COLORADO SPRINGS EARLY COLLEGES

BASIC FINANCIAL STATEMENTS

June 30, 2018

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JOHN CUTLER
& ASSOCIATES

Board of Directors
Colorado Springs Early Colleges
Colorado Springs, Colorado

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Colorado Springs Early Colleges (the "School"), as of and 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major funds of the Colorado Springs Early Colleges, 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.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, schedules of the school's proportionate share, and schedules of the school's contributions on pages 45-49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

John Cutler & Associates, LLC

October 19, 2018

Colorado Springs Early Colleges
Management's Discussion and Analysis
Year Ended June 30, 2018

As management of Colorado Springs Early Colleges (CSEC), we offer readers of these financial statements this narrative and analysis of the financial activities of CSEC for the year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information provided in the financial statements.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to CSEC's financial statements. The statements are comprised of three components: 1) governmental financial statements, 2) fund financial statements, and 3) notes to the financial statements. For the year ended June 30, 2018, CSEC had its tenth financial audit completed.

Governmental Financial Statements

The governmental financial statements are designed to provide readers with a broad overview of CSEC's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of CSEC's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows in future periods.

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. CSEC, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for essentially the same functions reported as governmental fund, its general fund.

CSEC adopts an annual budget for its general fund. A budgetary comparison has been provided for the general fund on page 45 as part of the basic financial statements.

Notes to Financial Statements

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

Governmental Financial Analysis

As noted previously, net assets may serve over time as a useful indicator of CSEC's financial position. For the year ended June 30, 2018, CSEC's liabilities were more than its assets by $9,477,968. Approximately $223,000 of total net assets is restricted to comply with Article X, Section 20 of the Colorado Constitution, known as the TABOR Amendment. Invested in capital assets is $(4,126,499), which includes unrestricted cash and investments of $3,514,867, less accounts payable of $528,692, less accrued salaries of $166,931 and accrued interest of $999,888. You will note the Interfund Balances are from combining the Colorado Early Colleges-Building Corp. with Colorado Springs Early Colleges.

Net assets as of June 30, 2018

Assets:	
Current assets	$ 7,952,759
Capital Assets, Depreciated, Net of Accumulated Depreciation	843,414
Fixed assets, net	39,798,501
Total Assets	48,594,674
Deferred Outflows of Resources	
Related to Pensions	6,139,207
Related to OPEB	46,435
	6,185,642
Liabilities:	
Accounts Payable	528,692
Accrued Salaries and Benefits	166,931
Due to Related Parties	1,495,282
Accrued Interest	999,888
Other Current Liability	760,000
Noncurrent Liabilities	
Due in More Than One Year	43,165,000
Net Pension Liability	16,103,499
Net OPEB Liability	36,7736
Total Liabilities	63,587,028
Deferred Inflows of Resources	
Related to Pensions	665,104
Related to OPEB	6,152
	671,256
Net Position:	
Net Investment in Capital Assets	(4,126,499)
Restricted for TABOR	233,000
Unrestricted	(5,574,469)
Total Net Position	$ (9,477,968)

The total net position of CSEC/BC decreased to $(9,477,968) for the year ended June 30, 2018 from the prior year adjusted figure of $(5,922,535) for the year ended June 30, 2017. This decrease in net assets of $3,238,626 resulted, primarily, from the deferred charges related to pensions in accordance with GASB 68.

Change in net assets for the year ended June 30, 2018

Revenue:	
Program revenues	
Grants and contributions	$ 969,473
Charges for Services	1,890,920
CEC Network Charges	750,101
Building Corporation	2,786,713
General Revenue	
School Finance Act revenue	4,761,570
Other	37,469
Total Revenue	11,196,246
Expenses:	
Current:	
Instruction	4,526,005
Supporting Services	6,353,542
Building Corporation	3,555,325
Total expenses	14,434,872
Change in net assets	$(3,238,626)

The operations of CSEC are funded primarily by the per pupil revenue received under the State School Finance Act. State revenue for fiscal year 2018 totaled approximately $4,761,570, representing a increase of $394,781 over the total for the year ended June 30, 2017. The increase in per pupil revenue for the year ended June 30, 2018 was due to a increase in at risk students and funding rescissions.

Financial Analysis of CESC's Funds

CSEC has one governmental fund, the general fund. The general fund is considered a major fund and is used to account for CSEC's general operations. The general fund had a positive funds balance of $1,914,014 at the beginning of the year. The fund balance of the general fund increased by $304,418 at June 30, 2018. In addition, a reserve of approximately $223,000 at June 30, 2018 has been made to satisfy the requirements of the TABOR Amendment. CSEC has a positive unreserved fund balance of $1,936,734, which is shown net of non-spendable funds, accounts payable and accrued salaries and benefits.

Capital Assets and Debt Administration

As of June 30, 2018, capital assets consist primarily of the buildings, school busses, leasehold improvements and food service equipment. Capital assets, totaling $40,641,915 as of June 30, 2018, are shown net of accumulated depreciation. See Note 4 for more information.

Economic Factors and Next Year's Budget

The primary factor in budget development for CSEC is student enrollment. CSEC's enrollment was 654.5 students for the 2017-2018 school year. Based on historical trends and current projections, CSEC expects an increase in enrollment for the 2018-2019 school year. CSEC also considers stability in per pupil funding levels to be an important factor in developing its budget for fiscal year 2019.

Requests for Information

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

Colorado Springs Early Colleges
Attention of Flint Crane
4405 N. Chestnut, Suite E
Colorado Springs, CO 80907

BASIC FINANCIAL STATEMENTS

COLORADO SPRINGS EARLY COLLEGES

STATEMENT OF NET POSITION
June 30, 2018

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS 2018	TOTALS 2017
ASSETS				
Cash and Investments	$ 3,116,552	$ 398,315	$ 3,514,867	$ 3,293,926
Restricted Cash and Investments	-	3,165,368	3,165,368	5,064,112
Accounts Receivable	295,855	-	295,855	734
Due from CSI	120,618	-	120,618	59,307
Due from Other Funds	20,261	(20,261)	-	-
Due from Related Parties	797,353	-	797,353	315,251
Prepaid Items	58,698	-	58,698	403
Capital Assets, Not Depreciated	-	843,414	843,414	6,016,721
Capital Assets, Depreciated,				
Net of Accumulated Depreciation	738,575	39,059,926	39,798,501	32,778,495
TOTAL ASSETS	5,147,912	43,446,762	48,594,674	47,528,949
DEFERRED OUTFLOWS OF RESOURCES				
Related to Pensions	6,139,207	-	6,139,207	5,788,854
Related to OPEB	46,435	-	46,435	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	6,185,642	-	6,185,642	5,788,854
LIABILITIES				
Accounts Payable	528,692	-	528,692	587,663
Accrued Salaries and Benefits	166,931	-	166,931	162,523
Due to Related Parties	1,495,282	-	1,495,282	-
Accrued Interest	-	999,888	999,888	1,003,979
Deposit Liability	-	-	-	30,799
Noncurrent Liabilities				
Due in One Year	-	760,000	760,000	190,000
Due in More Than One Year	-	43,165,000	43,165,000	43,925,000
Net Pension Liability	16,103,499	-	16,103,499	13,263,504
Net OPEB Liability	367,736	-	367,736	-
TOTAL LIABILITIES	18,662,140	44,924,888	63,587,028	59,163,468
DEFERRED INFLOWS OF RESOURCES				
Related to Pensions	665,104	-	665,104	76,870
Related to OPEB	6,152	-	6,152	-
TOTAL DEFERRED INFLOWS OF RESOURCES	671,256	-	671,256	76,870
NET POSITION				
Net Investment in Capital Assets	738,575	(4,865,074)	(4,126,499)	(11,336,505)
Restricted for Emergencies	223,000	-	223,000	206,000
Unrestricted	(8,961,417)	3,386,948	(5,574,469)	5,207,970
TOTAL NET POSITION	$ (7,999,842)	$ (1,478,126)	$ (9,477,968)	$ (5,922,535)

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

COLORADO SPRINGS EARLY COLLEGES

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

		PROGRAM REVENUES		
FUNCTIONS/PROGRAMS	EXPENSES	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities				
Instruction	$ 4,526,005	$ 2,641,021	$ 79,056	$ -
Supporting Services	6,353,542	-	371,116	519,301
Total Governmental Activities	10,879,547	2,641,021	450,172	519,301
Business-Type Activities				
Building Corporation	1,544,277	2,770,888	-	-
Interest and Other Fiscal Charges	2,011,048	-	-	-
Total Business-Type Activities	3,555,325	2,770,888	-	-
Total Primary Government	$ 14,434,872	$ 5,411,909	$ 450,172	$ 519,301

GENERAL REVENUES
Per Pupil Revenues
Other

TOTAL GENERAL REVENUES

CHANGE IN NET POSITION

NET POSITION, Beginning, as restated

NET POSITION, Ending

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

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-Type Activities	TOTALS 2018	TOTALS 2017
$ (1,805,928)	$ -	$ (1,805,928)	$ (1,492,374)
(5,463,125)	-	(5,463,125)	(4,519,887)
(7,269,053)	-	(7,269,053)	(6,012,261)
-	1,226,611	1,226,611	891,233
-	(2,011,048)	(2,011,048)	(1,938,937)
-	(784,437)	(784,437)	(1,047,704)
(7,269,053)	(784,437)	(8,053,490)	(7,059,965)
4,761,570	-	4,761,570	4,366,789
37,469	15,825	53,294	7,763
4,799,039	15,825	4,814,864	4,374,552
(2,470,014)	(768,612)	(3,238,626)	(2,685,413)
(5,529,828)	(709,514)	(6,239,342)	(3,237,122)
$ (7,999,842)	$ (1,478,126)	$ (9,477,968)	$ (5,922,535)

COLORADO SPRINGS EARLY COLLEGES

BALANCE SHEET
GENERAL FUND
June 30, 2018

	GENERAL FUND	
	2018	2017
ASSETS		
Cash and Investments	$ 3,116,552	$ 1,938,487
Accounts Receivable	295,855	734
Due from CSI	120,618	59,307
Due from Other Funds	20,261	20,261
Due from Related Parties	797,353	315,251
Prepaid Items	58,698	403
TOTAL ASSETS	$ 4,409,337	$ 2,334,443
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts Payable	$ 528,692	$ 257,906
Accrued Salaries and Benefits	166,931	162,523
Due to Related Parties	1,495,282	-
TOTAL LIABILITIES	2,190,905	420,429
FUND BALANCES		
Nonspendable	58,698	403
Restricted for Emergencies	223,000	206,000
Unassigned	1,936,734	1,707,611
TOTAL FUND BALANCES	2,218,432	1,914,014
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.	738,575	424,485
Long-term liabilities and related assets related to pensions are not due and payable in the current period and therefore, are not reported in the funds. This liability includes net pension liability ($16,103,499), net OPEB liability ($367,736), deferred outflows related to pensions and OPEB $6,185,642, and deferred inflows related to pensions and OPEB ($671,256).	(10,956,849)	(7,551,520)
Net position of governmental activities	$ (7,999,842)	$ (5,213,021)

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

COLORADO SPRINGS EARLY COLLEGES

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GENERAL FUND
Year Ended June 30, 2018

	GENERAL FUND	
	2018	2017
REVENUES		
Local Sources		
Per Pupil Revenue	$ 4,761,570	$ 4,366,789
Charges for Services	1,890,920	1,751,881
CEC Network Charges	750,101	726,376
Other	37,469	6,026
State Sources		
Grants	969,473	487,750
TOTAL REVENUES	8,409,533	7,338,822
EXPENDITURES		
Instruction	2,743,382	2,342,259
Supporting Services	5,361,733	4,136,650
TOTAL EXPENDITURES	8,105,115	6,478,909
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	304,418	859,913
OTHER FINANCING USES		
Transfer Out	-	(800,000)
TOTAL OTHER FINANCING USES	-	(800,000)
NET CHANGE IN FUND BALANCE	304,418	59,913
FUND BALANCES, Beginning	1,914,014	1,854,101
FUND BALANCES, Ending	$ 2,218,432	$ 1,914,014

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

COLORADO SPRINGS EARLY COLLEGES

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

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

Net change in fund balances - total governmental funds	$	304,418
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount of depreciation expense for the year.		314,090
Deferred Charges related to pensions are not recognized in the governmental funds. However, for the government-wide funds that amounts are capitalized and amortized.		(3,088,522)
Change in net position of governmental activities	$	(2,470,014)

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

COLORADO SPRINGS EARLY COLLEGES

STATEMENT OF NET POSITION
PROPRIETARY FUND TYPE
June 30, 2018

	BUILDING CORPORATION	
	2018	2017
ASSETS		
Current Assets		
Cash and Investments	$ 398,315	$ 1,355,439
Restricted Cash and Investments	3,165,368	5,064,112
Total Current Assets	3,563,683	6,419,551
Long-term Assets		
Capital Assets, Not Depreciated	843,414	6,016,721
Capital Assets, Depreciated, Net of Accumulated Depreciation	39,059,926	32,354,010
Total Long-term Assets	39,903,340	38,370,731
TOTAL ASSETS	43,467,023	44,790,282
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable	-	329,757
Due to Other Funds	20,261	20,261
Accrued Interest	999,888	1,003,979
Deposit Liability	-	30,799
Current Portion of Long-term Debt	760,000	190,000
Total Current Liabilities	1,780,149	1,574,796
Long-term Liabilities		
Notes Payable	43,165,000	43,925,000
Total Long-term Assets	43,165,000	43,925,000
TOTAL LIABILITIES	44,945,149	45,499,796
NET POSITION		
Net Investment in Capital Assets	(3,261,660)	(5,554,269)
Unrestricted	1,783,534	4,844,755
TOTAL NET POSITION	$ (1,478,126)	$ (709,514)

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

COLORADO SPRINGS EARLY COLLEGES

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
PROPRIETARY FUND TYPE
Year Ended June 30, 2018

	BUILDING CORPORATION	
	2018	2017
OPERATING REVENUES		
Rent	$ 2,770,888	$ 2,430,960
Other Income	15,825	1,737
TOTAL OPERATING REVENUES	2,786,713	2,432,697
OPERATING EXPENSES		
Purchased Services	113,884	380,544
Depreciation	1,430,393	1,159,183
TOTAL OPERATING EXPENSES	1,544,277	1,539,727
OPERATING INCOME	1,242,436	892,970
NON-OPERATING (REVENUE) EXPENSES		
Transfers In	-	800,000
Debt Issuance Costs	-	(54,150)
Interest Expense	(2,011,048)	(1,884,787)
TOTAL NON-OPERATING (REVENUES) EXPENSES	(2,011,048)	(1,138,937)
NET INCOME	(768,612)	(245,967)
NET POSITION, Beginning	(709,514)	(463,547)
NET POSITION, Ending	$ (1,478,126)	$ (709,514)

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

COLORADO SPRINGS EARLY COLLEGES

STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
Year Ended June 30, 2018

	BUILDING CORPORATION	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Rental Operations	$ 2,786,713	$ 2,644,739
Cash Paid to Suppliers	(474,440)	(149,387)
Net Cash Provided by Operating Activities	2,312,273	2,495,352
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(2,963,002)	(7,157,607)
Proceeds from the Issuance of Note Payable	-	7,695,000
Payment of Costs Related to Debt Issuance	-	(54,150)
Payments on Long-term Debt	(190,000)	-
Transfers from Other Funds	-	800,000
Interest Payments	(2,015,139)	(977,596)
Net Cash Provided (Used) by Capital and Related Financing Activities	(5,168,141)	305,647
NET INCREASE (DECREASE) IN CASH	(2,855,868)	2,800,999
Cash, Beginning	6,419,551	3,618,552
Cash, Ending	$ 3,563,683	$ 6,419,551
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	$ 1,242,436	$ 892,970
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities		
Depreciation	1,430,393	1,159,183
Changes in Assets and Liabilities		
Accounts Receivable	-	212,042
Due to Other Funds	-	20,261
Accounts Payable	(329,757)	304,838
Deposit Liability	(30,799)	(93,942)
TOTAL NET POSITION	2,312,273	2,495,352

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

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

Colorado Springs Early Colleges (the "School") was formed in 2006 pursuant to the Colorado Charter Schools Act to form and operate a charter school. The School provides a means for students to obtain college credit while completing their High School diploma requirements. The School is a member of the Charter School Institute and receives State funding from that organization.

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

Reporting Entity

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

The School includes the Colorado Early Colleges Building Corporation (the "Building Corporation") within its reporting entity. The Building Corporation was formed during fiscal year 2013 to support and assist the School to perform its function and to carry out its purpose, specifically to oversee the leasing activities of the school's real estate properties and to assist in the financing of the School's facilities. The Building Corporation is reported in the School's financial statements as an enterprise fund. Separate financial statements are not available for this entity.

Government-Wide and Fund Financial Statements

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

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

Government-Wide and Fund Financial Statements (Continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

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

The School reports the following major governmental fund:

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

The School reports the following enterprise fund:

Building Corporation – This fund is used to account for the activities of the Building Corporation.

Deferred Outflows/Inflows of Resources

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

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

Assets, Liabilities and Fund Balance/Net Position

Investments – Investments are recorded at fair value.

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

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

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

Depreciation of exhaustible capital assets is charged as an expense against operations, and accumulated depreciation is reported on the statement of net position in the government-wide financial statements. Depreciation has been provided over the following estimated useful lives of the capital assets using the straight-line method: leasehold improvements and machinery, 5 years, vehicles 10 years.

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

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

- Nonspendable – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The School classifies Prepaid Items as nonspendable as these items are not expected to be converted to cash within the next year.

- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The School has classified Emergency Reserves as being restricted because their use is restricted by State Statute for declared emergencies.

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

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

- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The School did not have any committed resources as of June 30, 2018.

- 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 the Unassigned fund balance.

Compensated Absences

The CEC Network's policy allows School and Network employees to accumulate paid time off. Upon termination of employment, the unused portion of leave paid out is limited to a maximum of 8 days and is available to employees that have completed five or more years of service. As of June 30, 2018, no liability has been accrued for these absences.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund type 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 assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

NOTE 1: ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*** (Continued)

Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Interfund Transactions

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "Internal Amounts". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Risk Management

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

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

Budgets and Budgetary Accounting

A budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles.

Management submits to the Board of Directors a proposed budget for the fiscal year commencing the following July1. The budget is adopted by the Board of Directors prior to June 30. Expenditures may not legally exceed appropriations at the fund level. Revisions must be approved by the Board of Directors. The budget includes proposed expenditures and the means of financing them. All appropriations lapse at fiscal year end.

NOTE 3: ***CASH AND INVESTMENTS***

Cash and Investments at June 30, 2018 consisted of the following:

Cash on Hand	$ 1,402
Deposits	3,513,465
Investments	3,165,368
Total	**$ 6,680,235**

Cash and Investments are reported in the financial statements as follows:

Cash and Investments	$ 3,514,867
Restricted Cash and Investments	3,165,368
Total	**$ 6,680,235**

Deposits

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. At June 30, 2018 State regulatory commissioners have indicated that all financial institutions holding deposits for the School are eligible public depositories. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA. PDPA allows the financial institution to create a single collateral pool for all public funds held.

The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The School has no policy regarding custodial credit risk for deposits.

At June 30, 2018, the School had deposits with financial institutions with a carrying amount of $3,513,465. The bank balances with the financial institutions were $3,578,231. Of these balances, $500,000 was covered by federal depository insurance and $3,078,231 was covered by collateral held by authorized escrow agents in the financial institution's name (PDPA).

NOTE 3: ***CASH AND INVESTMENTS*** (Continued)

Investments

Interest Rate Risk

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

Credit Risk

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

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

Fair Value

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

The School invested $3,165,368 in a Money Market Mutual Fund. Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The fair value of investments in money market funds is based on the published net asset values per share of those funds. Money market securities are valued using amortized cost, in accordance with Rule 2a-7 under the 1940 Act. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by Prime Series and Government Series are categorized as Level 2. The fund invests only in U.S. Treasury obligations and is rated AAAm by Standard and Poor's.

The School has no policy for managing credit risk or interest rate risk.

NOTE 3: ***CASH AND INVESTMENTS*** (Continued)

Restricted Cash and Investments

Cash and Investments in the amount in the amount of $3,165,368 are restricted in the Building Corporation for debt service and capital projects.

NOTE 4: ***CAPITAL ASSETS***

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

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital Assets, Depreciated				
Building Improvements	$ 759,846	$ 473,726	$ -	$ 1,233,572
Vehicles	526,685	23,250	-	549,935
Furniture and Equipment	186,058	-	-	186,058
Total Capital Assets, Depreciated	1,472,589	496,976	-	1,969,565
Accumulated Depreciation				
Building Improvements	578,185	90,831	-	669,016
Vehicles	346,524	60,623	-	407,147
77 Furniture and Equipment	123,595	31,232	-	154,827
Total Accumulated Depreciation	1,048,304	182,686	-	1,230,990
Net Capital Assets	**$ 424,285**	**$ 314,290**	**$ -**	**$ 738,575**

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

NOTE 4: ***CAPITAL ASSETS*** (Continued)

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Business-type Activities				
Capital Assets, Not Depreciated				
Construction in Progress	$ 6,106,271	$ 843,414	$ 6,016,721	$ 843,414
Capital Assets, Depreciated				
Buildings	34,775,464	8,136,309	-	42,911,773
Accumulated Depreciation				
Buildings	2,421,454	1,430,393	-	3,851,847
Total Capital Assets, Depreciated, Net	32,354,010	6,705,916	-	39,059,926
Net Capital Assets	**$ 38,370,731**	**$ 7,549,330**	**$ 6,016,721**	**$ 39,903,340**

NOTE 5: ***INTERFUND BALANCES***

Due from Other Funds

During the year ended June 30, 2017, the School paid certain expenses on behalf of the CEC Building Corporation. As of June 30, 2018 the total amounts due from the CEC Building Corporation was $20,261. This amounts are reported as a Due from Other Funds in the financial statements and is expected to be repaid in the current fiscal year.

NOTE 6: ***ACCRUED SALARIES AND BENEFITS***

Salaries and retirement benefits of certain contractually employed personnel are paid over a twelve-month period from August to July but are earned during a school year of nine months. The salaries and benefits earned, but unpaid, as of June 30, 2018, were $166,931 in the General Fund.

NOTE 7: *LONG-TERM DEBT*

Business-type Activities

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

	Balance 6/30/2017	Additions	Payments	Balance 6/30/2018	Due In One Year
Series 2016 Charter School Bonds	$ 44,115,000	$ -	$ 190,000	$ 43,925,000	$ 760,000
Total	**$ 44,115,000**	**$ -**	**$ 190,000**	**$ 43,925,000**	**$ 760,000**

Series 2016A and 2016B Charter School Revenue Bonds

In June 2016, the Public Finance Authority issued $36,420,000 Charter School Revenue Refunding and Improvement Bonds, Series 2016A and 2016B. Proceeds from the bonds were used to refinance the Building Corporation's outstanding debt, to purchase Fort Collins and Aurora school facilities and to provide funding for improvements. In November 2016, the School is issued additional Series 2016A bonds in the amount of $7,695,000. The Schools are required to make lease payments to the Building Corporation for the use of their buildings and the Building Corporation is required to make equal lease payments to the Trustee, for payment of the bonds. Interest for the Series 2016A and 2016B Bonds accrues at a rate of 4.25% and 5.75% per year, respectively. The bonds mature in July 2023.

Annual debt service requirements for the outstanding notes and bonds at June 30, 2018 are as follows:

Year Ended June 30,	Principal	Interest	Total
2019	$ 760,000	$ 1,993,726	$ 2,753,726
2020	795,000	1,958,583	2,753,583
2021	825,000	1,921,945	2,746,945
2022	865,000	1,883,706	2,748,706
2023	905,000	1,843,619	2,748,619
2024	39,775,000	911,557	40,686,557
Total Debt Service Requirements	**$43,925,000**	**$10,513,136**	**$54,438,136**

NOTE 8: ***DEFINED BENEFIT PENSION PLAN***

Summary of Significant Accounting Policies

Pensions. The School participates in the School Division Trust Fund (SCHDTF), a cost-sharing multiple-employer defined benefit pension 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 C*hanges between the measurement date of the net pension liability and June 30, 2018*.

General Information about the Pension Plan

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

NOTE 8: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

General Information about the Pension Plan (Continued)

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

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

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

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

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned.

If eligible, the member may receive a match of either 50 percent or 100 percent on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether 5 years of service credit has been obtained and the benefit structure under which contributions were made.

NOTE 8: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

General Information about the Pension Plan (Continued)

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.

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 the School 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:

NOTE 8: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

General Information about the Pension Plan (Continued)

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2018
Employer contribution rate[1]	10.15%	10.15%
Amount of employer contribution apportioned to the Health Care Trust Fund as specified in C.R.S. § 24-51-208(1)(f) [1]	(1.02)%	(1.02)%
Amount apportioned to the SCHDTF[1]	9.13%	9.13%
Amortization Equalization Disbursement (AED) as specified in C.R.S. § 24-51-411 [1]	4.50%	4.50%
Supplemental Amortization Equalization Disbursement (SAED) as specified in C.R.S. § 24-51-411 [1]	5.00%	5.50%
Total employer contribution rate to the SCHDTF[1]	**18.63%**	**19.13%**

[1]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 School is statutorily committed to pay the contributions to the SCHDTF. Employer contributions recognized by the SCHDTF from the School were $451,756 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 School reported a liability of $16,103,499 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.

NOTE 8: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

The School's proportion of the net pension liability was based on the School's contributions to the SCHDTF for the calendar year 2017 relative to the total contributions of participating employers to the SCHDTF.

At December 31, 2017, the School's proportion was 0.04980%, which was an increase of 0.00525% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the School recognized pension expense of $3,529,626. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$296,075	N/A
Changes of assumptions or other inputs	$4,111,822	$26,093
Net difference between projected and actual earnings on pension plan investments	N/A	$632,400
Changes in proportion and differences between contributions recognized and proportionate share of contributions	$1,497,610	$6,611
Contributions subsequent to the measurement date	$233,700	N/A
Total	**$6,139,207**	**$665,104**

$233,700 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:	
2019	$3,117,306
2020	$2,028,105
2021	$331,600
2022	($236,608)

NOTE 8: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

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

NOTE 8: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

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

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

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

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

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:

NOTE 8: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

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

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

Discount rate. The discount rate used to measure the total pension liability was 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%.

- 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.

NOTE 8: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

- Employer contributions were assumed to be made at rates equal to the fixed statutory rates specified in law and effective as of the measurement date, including current and estimated future AED and SAED, until the actuarial value funding ratio reaches 103%, at which point, the AED and SAED will each drop 0.50% every year until they are zero. Additionally, estimated employer contributions included reductions for the funding of the AIR and retiree health care benefits. For future plan members, employer contributions were further reduced by the estimated amount of total service costs for future plan members not financed by their member contributions.

- Employer contributions and the amount of total service costs for future plan members were based upon a process used by the plan to estimate future actuarially determined contributions assuming an analogous future plan member growth rate.

- The AIR balance was excluded from the initial fiduciary net position, as, per statute, AIR amounts cannot be used to pay benefits until transferred to either the retirement benefits reserve or the survivor benefits reserve, as appropriate. As the ad hoc post-retirement benefit increases financed by the AIR are defined to have a present value at the long-term expected rate of return on plan investments equal to the amount transferred for their future payment, AIR transfers to the fiduciary net position and the subsequent AIR benefit payments have no impact on the Single Equivalent Interest Rate (SEIR) determination process when the timing of AIR cash flows is not a factor (i.e., the plan's fiduciary net position is not projected to be depleted). When AIR cash flow timing is a factor in the SEIR determination process (i.e., the plan's fiduciary net position is projected to be depleted), AIR transfers to the fiduciary net position and the subsequent AIR benefit payments were estimated and included in the projections.

- Benefit payments and contributions were assumed to be made at the end of the month.

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

NOTE 8: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

For the 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.

Sensitivity of the School's proportionate share of the net pension liability to changes in the discount rate. The following presents the proportionate share of the net pension liability calculated using the discount rate of 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	$20,341,458	$16,103,499	$12,650,046

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.

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.

NOTE 8: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

Changes Between the Measurement Date of the Net Pension Liability and June 30, 2018 (Continued)

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.

- 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.

At June 30, 2018, the School reported a liability of $16,103,499 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 School's 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.

NOTE 8: ***DEFINED BENEFIT PENSION PLAN*** (Continued)

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

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%	$ 7,275,421

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 $7,517,214 of the estimated reduction is attributable to the use of a 7.25 percent discount rate.

NOTE 9: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN***

Summary of Significant Accounting Policies

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

NOTE 9: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

General Information about the OPEB Plan

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

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

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

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

NOTE 9: ***<u>DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN</u>*** (Continued)

General Information about the OPEB Plan (Continued)

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

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

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

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

NOTE 9: ***<u>DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN</u>*** (Continued)

General Information about the OPEB Plan (Continued)

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

Employer contributions are recognized by the HCTF in the period in which the compensation becomes payable to the member and the School is statutorily committed to pay the contributions. Employer contributions recognized by the HCTF from the School were $24,399 for the year ended June 30, 2018.

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

At June 30, 2018, the School reported a liability of $367,736 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 School's proportion of the net OPEB liability was based on School's contributions to the HCTF for the calendar year 2017 relative to the total contributions of participating employers to the HCTF.

At December 31, 2017, the School's proportion was 0.02830%, which was an increase of 0.00297% from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the School recognized OPEB expense of $35,046. At June 30, 2018, the School reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

NOTE 9: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$1,739	N/A
Net difference between projected and actual earnings on OPEB plan investments	N/A	$6,152
Changes in proportion and differences between contributions recognized and proportionate share of contributions	$32,235	N/A
Contributions subsequent to the measurement date	$12,461	N/A
Total	**$46,435**	**$6,152**

$12,461 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:	
2019	$5,137
2020	$5,137
2021	$5,137
2022	$5,138
2023	$6,675
Thereafter	$598

NOTE 9: ***<u>DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN</u>***
(Continued)

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

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

NOTE 9: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

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

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

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

NOTE 9: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

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

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

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

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

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

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

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

The following 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.

NOTE 9: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

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

- The 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.

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.

NOTE 9: *DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN* (Continued)

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

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

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

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

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

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

NOTE 9: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

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

	1% Decrease in Trend Rates	Current Trend Rates	1% Increase in Trend Rates
PERACare Medicare trend rate	4.00%	5.00%	6.00%
Initial Medicare Part A trend rate	2.00%	3.00%	4.00%
Ultimate Medicare Part A trend rate	3.25%	4.25%	5.25%
Net OPEB Liability	$357,618	$367,736	$379,922

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.

NOTE 9: ***DEFINED BENEFIT OTHER POST EMPLOYMENT BENEFIT (OPEB) PLAN*** (Continued)

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

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

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

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate share of the net OPEB liability	$413,451	$367,736	$328,717

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.

NOTE 10: ***COMMITMENTS AND CONTINGENCIES***

Operating Lease

In June 2016, the School entered into Master Lease Agreement with the Colorado Early Colleges Building Corporation (the "Corporation") for the use of facility. The Master Lease Agreement includes all the buildings owned by the Building Corporation located in Colorado Springs, Fort Collins, Aurora and Douglas County.

The total amount of the lease payment due to the Corporation will be split among four schools. The School's estimated share of the total monthly lease payments range from $53,940 to $110,944. In addition, the School pays a monthly CAM payment and remits additional rents collected from a third party lessee. The master lease agreement expires in July 2023.

NOTE 10: ***COMMITMENTS AND CONTINGENCIES*** (Continued)

Operating Lease (Continued)

Future minimum lease payments under the Master Lease Agreement are as follows:

Year Ended June 30	
2019	$ 1,362,332
2020	1,359,401
2021	1,360,722
2022	1,361,133
2023	1,360,636
Total	**$ 6,804,224**

For the year ended June 30, 2018 the School has paid rent, including CAM and third party rents, in the amount of $1,362,000 for the use of its facility.

Claims and Judgments

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

Tabor Amendment

In November 1992, Colorado voters passed the Tabor Amendment to the State Constitution, which limits state and local government tax powers and imposes spending limitations. Fiscal year 1993 provides the basis for limits in future years to which may be applied allowable increases for inflation and student enrollment. Revenue received in excess of the limitations may be required to be refunded. The School believes it has complied with the Amendment. As required by the Amendment, the School has established a reserve for emergencies. At June 30, 2018, the reserve of $223,000 was recorded as a reservation of net position in the General Fund.

NOTE 11: ***RELATED PARTY TRANSACTIONS***

For the year ended June 30, 2018, the Colorado Early College Network (CEC Network) included the Douglas County, Fort Collins, Aurora and Colorado Springs Schools. Each school has budgeted and paid CEC Network and Human Resources Project Fees to the School in amounts equal to 3% and 1% of operating revenues, respectively. For the year ended June 30, 2018, the School received a total of $750,101 from the CEC Network Schools, including $193,451 paid by CSEC.

The School reported a Due from Related Parties for CEC Network Fees and certain other expenses paid on behalf of the CEC Network Schools. As of June 30, 2018 the total amounts due from Colorado Early Colleges – Fort Collins ("CECFC"), Colorado Early Colleges – Douglas County ("CECDC") and Colorado Early Colleges – Aurora ("CECA") were $313,548, 216,001, and $267,804, respectively. These amounts are reported as a Due from Related Parties in the financial statements and are expected to be repaid in the current fiscal year.

The School reported a Due to Related Parties for operating lease payments and certain other expenses paid by CEC Network Schools on behalf of the School. As of June 30, 2018 the total amounts due to CECFC and CECDC were $1,362,696 and $132,586, respectively. These amounts are reported as a Due to Related Parties in the financial statements and are expected to be repaid in the current fiscal year.

NOTE 12: ***RESTATEMENT OF NET POSITION***

The beginning net position of the governmental activities was decreased by $316,807 as the School implemented Governmental Accounting Standards Board (GASB) Statement 75.

NOTE 13: ***DEFICIT NET POSITION***

The net position of the governmental activities is in a deficit position of $7,999,842 due to the School including its Net Pension Liability per the requirements of GASB Statement No. 68.

REQUIRED SUPPLEMENTARY INFORMATION

COLORADO SPRINGS EARLY COLLEGES

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2018

	2018				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE Positive (Negative)	2017 ACTUAL
REVENUES					
Local Sources					
Per Pupil Revenue	$ 4,833,036	$ 4,948,072	$ 4,761,570	$ (186,502)	$ 4,366,789
Charges for Services	1,372,000	1,934,946	1,890,920	(44,026)	1,751,881
CEC Network Charges	-	750,101	750,101	-	726,376
Other	-	10,000	37,469	27,469	6,026
State and Federal Sources					
Grants and Donations	940,590	518,394	969,473	451,079	487,750
TOTAL REVENUES	7,145,626	8,161,513	8,409,533	248,020	7,338,822
EXPENDITURES					
Instruction					
Salaries	1,338,306	1,015,879	1,009,280	6,599	758,580
Employee Benefits	385,606	315,912	282,145	33,767	305,566
Purchased Services	1,386,555	1,495,656	1,303,300	192,356	1,061,780
Supplies and Materials	345,250	174,200	148,657	25,543	216,333
Property	39,600	-	-	-	-
Total Instruction	3,495,317	3,001,647	2,743,382	258,265	2,342,259
Supporting Services					
School Administration					
Salaries	413,757	744,207	1,461,482	(717,275)	1,122,590
Employee Benefits	119,873	231,429	408,558	(177,129)	452,193
Purchased Services	2,485,277	3,490,203	2,674,497	815,706	2,409,072
Supplies and Materials	54,000	54,000	186,256	(132,256)	106,394
Property	-	36,000	82,516	(46,516)	43,964
Other	-	-	548,424	(548,424)	2,437
Appropriated Reserves	1,278,992	848,784	-	848,784	-
Total Supporting Services	4,351,899	5,404,623	5,361,733	42,890	4,136,650
TOTAL EXPENDITURES	7,847,216	8,406,270	8,105,115	301,155	6,478,909
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(701,590)	(244,757)	304,418	549,175	859,913
OTHER FINANCING USES					
Transfer Out	-	-	-	-	(800,000)
TOTAL OTHER FINANCING USES	-	-	-	-	(800,000)
NET CHANGE IN FUND BALANCE	(701,590)	(244,757)	304,418	(549,175)	59,913
FUND BALANCE, Beginning	-	1,914,014	1,914,014	-	1,854,101
FUND BALANCE, Ending	$ (701,590)	$ 1,669,257	$ 2,218,432	$ (549,175)	$ 1,914,014

See the accompanying independent auditors' report.

COLORADO SPRINGS EARLY COLLEGES

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

Years Ended December 31,
(School Division Trust Fund Measurement Date)

	2013	2014	2015	2016	2017
School's proportionate share of the Net Pension Liability	0.039%	0.041%	0.041%	0.045%	0.050%
School's proportionate share of the Net Pension Liability	$ 4,969,901	$ 5,496,522	$ 6,160,119	$ 13,263,504	$ 16,103,499
School's covered-employee payroll	$ 1,570,780	$ 1,699,899	$ 1,755,272	$ 1,999,370	$ 2,297,208
School's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	316.4%	323.3%	350.9%	663.4%	701.0%
Plan fiduciary net position as a percentage of the total pension liability	64.1%	62.8%	59.2%	43.1%	44.0%

Notes:
This schedule is reported as of December 31, as that is the plan year end.

This schedule will report ten years of data when it is available.

See the accompanying independent auditors' report.

COLORADO SPRINGS EARLY COLLEGES

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
DENVER PUBLIC SCHOOLS DVISION TRUST FUND

Years Ended June 30,

	2014	2015	2016	2017	2018
Statutorily required contributions	$ 287,803	$ 303,946	$ 353,612	$ 394,261	$ 451,756
Contributions in relation to the Statutorily required contributions	287,803	303,946	353,612	394,261	451,756
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
School's covered-employee payroll	$ 1,692,345	$ 1,697,681	$ 1,884,130	$ 2,111,302	$ 2,392,096
Contributions as a percentage of covered-employee payroll	17.01%	17.90%	18.77%	18.67%	18.89%

Notes:
This schedule will report ten years of data when it is available.

See the accompanying independent auditors' report.

COLORADO SPRINGS EARLY COLLEGES

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

Years Ended December 31,
(School Division Trust Fund Measurement Date)

	2016	2017
School's proportionate share of the Net OPEB Liability	0.025%	0.028%
School's proportionate share of the Net OPEB Liability	$ 328,300	$ 367,736
School's covered-employee payroll	$ 1,999,370	$ 2,297,208
School's proportionate share of the Net OPEB Liability as a percentage of its covered-employee payroll	16.4%	16.0%
Plan fiduciary net position as a percentage of the total OPEB liability	16.7%	17.5%

Notes:
This schedule is reported as of December 31, as that is the plan year end.

This schedule will report ten years of data when it is available.

See the accompanying independent auditors' report.

COLORADO SPRINGS EARLY COLLEGES

SCHEDULE OF THE SCHOOL'S CONTRIBUTIONS
HEALTH CARE TRUST FUND

Years Ended June 30,

	2017	2018
Statutorily required contributions	$ 21,535	$ 24,399
Contributions in relation to the Statutorily required contributions	21,535	24,399
Contribution deficiency (excess)	$ -	$ -
School's covered-employee payroll	$ 2,111,302	$ 2,392,096
Contributions as a percentage of covered-employee payroll	1.02%	1.02%

Notes:
This schedule will report ten years of data when it is available.

See the accompanying independent auditors' report.