - beginning	<u>248,175</u>
Cash and cash equivalents - ending	<u><u>\$ 249,149</u></u>

**Reconciliation of operating income (loss) to  
net cash provided (used) by operating activities:**

Operating income (loss)	<u>\$ 32,770</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Amortization of bond discount	<u>1,333</u>
Change in assets and liabilities:	
Increase (decrease) in:	
Accrued interest payable	<u>(438)</u>
Total adjustments	<u>895</u>
Net cash provided (used) by operating activities	<u><u>\$ 33,665</u></u>

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

## **NOTES TO FINANCIAL STATEMENTS**

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

James Madison Charter Academy (the School) began operations on July 1, 2005, pursuant to the Colorado Charter Schools Act, to form and operate a charter school within Widefield School District No. 3 (the District).

The financial statements of James Madison Charter Academy (the School) have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the School are described below.

*A. REPORTING ENTITY*

The accompanying financial statements present the School and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

*Blended component unit.* The James Madison Building Corporation (the Corporation) was organized for the purpose of acquiring, leasing, constructing, improving, equipping and financing various facilities, land, equipment and other improvements in connection with property intended to be leased to the School. The Corporation has no financial balances or transactions outside of those reported by the School, and therefore, are not reported separately in the financial statements. The Corporation does not issue separate financial statements.

The School is considered a component unit of the District. The School is deemed to be fiscally dependent upon the District because the District provides the majority of the support to the School in the form of per pupil operating revenue. The School operates under a charter with the District. The current charter runs through June 30, 2020 at which time the School may seek renewal of its charter in accordance with procedures set forth in state law and school district policy and regulations.

*B. BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS*

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, and enterprise funds.

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the government. Governmental activities are normally supported by per pupil revenue and intergovernmental revenues. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*C. BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS*

The accounts of the School are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds maintained is consistent with legal and managerial requirements.

The School reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the School reports the following major proprietary fund:

*Enterprise Funds* are used to account for those operations financed and operated in a manner similar to a private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountabilities. The Building Corp. is accounted for as an enterprise fund.

During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

*D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING*

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)*

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 the related cash flows. Grants and similar items are recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been met.

The 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 collectible within the period or soon enough thereafter to pay liabilities of the current fiscal period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental revenues 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. Expenditure-driven grants recognize revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The enterprise fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

*E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE*

*Cash and cash equivalents*

Cash and cash equivalents include cash on hand and in the bank and short-term investments with original maturities of three months or less from the date of acquisition.

*Receivables*

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

*Capital assets*

Capital assets, which include a building, are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. The capitalization level for equipment is \$5,000. Donated capital assets are valued at their estimated fair market value on the date received. Major outlays for capital assets and improvements are capitalized as projects are constructed.

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE (CONTINUED)*

*Capital assets (continued)*

The costs of normal maintenance and repairs that do not add to the value of the asset, or materially extend asset lives, are not capitalized. Improvements are capitalized and are depreciated over the remaining useful lives of the related capital assets or remaining period of the lease, as applicable.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed.

Capital assets of the government are depreciated using the straight-line method over the following estimated useful lives:

Building and improvements	30 years
Equipment	5 to 10 years

*Long-term liabilities*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

*Pensions*

James Madison Charter Academy participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SCHDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. Governmental accounting standards require the net pension liability and related amounts of the SCHDTF for financial reporting purposes be measured using the plan provisions in effect as of the SCHDTF's measurement date of December 31, 2017. As such, the following disclosures do not include the changes to plan provisions required by SB 18-200 with the exception of the section titled *Changes between the measurement date of the net pension liability and June 30, 2018*.

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE (CONTINUED)*

*Health Care Trust Fund*

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

*Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position 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 that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position 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 that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

*Net position flow assumption*

The School may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School's policy to consider restricted—net position to have been depleted before unrestricted—net position is applied.



**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE (CONTINUED)*

*Fund balance classification*

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

Non-spendable – 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.

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.

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 that was used 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.

Assigned – This classification includes amounts that are constrained by the School's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to management through the budgetary process. This classification also includes the remaining positive fund balance for any governmental funds except for the General Fund.

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 resources first to defer the use of these other classified funds.

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*F. REVENUES AND EXPENDITURES/EXPENSES*

*Program revenues*

Amounts reported as *program revenues* include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as programs revenues. Likewise, general revenues include all state equalization.

*Proprietary funds operating and non-operating revenues and expenses*

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the School's enterprise funds is rental income. Operating expenses for enterprise funds include interest expense. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

*G. ESTIMATES*

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*H. ADOPTION OF NEW ACCOUNTING STANDARDS*

The School implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension (OPEB)*, effective July 1, 2017. This Statement establishes standards of accounting and financial reporting for defined benefit Health Care Trust funds provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. As a result, net position at June 30, 2017, was restated to reflect the cumulative effect of adopting the standards.

Net Position, June 30, 2017, as Originally Stated	\$(2,197,194)
Adjustment to fund balance	<u>(92,376)</u>
Net Position, June 30, 2017, as Restated (deficit)	<u><u>\$(2,289,570)</u></u>

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

*Budget Information*

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all funds. All annual appropriations lapse at fiscal year end. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year.

Budgets are required by Colorado State Statute for all funds. On or before June 1, management submits to the Board of Directors a proposed budget for all funds for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. Public hearings are conducted by the Board of Directors to obtain taxpayer comments. Prior to June 30, the budget is adopted by formal resolution.

Formal budgetary integration is employed as a management control device during the year for the Governmental funds. The appropriated budget is prepared by fund. The legal level of control is the fund level.

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

Appropriations are based on total funds expected to be available in each budget year, including beginning fund balances and reserves as established by the Board of Directors. Variances between budget and actual results from the non-expenditure of reserves, nonoccurrence of anticipated events, and normal operating variances. The Board of Directors may authorize supplemental appropriations during the year. For budgetary management purposes, funds are appropriated for capital outlays.

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 3 - DEPOSITS AND INVESTMENTS**

*Cash deposits with financial institutions*

*Custodial credit risk—deposits.* 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. 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 carrying amount of cash deposits for the governmental activities at June 30, 2018 was \$24,859 and the bank balances were \$24,777. All of the bank balances were covered by federal deposit insurance.

*Investments*

Credit Risk

The School is authorized by Colorado statutes to invest in the following:

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

At June 30, 2018 the School's investment balances were as follows:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Money market	Less than 60 days	\$ <u>249,149</u>

These investments are Dreyfus money market funds which are not rated by rating agencies.

All investment balances were restricted for debt service.

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Governmental Activities</i>				
Capital assets, being depreciated:				
Equipment	\$ -	\$ 20,729	\$ -	\$ 20,729
Total capital assets, being depreciated	-	20,729	-	20,729
Less accumulated depreciation for:				
Equipment	-	(2,073)	-	(2,073)
Total accumulated depreciation	-	(2,073)	-	(2,073)
<i>Governmental activities capital assets, net</i>	<u>\$ -</u>	<u>\$ 18,656</u>	<u>\$ -</u>	<u>\$ 18,656</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<i>Business Type Activities</i>				
Capital assets, being depreciated:				
Building and improvements	\$ 1,731,000	\$ -	\$ -	\$ 1,731,000
Total capital assets, being depreciated	1,731,000	-	-	1,731,000
Less accumulated depreciation for:				
Building and improvements	(572,192)	(57,700)	-	(629,892)
Total accumulated depreciation	(572,192)	(57,700)	-	(629,892)
<i>Governmental activities capital assets, net</i>	<u>\$ 1,158,808</u>	<u>\$ (57,700)</u>	<u>\$ -</u>	<u>\$ 1,101,108</u>

**NOTE 5 – LONG-TERM LIABILITIES**

*Series 2007 Charter School Revenue Bonds*

Principal  
Balance

Bonds to finance acquiring the building the School operates in the original amount of \$2,040,000 due in varying annual installments through May 1, 2037 with a coupon rate of 7.50%

\$ 1,720,000

The changes in long-term debt for the year ended June 30, 2018 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds	\$ 1,755,000	\$ -	\$ 35,000	\$ 1,720,000	\$ 40,000
Unamortized bond discount	(26,670)	-	(1,333)	(25,337)	-
Total bonds payable	<u>\$ 1,728,330</u>	<u>\$ -</u>	<u>\$ (33,667)</u>	<u>\$ 1,694,663</u>	<u>\$ 40,000</u>

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)**

Annual debt service requirements to maturity for the note payable are as follows:

Fiscal Year Ending June 30	Business-Type Activities	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 40,000	\$ 129,000
2020	45,000	126,000
2021	45,000	122,625
2022	50,000	119,250
2023	55,000	115,500
2024-2028	325,000	511,875
2029-2033	470,000	370,125
2034-2037	<u>690,000</u>	<u>152,250</u>
Total	<u>\$ 1,720,000</u>	<u>\$ 1,646,625</u>

**NOTE 6 – OPERATING LEASE**

On July 1, 2007, James Madison Charter Academy executed a new lease agreement with their blended component unit, James Madison Building Corporation. The lease term includes the initial term from July 1, 2007 through June 30, 2008 and successive one year renewal terms. For the fiscal year ended June 30, 2018, the lease payments were \$167,021.

The future minimum lease payments for this lease are as follows:

Fiscal Year Ending June 30	
2019	\$ 169,333
2020	170,438
2021	167,896
2022	169,458
2023	169,813
2024-2028	836,979
2029-2033	840,083
2034-2037	<u>644,458</u>
Total	<u>\$ 3,168,458</u>

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 7 - DEFINED BENEFIT PENSION PLAN**

*General Information about the Pension Plan*

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

*Benefits provided as of December 31, 2017.* PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. §24-51-602, 604, 1713, and 1714.

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

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

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

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

As of December 31, 2017, benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive post-retirement cost-of-living adjustments, referred to as annual increases in the C.R.S. Benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 and all benefit recipients of the DPS benefit structure receive an annual increase of 2 percent, unless PERA has a negative investment year, in which case the annual increase for the next three years is the lesser of 2 percent or the average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 receive an annual increase of the lesser of 2 percent or the average CPI-W for the prior calendar year, not to exceed 10 percent of PERA's Annual Increase Reserve (AIR) for the SCHDTF.

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

Disability benefits are available for eligible employees once they reach five years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula shown above considering a minimum 20 years of service credit, if deemed disabled.

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

*Contributions provisions as of June 30, 2018:* Eligible employees and James Madison Charter Academy are required to contribute to the SCHDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq.* Eligible employees are required to contribute 8 percent of their PERA-includable salary. The employer contribution requirements are summarized in the table below:

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2018
Employer contribution rate <sup>1</sup>	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) <sup>1</sup>	(1.02)%	(1.02)%
Amount apportioned to the SCHDTF <sup>1</sup>	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 <sup>1</sup>	5.00%	5.50%
<b>Total employer contribution rate to the SCHDTF<sup>1</sup></b>	<b>18.63%</b>	<b>19.13%</b>

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

Employer contributions are recognized by the SCHDTF in the period in which the compensation becomes payable to the member and the James Madison Charter Academy is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from James Madison Charter Academy were \$107,471 for the year ended June 30, 2018.

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

At June 30, 2018, the James Madison Charter Academy reported a liability of \$4,160,901 for its proportionate share of the net pension liability. The net pension liability for the SCHDTF was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total pension liability to December 31, 2017. The James Madison Charter Academy proportion of the net pension liability was based on James Madison Charter Academy contributions to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2017, the James Madison Charter Academy's proportion was 0.0128675272 percent, which was a decrease of 0.0001100627 from its proportion measured as of December 31, 2016.



**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

For the year ended June 30, 2018, the James Madison Charter Academy recognized pension expense of \$883,108. At June 30, 2018, the James Madison Charter Academy reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual Experience	\$ 76,501	\$ -
Changes of assumptions or other inputs	1,062,433	6,742
Net difference between projected and actual earnings on pension plan investments	-	163,403
Changes in proportion and differences between contributions recognized and proportionate share of contributions	63,457	37,302
Contributions subsequent to the measurement date	56,498	N/A
Total	\$ 1,258,889	\$ 207,447

\$56,498 reported as deferred outflows of resources related to pensions, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30, 2018:	
2019	\$ 671,754
2020	\$ 383,721
2021	\$ 943
2022	\$ (61,474)
2023	\$ -
Thereafter	\$ -

*Actuarial assumptions.* The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 – 9.70 percent
Long-term investment rate of return, net of pension plan investment expenses, including price inflation	7.25 percent
Discount rate	5.26 percent
Post-retirement benefit increases:	
PERA benefit structure hired prior to 1/1/07; and DPS benefit structure (automatic)	2.00 percent
PERA benefit structure hired after 12/31/06 (ad hoc, substantively automatic)	Financed by the Annual Increase Reserve

A discount rate of 4.78 percent was used in the roll-forward calculation of the total pension liability to the measurement date of December 31, 2017.

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

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

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

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 7 - DEFINED BENEFIT PENSION PLAN (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 SCHDTF, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>30 Year Expected Geometric Real Rate of Return</b>
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%
<b>Total</b>	<b>100.00%</b>	

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

*Discount rate.* The discount rate used to measure the total pension liability was 4.78 percent. The projection of cash flows used to determine the discount rate applied the actuarial cost method and assumptions shown above. In addition, the following methods and assumptions were used in the projection of cash flows:

- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

- Employee contributions were assumed to be made at the current member contribution rate. Employee contributions for future plan members were used to reduce the estimated amount of total service costs for future plan members.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

Based on the above assumptions and methods, the projection test indicates the SCHDTF's fiduciary net position was projected to be depleted in 2041 and, as a result, the municipal bond index rate was used in the determination of the discount rate. The long-term expected rate of return of 7.25 percent on pension plan investments was applied to periods through 2041 and the municipal bond index rate, the December average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by the Bond Buyer, was applied to periods on and after 2041 to develop the discount rate. For the measurement date, the municipal bond index rate was 3.43 percent, resulting in a discount rate of 4.78 percent.

As of the prior measurement date, the long-term expected rate of return on plan investments of 7.25 percent and the municipal bond index rate of 3.86 percent were used in the discount rate determination resulting in a discount rate of 5.26 percent, 0.48 percent higher compared to the current measurement date.

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

*Sensitivity of the James Madison Charter Academy proportionate share of the net pension liability to changes in the discount rate.* The following presents the proportionate share of the net pension liability calculated using the discount rate of 4.78 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.78 percent) or 1-percentage-point higher (5.78 percent) than the current rate:

	1% Decrease (3.78%)	Current Discount Rate (4.78%)	1% Increase (5.78%)
Proportionate share of the net pension liability	\$ 5,255,926	\$ 4,160,901	\$ 3,268,581

*Pension plan fiduciary net position.* Detailed information about the SCHDTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

*Changes between the measurement date of the net pension liability and June 30, 2018.*

During the 2018 legislative session, the Colorado General Assembly passed significant pension reform through SB 18-200: *Concerning Modifications To the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years*. The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to the plans administered by PERA with the goal of eliminating the unfunded actuarial accrued liability of the Division Trust Funds and thereby reach a 100 percent funded ratio for each division within the next 30 years.

A brief description of some of the major changes to plan provisions required by SB 18-200 are listed below. A full copy of the bill can be found online at [www.leg.colorado.gov](http://www.leg.colorado.gov).

- Increases employer contribution rates by 0.25 percent on July 1, 2019.
- Increases employee contribution rates by a total of 2 percent (to be phased in over a period of 3 years starting on July 1, 2019).
- Directs the state to allocate \$225 million each year to PERA starting on July 1, 2018. A portion of the direct distribution will be allocated to the SCHDTF based on the proportionate amount of annual payroll of the SCHDTF to the other divisions eligible for the direct distribution.
- Modifies the retirement benefits, including temporarily suspending and reducing the annual increase for all current and future retirees, modifying the highest average salary for employees with less than five years of service credit on December 31, 2019 and raises the retirement age for new employees.
- Member contributions, employer contributions, the direct distribution from the state, and the annual increases will be adjusted based on certain statutory parameters beginning July 1, 2020, and then each year thereafter, to help keep PERA on path to full funding in 30 years.

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

At June 30, 2018, the James Madison Charter Academy reported a liability of \$4,160,901 for its proportionate share of the net pension liability which was measured using the plan provisions in effect as of the pension plan's year-end based on a discount rate of 4.78%. For comparative purposes, the following schedule presents an estimate of what the James Madison Charter Academy proportionate share of the net pension liability and associated discount rate would have been had the provisions of SB 18-200, applicable to the SCHDTF, become law on December 31, 2017. This pro forma information was prepared using the fiduciary net position of the SCHDTF as of December 31, 2017. Future net pension liabilities reported could be materially different based on changes in investment markets, actuarial assumptions, plan experience and other factors.

Estimated Discount Rate Calculated Using Plan Provisions Required by SB 18-200 (pro forma)	Proportionate Share of the Estimated Net Pension Liability Calculated Using Plan Provisions Required by SB 18-200 (pro forma)
7.25%	\$ 1,879,859

Recognizing that the changes in contribution and benefit provisions also affect the determination of the discount rate used to calculate proportionate share of the net pension liability, approximately \$1,942,335 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

**NOTE 8 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN**

*Health Care Trust Fund*

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

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN  
(CONTINUED)**

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

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

*PERA Benefit Structure*

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

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

*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 James Madison Charter Academy is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from James Madison Charter Academy were \$5,803 for the year ended June 30, 2018.

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

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN  
(CONTINUED)**

At June 30, 2018, the James Madison Charter Academy reported a liability of \$95,017 for its proportionate share of the net OPEB liability. The net OPEB liability for the HCTF was measured as of December 31, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016. Standard update procedures were used to roll-forward the total OPEB liability to December 31, 2017. The James Madison Charter Academy proportion of the net OPEB liability was based on James Madison Charter Academy contributions to the HCTF for calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the James Madison Charter Academy proportion was 0.0073112787 percent, which was a decrease of 0.0000653434 from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the James Madison Charter Academy recognized OPEB expense of \$7,302. At June 30, 2018, the James Madison Charter Academy 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	\$ 449	\$ -
Changes of assumptions or other inputs	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	1,590
Changes in proportion and differences between contributions recognized and proportionate share of contributions	-	730
Contributions subsequent to the measurement date	3,012	N/A
Total	\$ 3,461	\$ 2,320

\$3,012 reported as deferred outflows of resources related to OPEB, resulting from contributions subsequent to the measurement date, will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30, 2018:	
2019	\$ (452)
2020	\$ (452)
2021	\$ (452)
2022	\$ (452)
2023	\$ (55)
Thereafter	\$ (8)



**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 8 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN  
(CONTINUED)**

*Actuarial assumptions.* The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial cost method, actuarial assumptions and other inputs:

Actuarial cost method	Entry age
Price inflation	2.40 percent
Real wage growth	1.10 percent
Wage inflation	3.50 percent
Salary increases, including wage inflation	3.50 percent in aggregate
Long-term investment rate of return, net of OPEB plan investment expenses, including price inflation	7.25 percent
Discount rate	7.25 percent
Health care cost trend rates	
PERA benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	5.00 percent
Medicare Part A premiums	3.00 percent for 2017, gradually rising to 4.25 percent in 2023
DPS benefit structure:	
Service-based premium subsidy	0.00 percent
PERACare Medicare plans	N/A
Medicare Part A premiums	N/A

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

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

Health care cost trend rates for the PERA benefit structure are based on published annual health care inflation surveys in conjunction with actual plan experience (if credible), building block models and heuristics developed by health plan actuaries and administrators, and projected trends for the Federal Hospital Insurance Trust Fund (Medicare Part A premiums) provided by the Centers for Medicare & Medicaid Services. Effective December 31, 2016, the health care cost trend rates for Medicare Part A premiums were revised to reflect the current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN  
(CONTINUED)**

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

Year	PERACare Medicare Plans	Medicare Part A Premiums
2017	5.00%	3.00%
2018	5.00%	3.25%
2019	5.00%	3.50%
2020	5.00%	3.75%
2021	5.00%	4.00%
2022	5.00%	4.00%
2023	5.00%	4.25%
2024+	5.00%	4.25%

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

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

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.

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN  
(CONTINUED)**

The following economic and demographic assumptions were specifically developed for, and used in, the measurement of the obligations for the HCTF:

- The assumed rates of PERACare participation were revised to reflect more closely actual experience.
- Initial per capita health care costs for those PERACare enrollees under the PERA benefit structure who are expected to attain age 65 and older ages and are not eligible for premium-free Medicare Part A benefits were updated to reflect the change in costs for the 2017 plan year.
- The percentages of PERACare enrollees who will attain age 65 and older ages and are assumed to not qualify for premium-free Medicare Part A coverage were revised to more closely reflect actual experience.
- The percentage of disabled PERACare enrollees who are assumed to not qualify for premium-free Medicare Part A coverage were revised to reflect more closely actual experience.
- Assumed election rates for the PERACare coverage options that would be available to future PERACare enrollees who will qualify for the “No Part A Subsidy” when they retire were revised to more closely reflect actual experience.
- Assumed election rates for the PERACare coverage options that will be available to those current PERACare enrollees, who qualify for the “No Part A Subsidy” but have not reached age 65, were revised to more closely reflect actual experience.
- The health care cost trend rates for Medicare Part A premiums were revised to reflect the then-current expectation of future increases in rates of inflation applicable to Medicare Part A premiums.
- The rates of PERACare coverage election for spouses of eligible inactive members and future retirees were revised to more closely reflect actual experience.
- The assumed age differences between future retirees and their participating spouses were revised to reflect more closely actual experience.

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

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN  
(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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>30 Year Expected Geometric Real Rate of Return</b>
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%
<b>Total</b>	<b>100.00%</b>	

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

*Sensitivity of the James Madison Charter Academy 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:

	<b>1% Decrease in Trend Rates</b>	<b>Current Trend Rates</b>	<b>1% Increase in Trend Rates</b>
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB Liability	\$ 92,403	\$ 95,017	\$ 98,166

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 8 – DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN  
(CONTINUED)**

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

- Updated health care cost trend rates for Medicare Part A premiums as of the December 31, 2017, measurement date.
- Total covered payroll for the initial projection year consists of the covered payroll of the active membership present on the valuation date and the covered payroll of future plan members assumed to be hired during the year. In subsequent projection years, total covered payroll was assumed to increase annually at a rate of 3.50%.
- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date. For future plan members, employer contributions were reduced by the estimated amount of total service costs for future plan members.
- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.
- Transfers of a portion of purchase service agreements intended to cover the costs associated with OPEB benefits were estimated and included in the projections.
- Benefit payments and contributions were assumed to be made at the end of the month.

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

*Sensitivity of the James Madison Charter Academy 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	\$ 106,829	\$ 95,017	\$ 84,935

*OPEB plan fiduciary net position.* Detailed information about the HCTF's fiduciary net position is available in PERA's comprehensive annual financial report which can be obtained at [www.copera.org/investments/pera-financial-reports](http://www.copera.org/investments/pera-financial-reports).

**JAMES MADISON CHARTER ACADEMY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 9 - RISK MANAGEMENT**

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The School carries commercial insurance for these risks of loss, including worker's compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the last three fiscal years.

**NOTE 10 - AMENDMENT TO COLORADO CONSTITUTION**

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations, including revenue raising, spending abilities and other specific requirements of state and local governments.

The amendment requires emergency reserves be established. These reserves must be at least 3% of fiscal year spending. The School is not allowed to use the emergency reserves to compensate for economic conditions, revenue shortfalls or salary and benefit increases. At June 30, 2018 there is a \$34,300 reservation of fund balance in the General Fund for the amendment.

The Amendment is complex and subject to judicial interpretation. The School believes it is in compliance with the requirements of the amendment. However, the School has made certain interpretations of the amendment's language in order to determine its compliance.

**NOTE 11 - COMPLIANCE**

The School has complied with the requirements of the Financial Policies and Procedures Handbook for the 2018 audit period as required by Colorado Statute CRS 22-44-204(3).

## **REQUIRED SUPPLEMENTARY INFORMATION**

**JAMES MADISON CHARTER ACADEMY**  
**SCHEDULE OF SCHOOL'S SHARE OF THE NET PENSION LIABILITY**  
**JUNE 30, 2018**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
School's proportion of the net pension liability (asset)	0.0128675272%	0.0129775899%	0.0120351411%	0.0126928270%	0.0126179931%
School's proportionate share of the net pension liability (asset)	\$ 4,160,901	\$ 3,863,930	\$ 1,840,690	\$ 1,720,304	\$ 1,609,422
School's covered payroll	\$ 593,564	\$ 582,457	\$ 524,489	\$ 531,738	\$ 508,671
School's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	701.00%	663.38%	350.95%	323.52%	316.40%
Plan fiduciary net position as a percentage of the total pension liability	44.0%	43.1%	59.2%	62.8%	64.1%

\* The amounts presented for each fiscal year were determined as of 12/31.

\* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.



**JAMES MADISON CHARTER ACADEMY**  
**SCHEDULE OF SCHOOL'S PAYROLL CONTRIBUTIONS - PENSION**  
**JUNE 30, 2018**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 110,581	\$ 105,600	\$ 90,894	\$ 87,365	\$ 78,997
Contributions in relation to the contractually required contribution	<u>(110,581)</u>	<u>(105,600)</u>	<u>(90,894)</u>	<u>(87,365)</u>	<u>(78,997)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	\$ 593,564	\$ 582,457	\$ 524,489	\$ 531,738	\$ 508,671
Contributions as a percentage of covered payroll	18.63%	18.13%	17.33%	16.43%	15.53%

\* The amounts presented for each fiscal year were determined as of 12/31.

\* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.

**JAMES MADISON CHARTER ACADEMY**  
**SCHEDULE OF SCHOOL'S SHARE OF THE NET OPEB LIABILITY**  
**JUNE 30, 2018**

	<u>2017</u>	<u>2016</u>
School's proportion of the net OPEB liability (asset)	0.0073112787%	0.0073766221%
School's proportionate share of the net OPEB liability (asset)	\$ 95,017	\$ 95,640
School's covered payroll	\$ 593,564	\$ 582,458
School's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	16.01%	16.42%
Plan fiduciary net position as a percentage of the total OPEB liability	17.5%	16.7%

\* The amounts presented for each fiscal year were determined as of 12/31.

\* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.

**JAMES MADISON CHARTER ACADEMY**  
**SCHEDULE OF SCHOOL'S PAYROLL CONTRIBUTIONS - OPEB**  
**JUNE 30, 2018**

	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 6,054	\$ 5,941
Contributions in relation to the contractually required contribution	<u>(6,054)</u>	<u>(5,941)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School's covered payroll	\$ 593,564	\$ 582,458
Contributions as a percentage of covered payroll	1.02%	1.02%

\* The amounts presented for each fiscal year were determined as of 12/31.

\* Complete 10-year information to be presented in future years as it becomes available.

See the accompanying independent auditors' report.

**JAMES MADISON CHARTER ACADEMY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>REVENUES</b>				
Local sources	\$ 65,841	\$ 119,185	\$ 136,696	\$ 17,511
State sources	1,202,511	995,088	1,005,526	10,438
Federal sources	33,927	35,983	18,483	(17,500)
Total revenues	<u>1,302,279</u>	<u>1,150,256</u>	<u>1,160,705</u>	<u>10,449</u>
<b>EXPENDITURES</b>				
Instruction	716,393	664,960	653,321	11,639
Instructional support	19,618	18,210	17,891	319
General administration	25,525	23,693	23,278	415
School administration	215,486	200,015	196,514	3,501
Business services	15,619	14,498	14,244	254
Maintenance and operations	302,925	281,176	276,255	4,921
Total expenditures	<u>1,295,566</u>	<u>1,202,551</u>	<u>1,181,503</u>	<u>21,048</u>
Net change in fund balance	<u>6,713</u>	<u>(52,295)</u>	<u>(20,798)</u>	<u>31,497</u>
Fund balance - beginning	<u>100,000</u>	<u>136,627</u>	<u>136,627</u>	<u>-</u>
Fund balance - ending	<u>\$ 106,713</u>	<u>\$ 84,332</u>	<u>\$ 115,829</u>	<u>\$ 31,497</u>

See the accompanying independent auditors' report.